



Food and Agriculture Organization
of the United Nations

Value Chain Analysis & Feasibility Assessment for Contract Farming in Lesotho - Findings and recommendations

Midterm consultation and validation workshop

TCP Project “Building Capacities and Facilitating Enabling Environment for Contract Farming in Lesotho”

Lan Li, Ivana Radić, Montoeli Rantlo, Kaiqi Zhao

FAO

12 April 2022

Introduction

Value chain analysis & feasibility assessment for Contract farming in Lesotho

Presenter: Lan Li, Economist, Agri-food Economics Division, FAO

12 April 2022

Authors: Lan Li, Ivana Radić, Montoeli Rantlo , Kaiqi Zhao

Introduction outline

1. Main outputs and activities (Agribusiness)

- Scoping assessment to select value chains for in-depth analysis
- Comprehensive value chain analysis and feasibility assessment for contract farming (CF) for 4 selected value chains
- Training and stakeholder engagement and capacity building

2. Methodology

- Sustainable Food Value Chain (SFVC) analysis adapted for CF
- Feasibility assessment for CF
- The outline for presentations today
- Desk research, data analysis and stakeholder consultations

Next...

Main outputs and activities (agribusiness)

In collaboration with Department of Marketing, MoAFSN, FAOLS, and FAO-LEG, agribusiness team in Agrifood Economics

- **Scoping assessment to select value chain for in-depth analysis**
 - Conducted scoping assessment for 7-8 value chains in July-August 2021
 - Selected four value chains for further analysis
- **Comprehensive value chain analysis and feasibility assessment for contract farming for 4 selected value chains**
 - Methodologies including process are presented next
 - Findings and recommendations are presented today for stakeholder consultation
- **Training, workshops, stakeholder engagement and capacity building**
 - A 3-day training workshop in June 2021, a refresher training workshop in April 2022
 - Inception workshop in June 2021, Mid-term validation workshop in April 2022
 - Participating in working group meetings, organizing targeted stakeholder consultations

Methodologies

Methodologies for value chain analysis and feasibility assessment for CF

- **FAO's Sustainable Food Value Chain (SFVC) methodology adapted to CF**
 - Market outlook
 - Value chain mapping
 - Analysis of core and extended value chains
 - Main value chain activities and core value chain actors
 - Main support services and enabling environment
 - Findings and recommendations (incl. upgrading opportunities and model → CF)
- **Feasibility assessment for CF (evaluation matrix)**
 - Potential opportunities for CF and enabling environment at macro and meso levels
 - Potential advantages and incentives for CF for participating parties (buyers and producers)
 - Capacities for CF for buyers and producers
 - Concerns, risks and disincentives for CF for buyers and producers
 - Findings and recommendations for CF

Methodologies

Presentation outline for 4 value chains (Broiler chickens, dry beans, potatoes and pigs)

1. Value chain analysis

- Market outlook
- Value chain mapping
- Core and extended value chain analysis
 - Stakeholder consultations
- Key findings

2. Contract farming feasibility assessment

- Opportunities and enabling environment
- Advantages and incentives
- Capacities
- Concerns, risks and disincentives

3. Recommendations

Methodologies

Methodologies for value chain analysis and feasibility assessment for CF

- **Desk research including literature review, data collection and analysis**
- **Stakeholder consultations and resultant analysis**
 - 12 targeted, structured long interviews and discussions with key stakeholders in the four selected value chains were conducted in December 2021 and March 2022 with great support and collaboration with NPC at MoAFSN.
 - Interview questionnaires, meeting summaries and recordings will be shared with MoAFSN to build capacities for future consultations to facilitate CF.
 - Insights and feedback gathered are incorporated into the analysis and help the development of the recommendations
 - Updating and revising the report based on feedback gathered at the validation workshop

Methodologies

Methodologies for value chain analysis and feasibility assessment for CF

- **The process:**

- Scoping assessment based on desk research and short consultations to select value chains in 2021
- Desk research (literature review, data collection and analysis)
- Drafting the preliminary analysis/report
- Develop a list of stakeholders to be interviewed, develop questionnaires, organize meetings with partners, create meeting summary and recordings, incorporate into the analysis
- Amend and update the analysis and draft the report
- Mid-term validation workshop to gather feedbacks → revise → gather feedback (targeted) and finalize

NEXT:

- Propose a pilot → consult stakeholders, facilitate connections and dialogs, support the drafting of model contract agreement (with LEG), make recommendations for CF.
- Ministerial staff and consultants with acquired capacities to promote, facilitate and support CF.



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Broiler Chickens

Value chain analysis & feasibility assessment for Contract farming in Lesotho

Presenter: Ivana Radić, Agribusiness and value chain consultant, Agri-food Economics Division, FAO,
12 April 2022

Authors: Lan Li, Ivana Radić, Montoeli Rantlo, Kaiqi Zhao

Outline

1. Value chain analysis

- Market outlook
- Value chain mapping
- Core and extended value chain analysis
 - Stakeholder consultations
- Key findings

2. Contract farming feasibility assessment

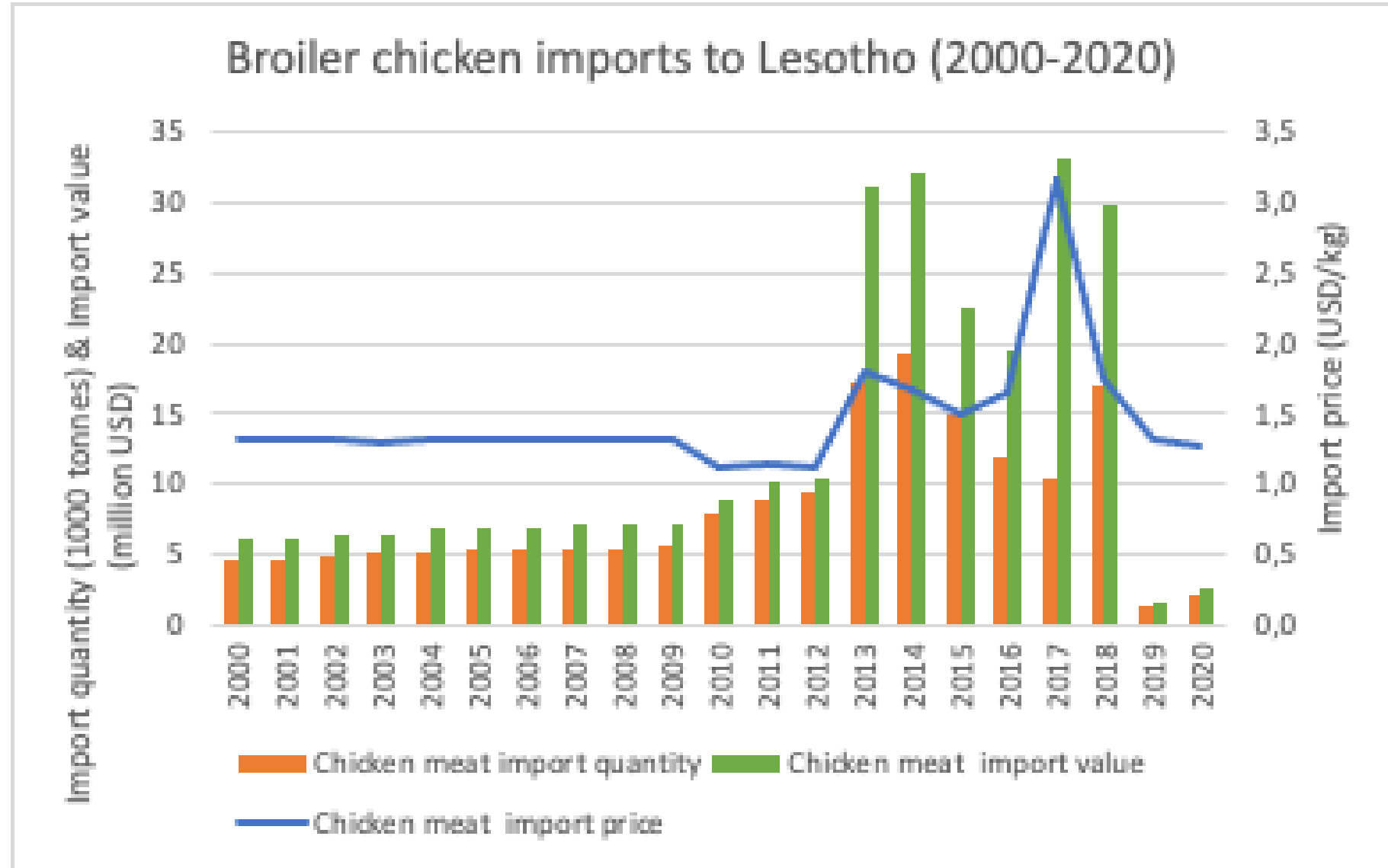
- Opportunities and enabling environment
- Advantages and incentives
- Capacities
- Concerns, risks and disincentives

3. Recommendations

Broiler chickens: Value Chain Analysis

Market outlook

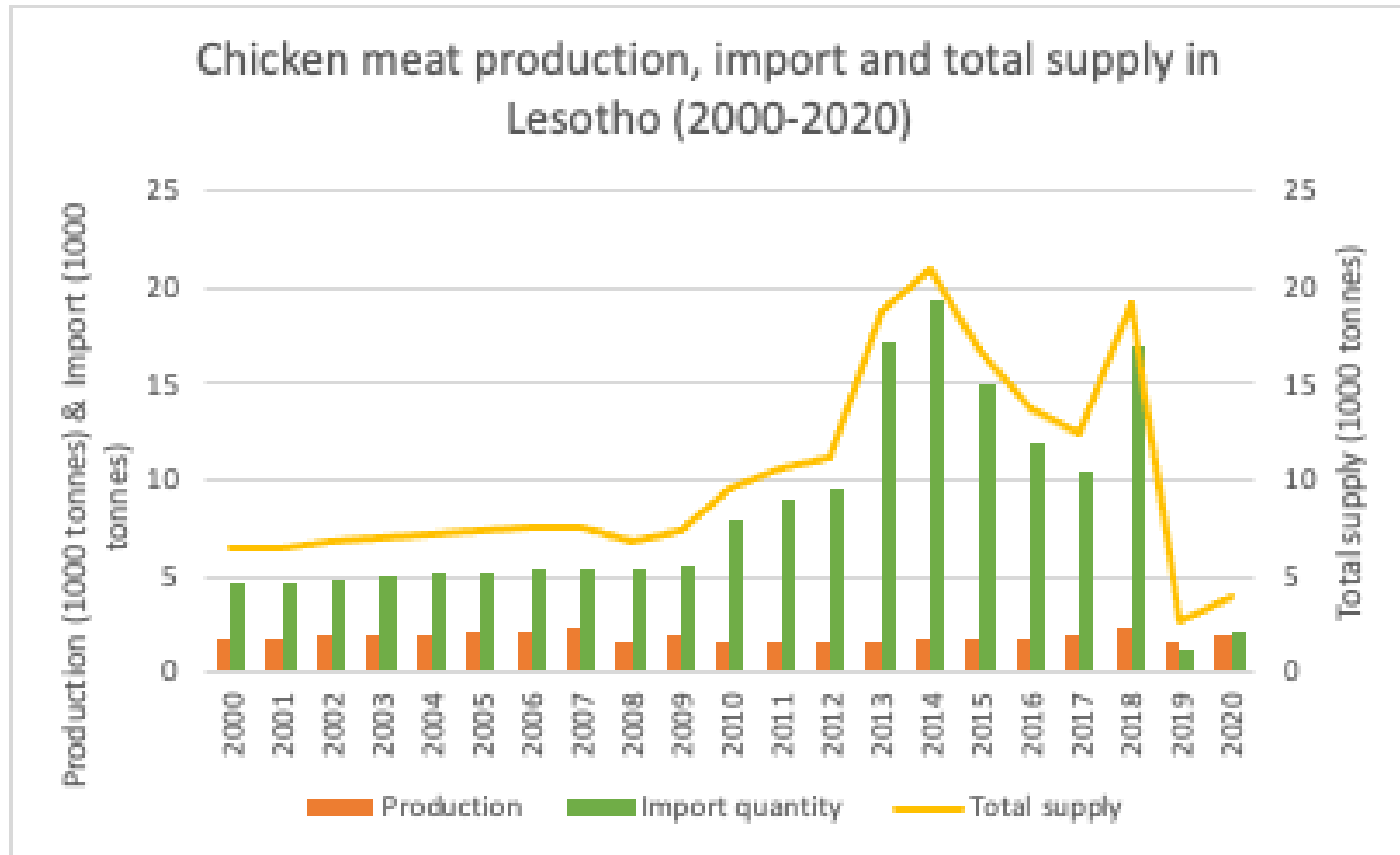
- **Increasing demand in Lesotho**
- **Increase of imports** in many recent years (75% market share, 91% in 2013 and 2014)
- **Import price** increased 2013-17, **but dropped after peaking in 2017**



Broiler chickens: Value Chain Analysis

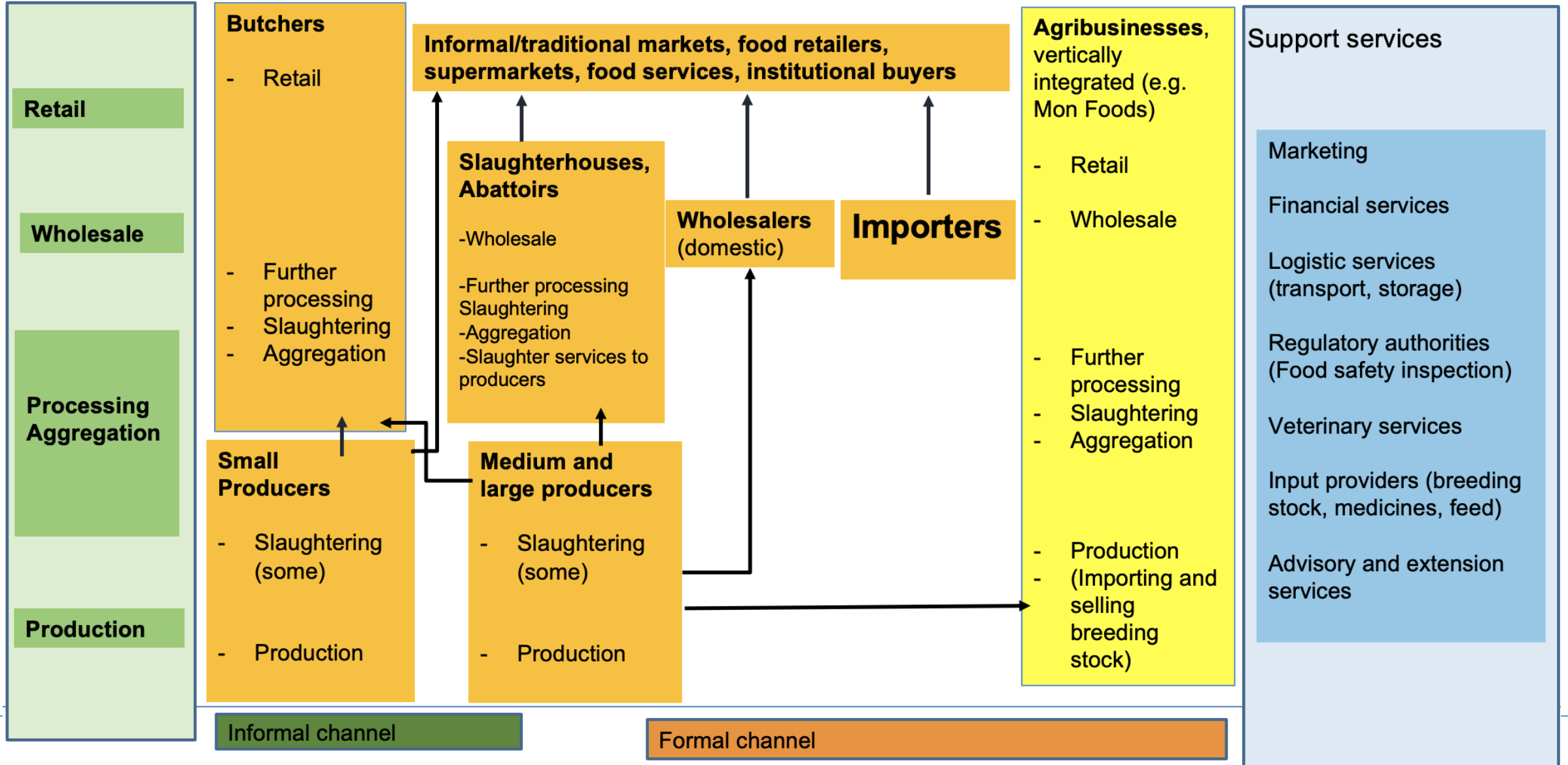
Market outlook

- **Domestic production** has been **stagnant** and cannot meet increasing demand.
- **The gap** has been **filled by imports.**



Broiler chickens: Value Chain Analysis

Value Chain Mapping



Broiler chickens: Value Chain Analysis

Stakeholder consultations for core and extended value chain analysis

Structured interviews and discussions

- (Consultation with producers was planned/requested)
- **Manger of Mon Foods** (an agribusiness company)
- **An institutional buyer**
- **Marketing experts from Department of Marketing, MoAFSN**
- **Animal husbandry experts from Department of Livestock, MAFS**

(Key findings for value chain analysis including core and extended value chain analysis are present next→)

Key findings

- **Domestic market is expanding, mostly filled by imports**
 - Increasing demand from food services
 - Increasing imports of canned chicken
- **Processing sector is growing and is to be further developed/strengthened.**
 - 6 abattoirs and many small- and medium-scale slaughterhouses
 - None is fully certified for quality and food safety
 - KFC is interested in sourcing locally but has strict requirements for quality, safety and processing.
- **Slaughterhouses and abattoirs face inconsistent supply from producers.**
 - Price in the informal market may be double than the price offered by slaughterhouses.

Broiler chickens: Value Chain Analysis

Key findings

- **Domestic producers are not competitive** compared to imports
 - Multinational companies in South Africa produce large volumes of chicken with support from their government.
- **Producers face multitude of challenges to increase productivity and quality and to expand production**
 - Lack of access to productive resources and support services, incl. technical and financial services.
 - Feed and medicine mostly imported from South Africa. Only one domestic milling company for animal feed, no animal medicine production.
 - Day-old chicks imported from South Africa, no hatcheries in Lesotho.
 - Low quality of veterinary services.
 - Lack of easy access to water, electricity, housing for the animals...
- **Producers as well as processors lack access to financial services**
 - Upgrading and expanding broiler chicken production and processing require investments.
 - Banks do not recognize poultry farming/processing as collateral.

Broiler chickens: CF Feasibility Assessment

Opportunities and enabling environment for CF

- **CF can help increase competitiveness** to meet increasing demand and substitute imports, as well as **contribute to sustainable development** of the value chain.
- **The processing sector and the formal market channels** have promising development.
 - In many countries, poultry processors adopt CF which helps improve their competitiveness.
- **Buyers and producers with sufficient capacities and incentives for CF can be identified**
 - Buyers: currently abattoirs, in the future slaughterhouses, institutional buyers, food services etc.
 - Producers: medium-large producers, producers' organizations (including small producers)
- **CF pilot, established supply relations and Informal agreements exist, can be upgraded to CF**
 - Mon Foods started CF with 4 farmers since December 2021
 - Established relations between producers and processors, institutional buyers, food services
 - Awareness about contract farming
- **Smallholder Agriculture Development Project** supported producers and processors in the poultry sector (abattoir development, BAPOFA grant)

Broiler chickens: CF Feasibility Assessment

Potential incentives and advantages for CF

For chicken buyers (abattoirs):

- CF has been widely adopted and proven to be an effective business model in the poultry sector (esp. poultry agribusinesses, processing) in many countries → many examples.
- Reliable, consistent and efficient supply of broiler chickens (e.g. Mon Foods currently not meeting its abattoir capacity).
- Increased quality and safety, compliance with standards, certification, easier to respond to market demand by having tight oversight on inputs used (especially feed) and production process.
- Overcoming limits of land, facilities, skilled labour, etc. to expand production.
- Increasing competitiveness and efficiency through vertical integration.
- Reducing risks (e.g. supply, price), better planning and risk management.

Broiler chickens: CF Feasibility Assessment

Potential advantages and incentives for CF

For chicken producers:

- Access to a buyer, quantity and price agreed in advance and more stable income.
- Improved quality, productivity and competitiveness.
- Increased capacity for commercialized production and business opportunities
- Possible provision of inputs, training and support services.
- Increased communication, engagement, collaboration, and clarity in dealing with disputes and unexpected events.

Capacities for CF

For chicken buyers (abattoirs)

Assessment is mostly based on Mon Foods.

- Capacity to manage commercial production and contracts and understand legal responsibilities.
- Capacity to work with farmers: established relations, informal agreements and contract farming; and some are vertically integrated.
- Having own production and technical expertise to provide training, support and oversight
 - Internal production code of practice.
 - Technical expertise
 - Inputs provision (e.g. day-old chicks, sawdust, feed, heating and water, feeders and drinkers).

Capacities for CF

For chicken producers:

Direct consultations with producers and producers' organization were requested, but not conducted. Adequate information is needed to assess capacity for producers' organization with small producers.

- Medium- and large-scale producers have capacity for commercial production (e.g. supplying in volume, meeting standards, and delivery requirements).
- Established relations and informal agreements in supplying to butcheries, slaughterhouses, food services and institutional buyers.
- Some producers are organized, e.g. association BAPOFA (Basotho Poultry Farmers Association) which provides support services, fundraising, and advocacy.

Broiler chickens: CF Feasibility Assessment

Potential risks, concerns and disincentives for CF

For chicken producers:

- Lack of bargaining power and collective actions if not well organized.
- Small farmers lacking capacities likely to be excluded (innovative/alternative solution needed).
- Existing late payments
- Possibly not being able to sell to other buyers with exclusive clause in the contract
- New or additional investments may be needed

For chicken buyers (abattoirs):

- The cost of implementing contract farming: managing contracts, technical training and support, inputs, financing, logistic services if relevant.
- Risk of contract breach and side-selling to other buyers, esp. when buyer has invested considerably.
- Reducing resources for alternative sourcing
- CF for livestock can be more complex to manage
- Risk of reputation loss in case of CF failure and disputes not well resolved

These issues and risks need to be assessed, addressed and managed. Solutions can be sought.

Broiler chickens: Recommendations

- ❖ **CF exists and can be strengthened and expanded** to contribute to sustainable development of the broiler chicken value chain
 - Favorable conditions for CF (market prospects, capacities and incentives, CF widely adopted in poultry in many countries, etc.)
 - Mon Foods can be consulted for support to improve their CF; other abattoirs can also experiment CF.
- ❖ **Acquiring accreditation** for quality and food safety is critical to increase competitiveness of abattoirs and slaughterhouses.
- ❖ **Capacity development for producers** is important for successful CF, which in turn will build their capacities for commercial production .
 - Increase productivity and production of quality and marketable products
 - Improve business management skills including managing contractual arrangement

Broiler chickens: Recommendations

- ❖ **Clear communication and close engagement** are crucial to build trust, monitor progress and resolve issues between buyers and producers and with facilitators and partners (if relevant) in CF.
- ❖ It can be advantageous for both producers and buyers in CF when producers are organized; and producers organizations need to be strengthened.
- ❖ Government can play an important role in promoting, facilitating and supporting CF and building an enabling environment.
- ❖ **More relevant and general recommendations are presented for dry bean value chain.**



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Dry Beans

Value chain analysis & feasibility assessment for Contract farming in Lesotho

Presenter: Kaiqi Zhao, Agribusiness and value chain consultant, Agri-food Economics Division, FAO,
12 April 2022

Authors: Lan Li, Ivana Radić, Montoeli Rantlo, Kaiqi Zhao

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- Market outlook
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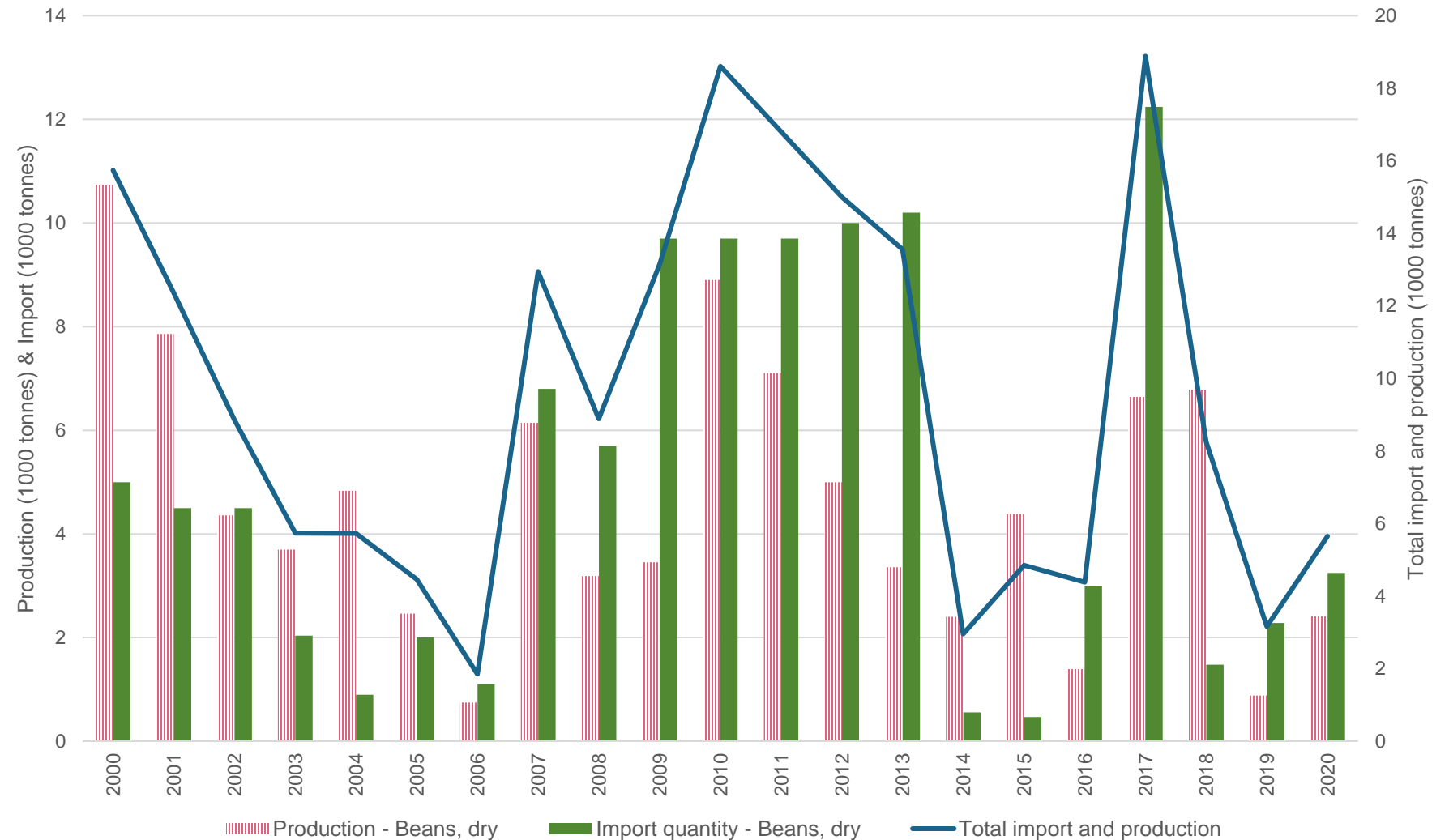
3. Recommendations

Dry beans: Value Chain Analysis

Market outlook

- **Domestic demand fluctuated:** rapid growth during 2007-2013, decline during 2014-2016, revival in 2016 but decline since 2017.
- **Imports account for around 56% of market share** (i.e. production + import) over the last 5 years.

Figure 1: Dry bean production, import and total supply in Lesotho (2000-2020)

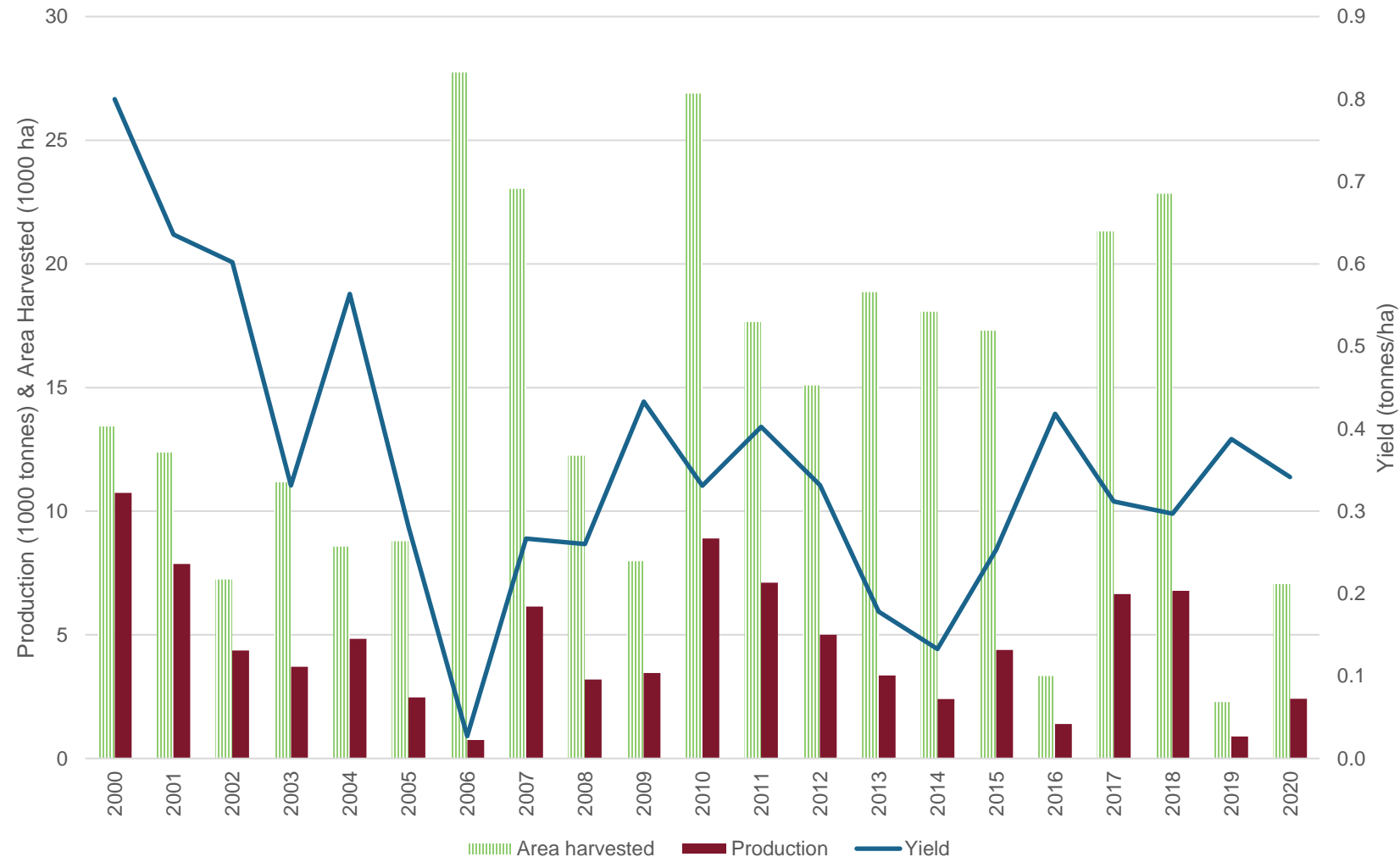


Dry beans: Value Chain Analysis

Market outlook

- **A major crop in Lesotho.** Three common varieties sugar beans (most demanded), Nodak pinto, and NUA 45) in Lesotho.
- **Production stagnant and varied over 20 years; productivity declined in the recent years and lower than that in South Africa (average 1.4 tonnes/ha) (Busaka, 2018).**

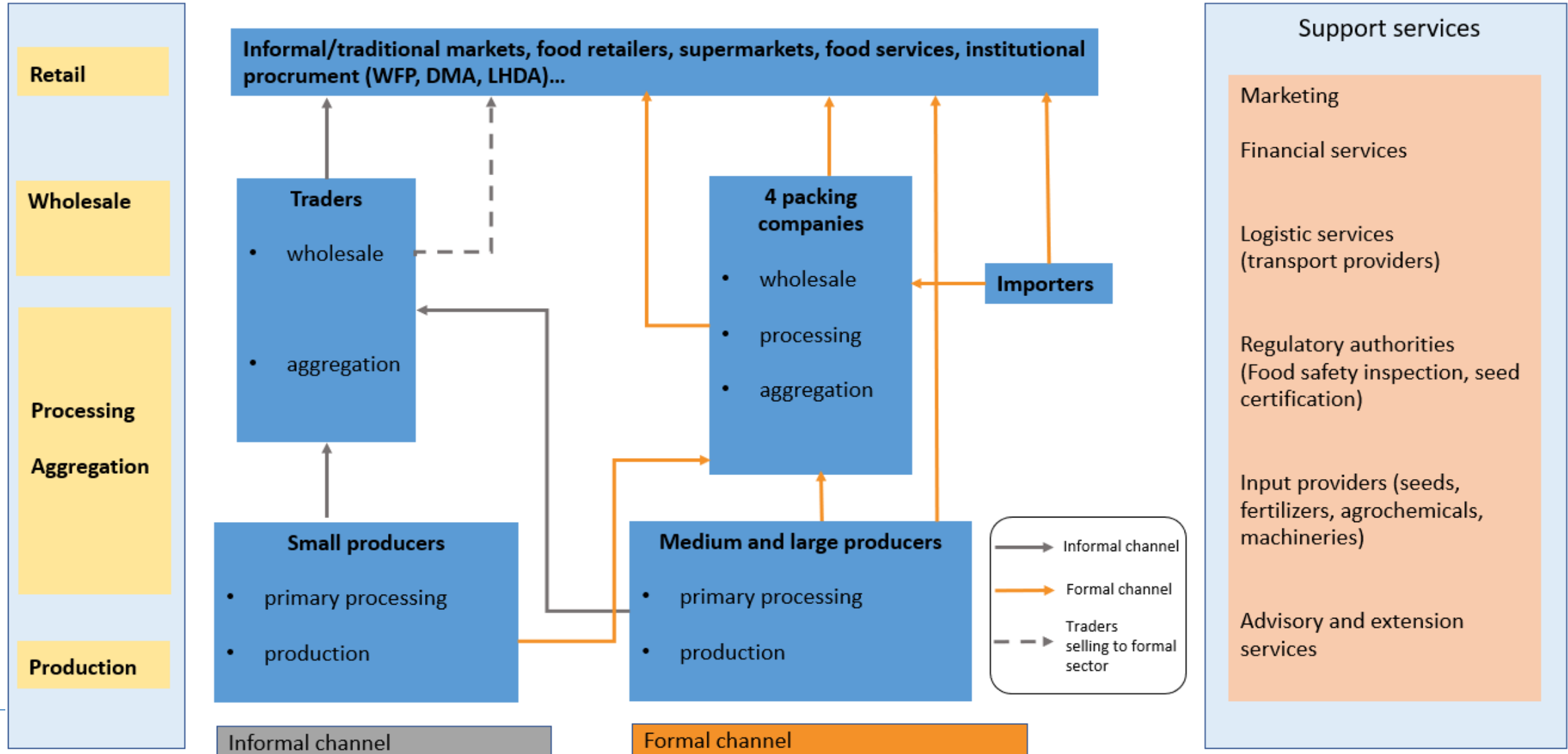
Figure 2: Dry bean production, area harvested and yield in Lesotho (2000-2020)



Data source: FAOSTAT

Dry beans: Value Chain Analysis

Value Chain Mapping



Dry beans: Value Chain Analysis

Stakeholder consultations for core and extended value chain analysis

Structured interviews and discussions

- **Two dry bean producers** (medium- to large-scale)
- **Crystal Prepackers** (One of the four packing companies)
- **Experts from Department of Crops, MAFS, and Department of Marketing, MoAFSN**

(Key findings for value chain analysis including core and extended value chain analysis are present next→)

Key findings

- **Small- and medium-scale farmers are the main producers.**
 - Besides producing, they dry, threshed, pre-sort and pre-pack beans
 - They usually sell to traders, institutions, processors
 - Some belong to farmers' organizations
- Producers have **low productivity** and face **constraints to increase productivity and expand production.**
 - Lack of modern production methods, certified high-yielding seeds, inputs, irrigation, financing solutions...
 - For large producers, lack of land (some are practicing block-farming to rent land and share harvest with small farmers)
- **Producers are not well organized and lack bargaining power with buyers.**

Dry beans: Value Chain Analysis

Key findings

- **Development of processing is promising** (4 packing companies dominating the formal market).
 - Aggregate, process, package and wholesale
 - Buy from domestic farmers and importers
 - Sell to supermarkets, institutional buyers (WFP, DMA, LHDA, etc.), food services
- **Buyers/processors have troubles aggregating quality dry beans in volume.**
 - Seasonal and insufficient domestic production
 - Producers being dispersed, each proving small quantity
 - Problem of timely delivery
 - Some not meeting quality and food safety standards
- **Buyers are willing to procure more from domestic producers.**
 - They perceive potential benefits of CF, e.g. consistent supply and quality.
 - Buyers do not have formal agreement with producers but have established sourcing relations with certain farmers and they make timely payments to farmers.

Opportunities and enabling environment for CF

- There is the potential for producers to substitute import (56%) and increase their market share.
- The degree of commercialization and the development of post-farmgate value chain (esp. processing) and formal market are favorable conditions for CF.
- Government provides supports to producers including extension services and subsidized inputs.
- Buyers and producers with sufficient capacities and incentives can be identified to pilot CF. Some have established supply relations.
- CF can foster the formal market, commercialization and overall competitiveness.
- CF can be used to incorporate social and environmental sustainability measures and promote sustainable development of the value chain.
- The pilot CF can help build capacities for implementing CF in other value chains through sharing best practices and lessons learned.

Dry beans: CF Feasibility Assessment

Potential incentives and advantages for CF

For buyers (packing companies):

- More consistent supply and higher quality of dry beans → competing with imports and expanding market share
- Acquiring the varieties and quality of beans that market demands (potential collaboration with extension services to provide technical training and support for farmers).
- Increased vertical integration → Increased efficiency and better management of supply risks

Dry beans: CF Feasibility Assessment

Potential advantages and incentives for CF

For farmers:

- More stable income: access to buyer, advance pricing, better production planning, better management of risks.
- Potentially, access to inputs, credits (e.g. input on credit and contract as collateral), technical training and support (depending on buyers' capacity and/or partnership with others)
- Potential to increase productivity and production, increase capacity for commercialized production, business management and marketing through experiential learning.
- Clarity and guidance in dealing with disputes and unexpected events.

Capacities for CF

For buyers (packing companies):

- Solid business management and marketing capacity
- Processing capacity, facilities, finances
- Established sourcing relations with farmers and farmers' groups
- May not have production expertise, may collaborate with extension services to provide technical training and support for farmers.

For (some) farmers:

- Experience of commercial production and supplying to processors
- Associations exist to organize farmers and provide support
- Having processing capacity and (some large producers) storage facility
- Some large producers with experience from block farming, in managing contract

Dry beans: CF Feasibility Assessment

Potential risks, concerns and disincentives for CF

For farmers:

- Unequal bargaining power and power imbalance dynamics in contract negotiation and implementation.
- Farmers without land, with fewer resources and less skilled may be excluded (e.g. smaller farmers, women, youth, marginalized members).
- Environmental risks of monocropping highly demanded beans, decreasing biodiversity.

For buyers (packing companies):

- Risks of contract breach and side-selling to alternative buyers.
- Risks of farmers mis-using or side-selling inputs supplied or not following production guidelines or delivery schedule.
- Lack of capacity and/or high transaction costs of managing contracts and farmers, esp. in large numbers.
- Lack of production expertise to provide technical oversight and support.

These issues and risks need to be assessed, addressed and managed. Solutions can be sought.

Dry beans: Recommendations

- ❖ **Piloting CF is recommended** for some packers and producers of dry beans.
 - Market opportunity (market expansion, import substitution), promising development of processing and formal market channel...
 - Producers and buyers with relevant capacities and sufficient incentives to implement CF, established supply relations, risks could be managed...

- ❖ **Packers** (e.g. Crystal Prepackers) can be consulted for piloting CF.
 - Packers for dry beans in Lesotho potentially have sufficient incentives and capacities for CF, and they should further evaluate their incentives, capacities, costs and potential issues for CF.
 - In general, processors are the main adopters of CF for a variety of reasons and CF helps build their competitiveness based on international experience.

Dry beans: Recommendations

- ❖ To increase success and sustainability of the pilot CF, **producers:**
 - are willing to follow guidelines and suggestions
 - have land and production capacity (e.g. skills, inputs, equipment) to produce in the correct context
 - are pro-active and willing to learn and invest in improved production practices
 - If land is leased, documentation must be clearly written and understood by all parties (for block farming, small farmers who rent out their land should be consulted/consent).
 - → These are mostly capacities for commercial production of marketable products.
 - Engaging, consulting, selecting, preparing and providing adequate support for farmers are crucial for successful CF.
 - Initial adopters (farmers) may be more capable with more resources. As CF expands, they can become lead farmers to share their knowledge and experience and train others for CF (e.g. Nucleus estate CF model), and through the ministry, producer organizations, development partners, etc.

Dry beans: Recommendations

- ❖ It is beneficial for CF to **organize producers** and **strengthen producer organizations**, with the support from the public sector.
 - For producers,
 - collective power and actions to negotiate, deal with disputes, market the products, and acquire productive resources (e.g. bulk purchase of inputs, group lending)
 - sharing of knowledge, skills, information and resources for production and marketing
 - collective solution to deal with risks and challenges (e.g. crop insurance and salvation funds)
 - For buyer, reducing transaction costs of managing CF, possible to expand CF, overcoming lack of production expertise, helping resolve issues, providing mediation...
 - For the government, easier to provide training and support via organizations/groups, need to support and promote producer organizations esp. to countervail uneven power

Dry beans: Recommendations

- ❖ **Individual producers** should be involved in the negotiation of the contracts, whether the producer organization is directly included in the contract or not.
 - A producer organization can be included in contract via an intermediate or multipartite model.
 - Even if the buyer directly contract with individual farmers, producer organizations can assist and facilitate the negotiations and support CF implementation.
- ❖ **Clear communication and close engagement** between buyer and producers and with facilitators and partners are crucial in every step of CF.

Dry beans: Recommendations

- ❖ It is advisable to adopt a **gradual approach** when piloting CF; start with more straightforward CF **to build trust and capacity** for more advanced CF if suitable in the future, such as:
 - Centralized CF model focusing on sales with a small number of producers, or an intermediate CF model with an effective producer organization.
 - Marketing CF focusing on sales, a non-exclusive contract to manage risks of side-selling.
- ❖ **Written contracts** should be used whenever possible. Such contracts should align with the guidance provided in the UNIDROIT/FAO/IFAD Legal Guide on Contract Farming.
 - The exact content should be agreed in direct negotiations between parties, with potential participation of third-party facilitators (e.g. government extension and marketing services).
 - If not ready for written CF, keep developing connection, relations and trust, working closely with each other even through informal agreement, keep building knowledge and skills, for future adoption.

Dry beans: Recommendations

- ❖ Piloting CF should be **voluntary**.
 - Mutual benefits (benefits outweigh costs) for both parties should be the main incentive.
 - Buyers and producers should possess relevant capacities in order to implement and sustain the pilot CF, and gain capacity and experience to expand and advance CF.
 - Continue to raise awareness, build capacities, develop connections and trusts, esp. when understanding of CF and its suitability and feasibility, and capacities to implement CF are lacking.
- ❖ **Capacity development** for ministries, producers, producer organizations and buyers are critical.
 - Capacities in commercial production, marketing and business management, in assessing, planning and managing CF
 - MoAFSN and MAFS capacity in promoting, facilitating and supporting CF operations including dealing with potential issues (e.g. through resolutions, mediation and legal provisions)
 - Building connections, working relations and trust between buyers and farmer
 - Strengthening capacities of producer organizations
 - Learning from existing CF (informal and formal) in Lesotho and international experiences and best practices including those in South Africa.

Dry beans: Recommendations

- ❖ Piloting CF builds capacities through experiential learning and experiences can be shared across value chains and sectors.
- ❖ **Multi-stakeholder engagement and collaboration** can be advantageous or even necessary for CF
 - Potential buyers for CF (e.g. companies including SMEs, institutional buyers), producers (lead farmers), producer organizations, service providers, government, development agencies, NGOs...
- ❖ The **government can promote, facilitate and support CF arrangements** in various ways.
 - Connecting farmers to buyers, marketing information, training and support, support producer organizations, increasing access to affordable and quality inputs, credit/loans and service providers, infrastructure development, R&D, etc.
 - Supporting the assessment of CF opportunities and feasibility, facilitating negotiations and in resolving issues and disputes...
 - Playing a leading role in creating an enabling environment for CF (e.g. the CF draft bill)
- ❖ **An enabling environment, including institutions, regulations, policies and investments, is key to successful CF and sustainable development of value chains.**



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Potatoes

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- Concerns, risks and disincentives

3. Recommendations

Potatoes: Value Chain Analysis

Market outlook

- Domestic **demand and production** for potatoes has been **increasing gradually**.
- Demand is growing for both **fresh and processed potatoes**.
- **Small deficit** has been **met by imports (10%)**.

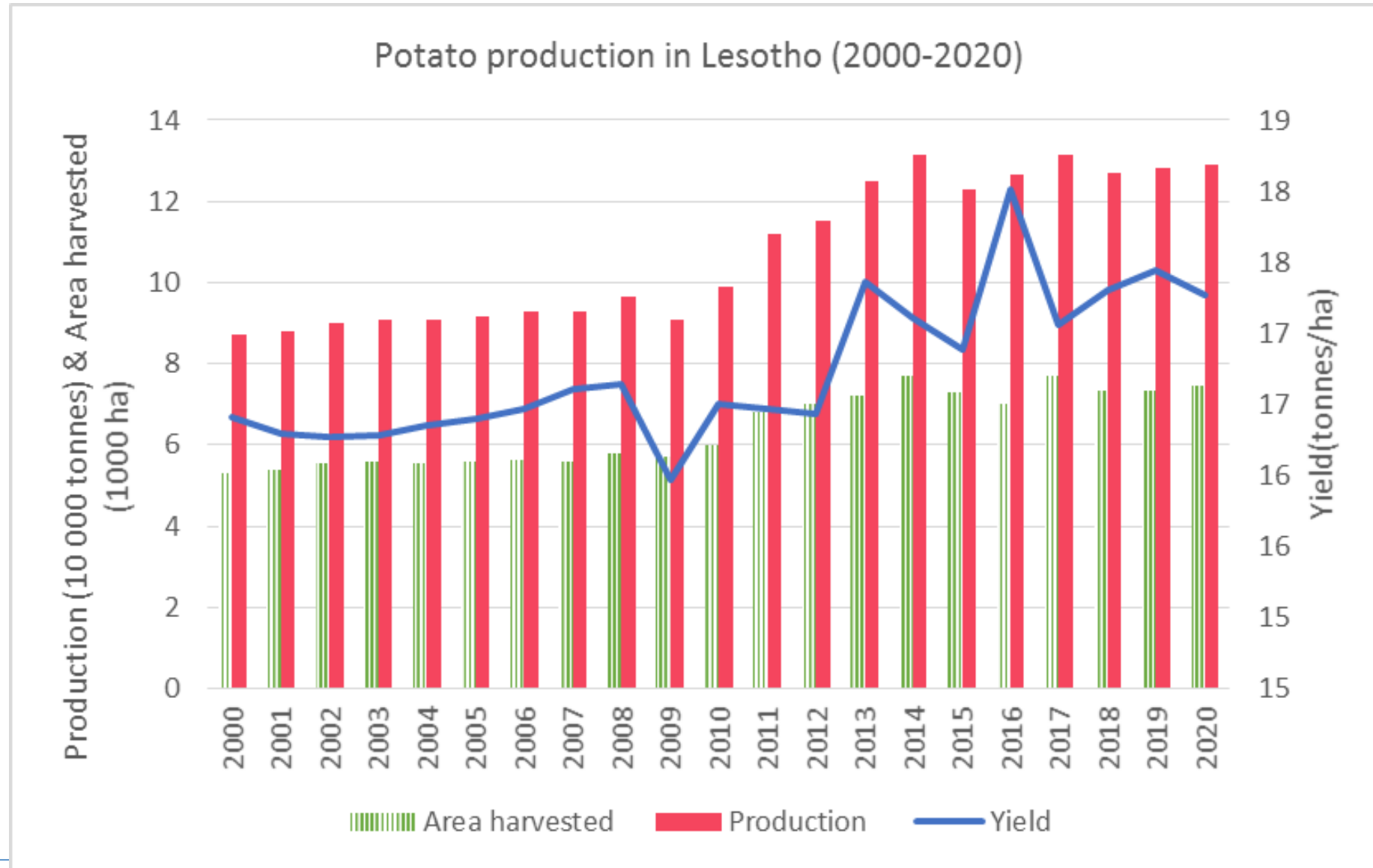


Data sources: FAOSTAT

Potatoes: Value Chain Analysis

Market outlook

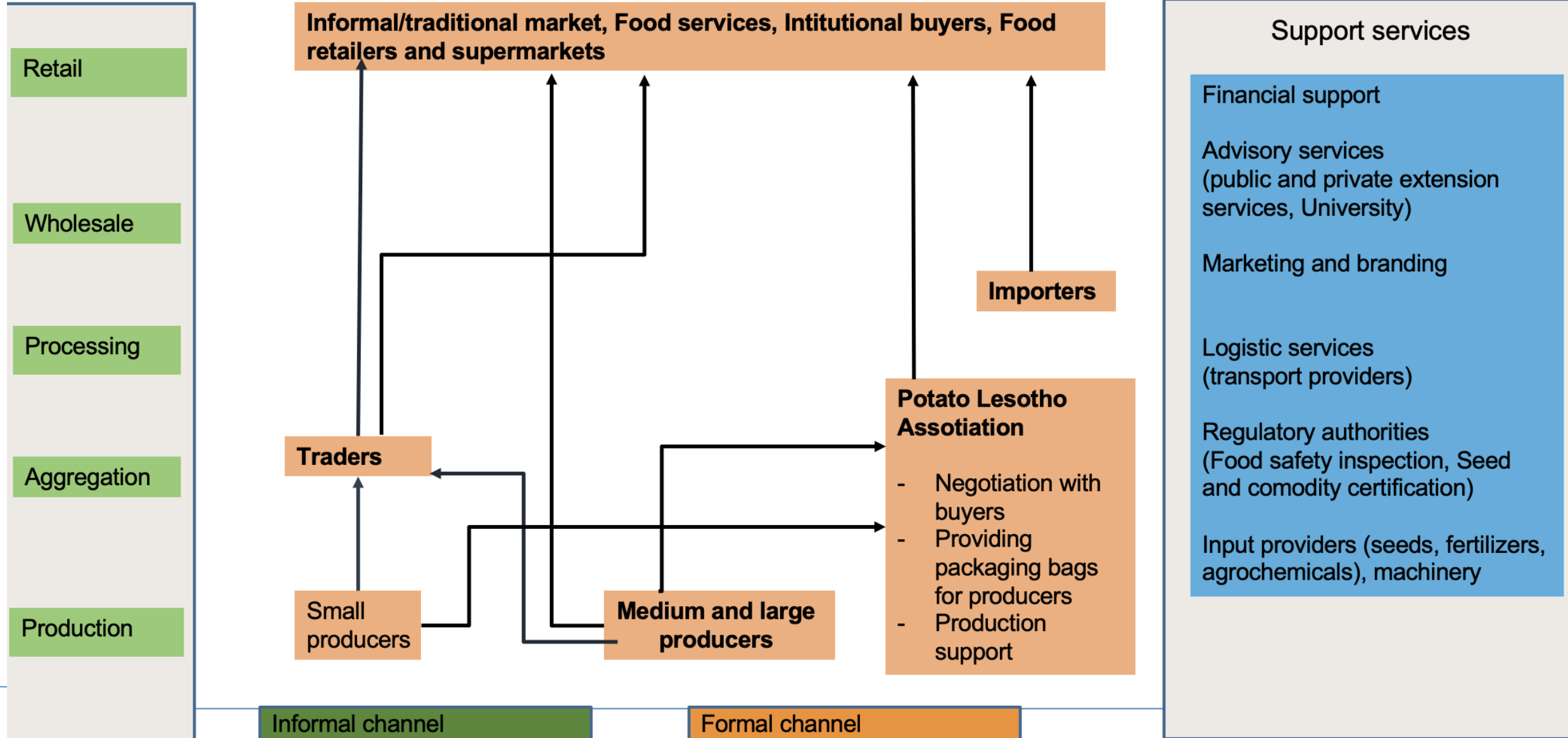
- **Production** increased due to expansion in areas harvested and gradual increase in yield
- **Yield** increased particularly post 2009, but **flattened out** in recent years.



Data sources: FAOSTAT

Potatoes: Value Chain Analysis

Value Chain Mapping



Potatoes: Value Chain Analysis

Stakeholder consultations for core and extended value chain analysis

Structured interviews and discussions

- **Representative potato producers**
- **Potato Lesotho Association (PLA)**
- **Seed365 (Agribusiness company)**
- **Marketing experts from Department of Marketing, MoAFSN**

(Key findings for value chain analysis including core and extended value chain analysis are present next→)

Potatoes: Value Chain Analysis

Key findings

- Domestic market is expanding
 - Increasing demand for both fresh and processed potatoes
- Producers face constraints to improve productivity and quality and to access markets
 - Poor access to markets and weak bargaining power
 - The need to improve quality to supply high value market segment dominated by imports
 - Need to increase productivity and quality: limited land size, poor access to storage, quality inputs, etc.
- Buyers (especially food retailers)
 - Unreliable local supply and quality
 - Uncompetitive prices of local potatoes
 - Difficult to establish supply relations with producers who sell to higher price offerings

Potatoes: CF Feasibility Assessment

Opportunities and enabling environment for CF

- Demand for both fresh potato and processed potato has grown over time.
- Emerging agribusinesses and companies (e.g. Seed365, PLA, etc.) are interested in sourcing from farmers via CF which in turn will strengthen formal markets and foster value chain development, especially post-farmgate.
- Buyer (e.g. Seed365) show potential to utilise CF scheme with the essential capacities to organise farmers, manage commercial production and provide support services.
- Some farmers are beginning to be organised (e.g. PLA) for production support and marketing.
- Government and donor support in the form of extension services, market information and infrastructure in particular makes the environment conducive for contract farming.

Potatoes: CF Feasibility Assessment

Potential advantages and incentives for CF

For potato buyers (agribusinesses, Seed365):

- Being able to utilize land, skilled labour and others via CF to overcome constraints of productive resources to expand production.
- Consistent and reliable supply of potatoes complied with quality standards
- More vertically integrated hence, efficient supply chain
- Improved quality and access to high-value market segments

For potato producers:

- Access to buyer, terms agreed in advance, better planning, and more stable income.
- Working closely with buyer, clarity in dealing with disputes and unexpected events.
- Potential access to inputs, training and support
- Increased capacity for commercialized production and business opportunities

Potatoes: CF Feasibility Assessment

Capacities for CF

For potato buyers (agribusinesses, Seed365):

- May need to strengthen capacities to manage CF including experience in commercial contracts, procurement in volume and working with farmers.
- Lack of established supply relations or informal agreements with certain producers.
- Lack of production knowledge and skills to provide training and support to farmers.
- May further build marketing and business management skills
- However, Seed365 could further develop and acquire capacities for CF.

For potato producers:

- Most small farmers possess production know-how but need training, resources and support to participate in commercial production and contractual agreements.
- Some producers are organized (e.g. PLA provides aggregation, technical and advocacy services, connects and negotiates for members). However, most producers are not well organized and the capacity of producer organizations need to be strengthened.

Potatoes: CF Feasibility Assessment

Potential risks, concerns and disincentives for CF

For potato producers:

- Mostly small-scale and disorganized and hence unable to sell to different market outlets.
- Farmers may become indebted and possibly be exploited, in particular if they are not capacitated and experienced in planning production and managing resources and risks well.
- Late delivery of inputs and provision technical support by the government which have been reported by producers may continue and negatively affect production and product delivery.

For potato buyers (agribusinesses, Seed365):

- High transaction costs of managing contracts and farmers, especially in large numbers.
- Presence of informal markets poses a risk of side selling.
- The risks of misusing inputs and not following processes and standards are highly likely with farmers not experienced with such arrangements.

Potatoes: Recommendations

- ❖ The buyer and related producers who have ready capacity and sufficient incentives for piloting CF have not been identified for now.
- ❖ However, promising developments indicate the potential to develop CF.
 - Emerging businesses willing and would be able to source potatoes directly from producers, and further development post-farmgate (packing, processing) will favor CF.
 - Potential buyers for CF may include Seed365, packers, processors (if developed in the future), retailers, and wholesalers.
- ❖ Development of supply relations and informal opportunities between buyers and producers will lay foundation for future CF.
- ❖ Empower producers, promote and strengthen producer organizations
- ❖ Capacity development for producers and buyers especially in marketing and business management skills
- ❖ Improve public support to enhance productivity, develop linkages, facilitate and support CF.

Potatoes: Recommendations

- ❖ **The buyer and producers with sufficient incentives and capacities were not identified for piloting CF at this stage.**
 - The value chain, with largely informal market channels, does not present ready conditions for CF for now, but its development especially its nascent processing sector, is promising.
- ❖ The buyer who has incentives and capacity to engage in contract farming are not identified yet.
- ❖ However, there are promising developments that indicate potential to develop contract farming.
- ❖ Improve public support to enhance productivity
- ❖ Strengthening of producer organizations
- ❖ Establishment of supply relations and informal opportunities with buyers which will lay foundation for contract farming in future
- ❖ Improvement of marketing and business management skills
- ❖ Potential buyers under contract farming may include Seed365, retailers, wholesalers and producer organizations



Food and Agriculture Organization
of the United Nations

Pigs

Value chain analysis & feasibility assessment for Contract farming in Lesotho

Presenter: Ivana Radić, Agribusiness and value chain consultant, Agri-food Economics Division, FAO,
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Outline

1. Value chain analysis

- Market outlook
- Value chain mapping
- Core and extended value chain analysis
 - Stakeholder consultations
- Key findings

2. Contract farming feasibility assessment

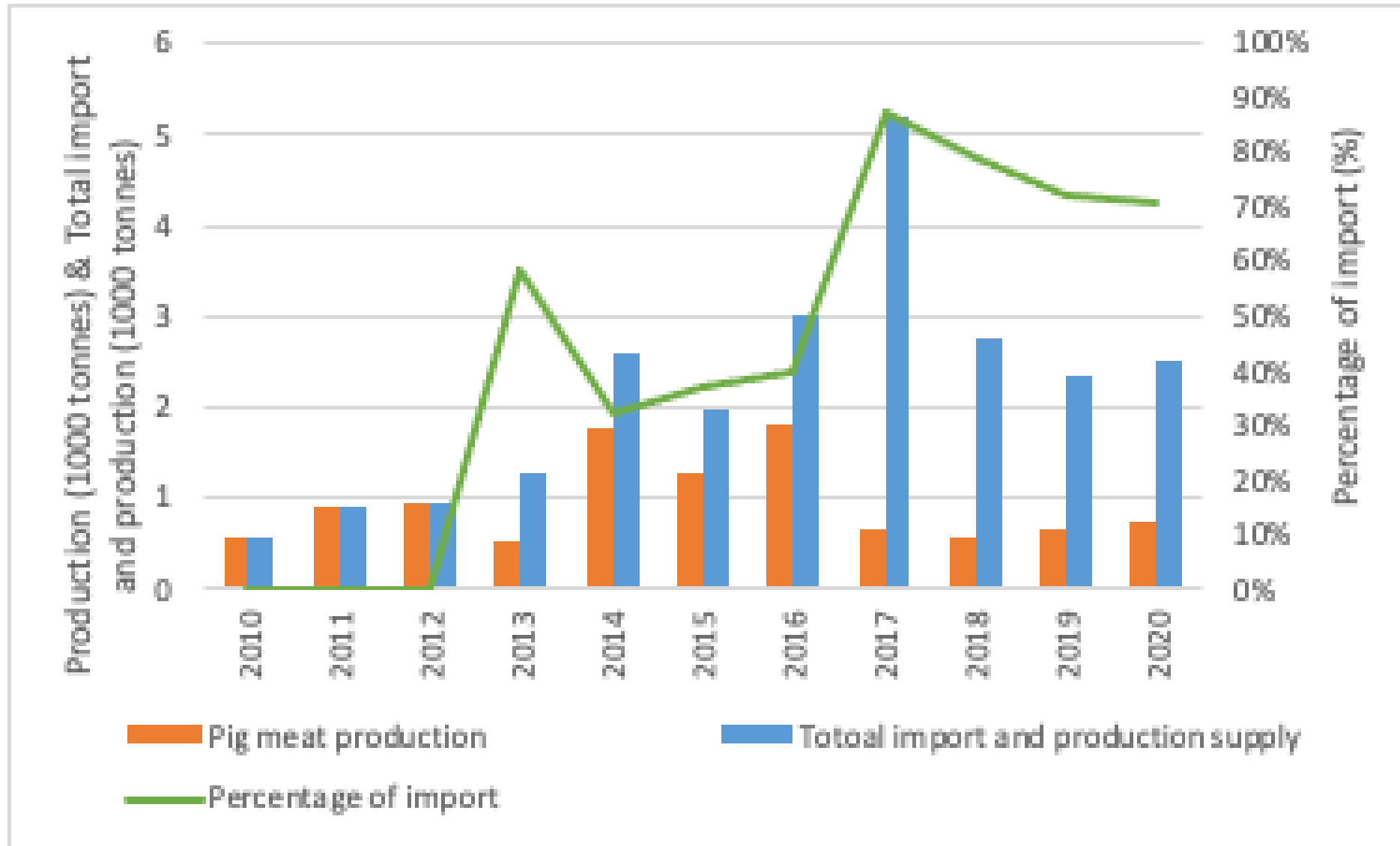
- Opportunities and enabling environment
- Advantages and incentives
- Capacities
- Concerns, risks and disincentives

3. Recommendations

Pigs: Value Chain Analysis

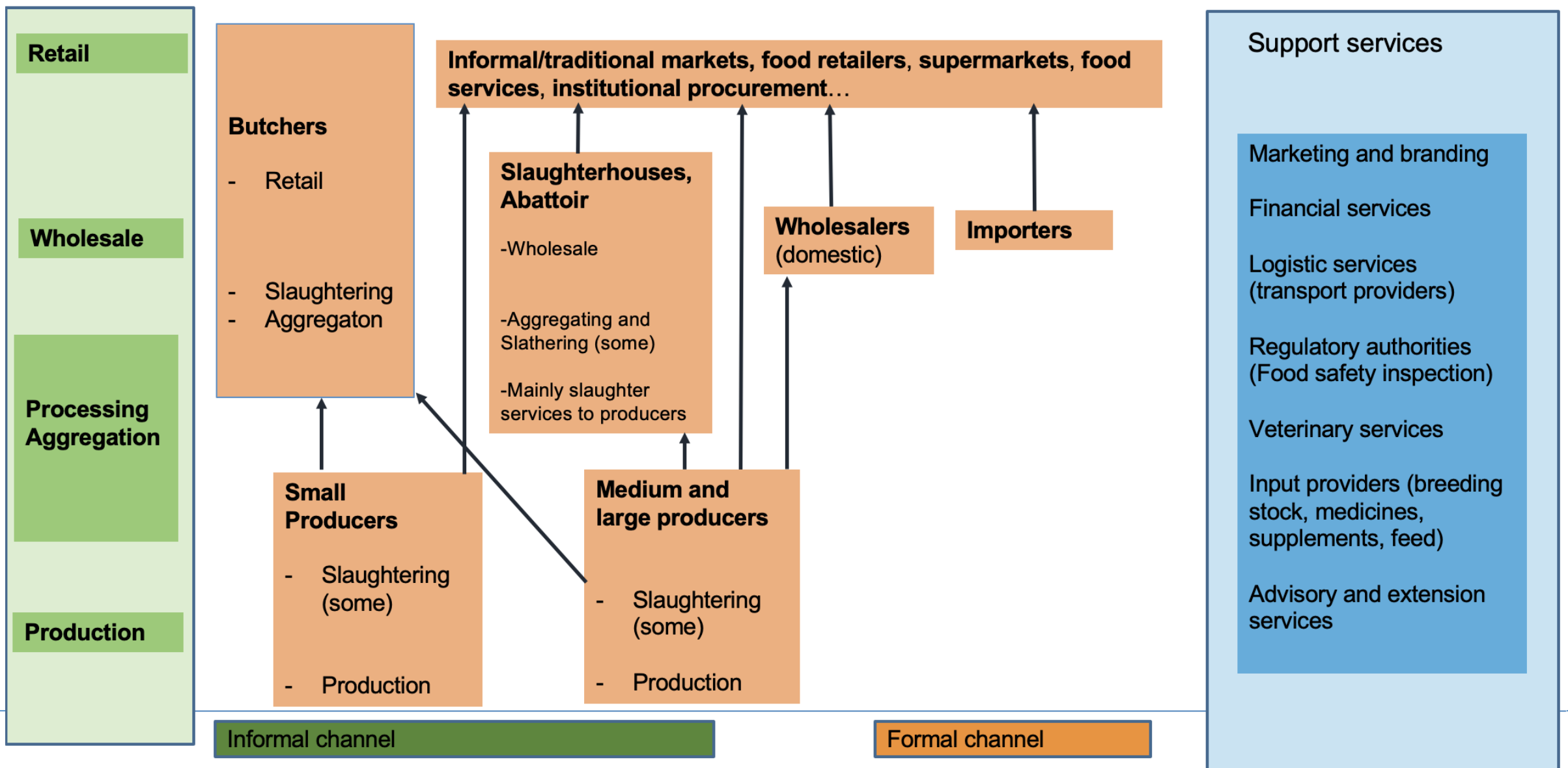
Market outlook

- Increasing domestic demand
- Production fluctuated, but declined in recent years
- Imports increasing accounting for **70-90 % of market share**



Pigs: Value Chain Analysis

Value Chain Mapping



Pigs: Value Chain Analysis

Stakeholder consultations for core and extended value chain analysis

Structured interviews and discussions

- **Two pig producers**
- **A butcher/butchery business** as a pig buyer
- **Marketing experts from Department of Marketing, MoAFSN**
- **Animal husbandry experts from Department of Livestock, MAFS**

(Key findings for value chain analysis including core and extended value chain analysis are present next→)

Pigs: Value Chain Analysis

Key findings

- Processing sector has positive albeit nascent development. Butchers and small slaughterhouses dominate processing. Informal market is predominant.
 - One abattoir exists. No accredited abattoir or slaughterhouse exists in Lesotho.
 - Butchers aggregate, some slaughter, but cannot secure consistent supply.
 - Slaughterhouses mainly provide slaughter service and do not aggregate and process.
- Imported pork is of higher quality (certified) and potentially lower price.
- Producers have challenges to increase productivity and quality and to expand production:
 - Feed and medicine mostly imported from South Africa (only one milling company for animal feed, no animal medicine production domestically)
 - Lack of quality pig breeding stock
 - Low quality of veterinary services
 - Lack of easy access to water, electricity, housing for the animals
- Producers mostly sell through informal market, lack access to formal market and bargaining power for the prices they are paid.

Pigs: CF Feasibility Assessment

Opportunities for CF

- Market outlook shows increasing demand for pork and potential for substituting import (70-90%) and expanding market share.
- Buyers and producers with sufficient incentives and capacities for piloting CF were not clearly identified.
 - Informal agreement exist between butchers and producers. Some butchers may have incentives for CF. Slaughterhouses mostly provide slaughtering services, not relevant to CF.
 - However, informal market dominants, processing is in early development. Incentives (benefits and costs) should be evaluated. Capacities of butchers and producers for managing CF may need to be strengthened in order to utilize CF to source pigs or carcasses.
- CF can help build capacities of both processors and producers, increase their competitiveness to meet increasing demand and substitute imports, and contribute to formalizing market channels and commercializing the value chain.

Pigs: CF Feasibility Assessment

Potential advantages and incentives for CF

For pig buyers (butchers):

- Consistent supply and products compliant with agreed quality standards
- Direct sourcing from farmers: increased efficiency and competitiveness
- Contract farming can help build trusting relations with increased transparency, close collaborations, clear guidelines on dealing with disputes and unexpected events.
- CF has been adopted in the pig/pork sector in various countries. CF can potentially be instrumental in developing pig value chain in Lesotho.

For pig producers:

- Access to buyer, quantity and price agreed in advance and more stable income.
- Increased communication, engagement and collaboration; clarity and guidance in dealing with disputes and unexpected events.
- Increased capacity for commercialized production and business opportunities

Capacities for CF

For pig buyers (butchers):

- Informal agreements between butchers and farmers, experience working with producers.
- Capacity in procuring, processing and marketing pork.
- Capacity to manage contractual agreements is uncertain and may be lacking because the informal market is predominant.
- Capacity to provide inputs, credits, technical oversight, training and support to producers is uncertain and may be lacking.
- Their capacities can be strengthened esp. in key areas to adopt CF

For pig producers:

- Some producers have capacities and facilities for commercial production and its expansion
- Some producers are recently organized, e.g. Lesotho Pig Producers Association.

Pigs: CF Feasibility Assessment

Potential risks, concerns and disincentives for CF

For pig buyers (butchers):

- Possible lack of capacity to manage contracts, provide inputs, technical training and support
- Benefits and costs of managing CF yet to be clearly identified and assessed.
- Dominance of informal market, risk of side-selling

For pig producers:

- The price paid via CF with butchers may not be higher than the price selling in informal market
- Provision of inputs, credit, technical training and support are not likely from butchers
- Lack of bargaining power
- Late payments exist
- Producers have yet to be well organized

Pigs: Recommendations

- ❖ **The buyer and producers with sufficient incentives and capacities were not identified for piloting CF at this stage.**
 - The value chain, with largely informal market channels, does not present ready conditions for CF for now, but its development especially its nascent processing sector, is promising.
- ❖ **Capacities of processors (esp. butcher) can be strengthened as processing sector develops.**
 - Obtain accreditation, in order to comply with the food safety regulations and increase quality, and to expand in formal market and compete with imports. Supplying certified pork can be strong incentive for CF.
 - Develop formal market sales, build capacities for managing CF, providing inputs, training and support possibly in partnership, also for business management and marketing, etc.
- ❖ **Producers need to gain capacity for commercialized production.**
 - improve productivity, increase production and quality of marketable products
 - Develop skills for business management, marketing, building and managing supply relation and CF.

Pigs: Recommendations

- ❖ **CF has the potential to contribute to the development of pig value chain.**
 - CF can contribute to building competitiveness of processors and producers and developing the formal market. CF has been employed in pig and other livestock value chains in many countries.
- ❖ **Increase linkages between producers and butchers and foster engagement.**
 - Established supply relations and informal agreements can build capacities and trust, and can evolve into formal CF scheme.
 - Encourage clear communication on prices, delivery, payment, quality, etc.
 - Both parties should be aware the non-binding nature of informal agreements or established relations and should have alternative ways of selling/buying while gradually build trust.
 - Producers are encouraged to be organized to gain bargaining power and collection action.
- ❖ **Government can play a key role in promoting, facilitating and supporting CF and building an enabling environment.**
- ❖ Other relevant and general recommendations can be found in recommendations, especially for dry beans, and for broiler chicken and potatoes.

**We welcome
your comments and
suggestions.**

Thank you!

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