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FARMING AS A FAMILY BUSINESS

TRAINING MANUAL

A guide to higher profits through managing farming as a family business
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ACKNOWLEDGEMENTS

The authors of this manual would like to acknowledge the organisations and individuals that contributed to the development of this manual. First and foremost, we appreciate the United States Agency for International Development for funding and making this work possible. At the USAID Zimbabwe Agricultural Competitiveness Program, we acknowledge the roles played by Godfrey Nehanda, Henry Chimboza, Personal Sithole, Fikile Moyo, and Rufaro Mavhera in providing extensive comments and suggestions during the planning and execution of the assignment. At Linkages for the Economic Advancement of the Disadvantaged, we thank Absalom Lee Marwa and Elliot Takaindisa for their excellent administration in making this assignment a success. The contribution of Cleopatra Phiri-Hurugo of Women Affairs, Gender and Community Development, through her extensive review and comments is greatly appreciated.

We also extend our gratitude to the following individuals for sharing their practical experiences, and enriching the content of this manual: Lillian Machivenyika (Cluster Agricultural Development Services); Morgan Gomo (SNV Netherlands); Simba Mupodyi (Ministry of Agriculture, Mechanisation and Irrigation Development); Wellington Chaonwa (Agricultural Technical and Extension Services); Moyra Mahari (ACDI-VOCA); Geshem Madzingaidzo (Care International); Lloyd Mataya, Tarisai Muyengwa, and Shadreck Tsimba (Zimbabwe Commercial Farmers Union); Kudzanai Lewis Mashingaidze (Fambidzana Permaculture Centre); Wadzanai Vere and Ntombizodwa Mvududu (Self Help Development Foundation); Cloudius Marimo (Domboshawa Horticultural Producers Association); Dominic Mubvuta (Agrichem); Tom Gardiner, Kudakwashe Ndoro, and Kudzai Mariga (Zimbabwe Agricultural Income and Employment Development); Drake Tobaivwa and Violet Mandishona (Zimbabwe Farmers Union); and Pepukai Muchazondida (FACHIG Trust). Finally, we would like to thank individuals who directly assisted in the actual drafting of the manual, including Shadreck Zhou, Oscar Ndoro, Aaron Mapupa, Lifa Mazibuko, Tirivangani Chodeva, and Nesbert Gweshe.

Disclaimer:

The contents of this document are the sole responsibility of the authors and cannot in any way be taken to reflect the views of USAID or any organisation or individual that is affiliated to them. The author acknowledges that the guidelines suggested here are not absolute, but may be modified depending on local circumstances and the type of farming practices being undertaken in any given area.

Tawedzegwa Musitini (Team Leader—Bucklesbury Agricultural Consultancy (Pvt) Ltd.)
BACKGROUND

Since October 2010, DAI has been implementing the Zimbabwe Agricultural Competitiveness Program (Zim-ACP), with funding from the United States Agency for International Development (USAID). The project is a 4.5-year initiative designed to support and facilitate the farming and agribusiness sector, through their representative bodies, to dialogue and arrive at consensus on policy issues that affect the competitive environment for undertaking the business of agriculture in Zimbabwe. One of the three objectives of the programme is to enhance the capacity of business service providers to deliver demand-driven training and technical assistance at the firm and farmer levels. This gender-focused manual has been developed as a contribution to this objective. The manual is intended to encourage farming families to work together, make corporate decisions, and harness each family member’s talents in managing the farm business, for greater productivity and prosperity of farming businesses. The manual will assist agribusiness enterprises acquire planning and business skills so as to be fully commercial, and achieve higher profits and competitiveness. The manual focuses on building farmers’ business management knowledge and skills in record keeping, planning, risk management, market analysis, and contract management. These skills will help farmers understand the impact that improved management, diversification, and market selection can have on their farm incomes. The manual was not developed to replace existing training materials, but to complement them by addressing gender disparities in the management of agribusiness enterprises.

WHY THIS MANUAL WAS WRITTEN

In many African countries, women are relegated to the periphery of the decision-making ladder on important issues such as access to land and other productive resources. This traditional legacy resulted in an unequal structure of society and unequal distribution of resources. In Zimbabwe, traditional ideas on gender roles deny women full participation in decision making and social and economic development. As a result, women have far less access than men to land ownership, financial services, training, and other means of increasing agricultural production and improving family income. Furthermore, women and children receive little of the income from sales of produce in spite of doing most of the work in agriculture. Clearly, there are social and moral reasons for seeking to redress these disparities. Therefore, the key focus of the Farming as a Family Business manual is to integrate men, women, and children into the decision-making and management functions of farm businesses. The manual recognises the importance of women in the food and environmental nexus through their various roles in household reproduction, as primary managers of the natural resource base, and as farmers responsible for a substantial share of food crop production.

WHO SHOULD USE THIS MANUAL

This manual is available for use by USAID-funded programmes and any other programmes that have sustainable commercialisation of smallholder agriculture as their objective. The manual can also be used by agribusiness training institutions, nongovernmental organisations (NGOs), and independent consultants aiming to improve the planning and business management skills of smallholder producers.

LEARNING OUTCOMES

The manual is designed to equip farmers with:

- Entrepreneurial skills to successfully operate small-scale farm businesses.
- Skills for maintaining relevant records and managing finances.
- Skills for developing farm business plans and budgets.
- Marketing skills to identify and develop profitable agricultural markets.
RECOMMENDED TRAINING METHODOLOGY

The suggested training methodology is flexible, and the steps mentioned here are only guidelines derived from experiences of different agencies in Zimbabwe and elsewhere in Africa. The concept of Farming as a Family Business is discussed together with the methodology to deliver training to the target group. Factors necessary for running a successful family farming business are highlighted and brief descriptions given to facilitate understanding and appreciation. Trainers should note that there is no single training method that will suit all groups of farmers. However, it is highly recommended that the approaches for this module be participatory in nature. The manual has been compiled in a modular form, and one module should be covered at any given time. A mixture of delivery methods is recommended and includes illustration analysis, structured brainstorming, group discussions and exercises, lectures, case examples, and role plays.

The manual will be made available to farmers and other stakeholders through farmer unions, agribusiness associations, agribusiness training institutions, and NGOs involved with building the business capacity of farmers at cost.
STRUCTURE AND USE OF THIS MANUAL

This manual has been designed to allow readers to select and review specific sections that are relevant to their interests. Therefore, each section and subsection is self-contained and can be read on its own. Because the focus of the guide is on commercialisation of smallholder farming and increasing women’s participation in the business of farming, the core parts of the document are structured around different principles of commercial production. The manual is divided into the following modules:

- Module 1: The concept of farming as a family business.
- Module 2: Risk management in farming businesses.
- Module 3: Planning farm business (emphasis on planning together).
- Module 4: Farm business record keeping.
- Module 5: Farm business financial management.
- Module 6: Farm business financial mobilisation.
- Module 7: Farm operations and decision making.
- Module 8: Farm labour requirements.
- Module 9: Marketing of farm products.
- Module 10: Contract farming.

The manual is presented in the following two parts:

1. The participant workbook, which guides the training process.
2. The instructor manual, which is designed as reference material to be used during and after training.
MODULE 1: THE CONCEPT OF FARMING AS A FAMILY BUSINESS

LEARNING OBJECTIVES

By the end of this module, participants are expected to:

✓ Understand the business concept.
✓ Understand the farmer as an entrepreneur.
✓ Distinguish between subsistence and commercial farming practices.
✓ Identify opportunities and challenges associated with family farm businesses.
✓ Understand critical success factors in family farm businesses.
✓ Understand the importance of involving the whole family in decision making for effective resource allocation and utilization in a family farm business.
✓ Be able to apply business principles in family decision-making processes.

KEY WORDS

Business  A commercial activity where products (goods and services) are offered on the market at a profit.
Entrepreneur  A person who organises business, especially involving risk.
Farming  Growing crops and raising livestock.
Subsistence  Agricultural production that is consumption oriented.
1. INTRODUCTION

Approximately 70 per cent of people in Zimbabwe reside in rural areas and are largely dependent on agriculture for their livelihood. The majority of these people farm at subsistence levels, producing both crops and livestock to meet their basic food requirements. However, with the changing economic circumstances in Zimbabwe, where those that are formally employed are failing to send remittances to their relatives in the rural areas, it becomes imperative that farmers deliberately engage in activities that help them generate income. This manual has been written with this in mind and is, therefore, designed to help farmers improve earnings from their activities on the farm by treating farming as a family business. Appreciation of the business concept and its principles, planning as a family, and harnessing the business talents of each family member, are critical to the success of the farming business. Both farmers and development facilitators need to have this appreciation in order to successfully drive the development of farming businesses forward.

1.1 WHAT IS A BUSINESS?

A business is a commercial activity designed to supply goods and/ or services that are demanded by the market at a profit. In a normal business set-up, a given set of inputs are processed and converted into outputs, which may be goods or services. Figure 1.1 is an illustration of the business concept.

FIGURE 1.1: ILLUSTRATION OF THE BUSINESS CONCEPT

Examples of inputs in a farming business include: seed, dipping chemicals, fertiliser, pesticides, herbicides, and farm equipment. Farm business processes include activities such as land preparation, planting, weeding, fertiliser application, dipping cattle, fumigation of poultry structures, harvesting, and output marketing. Farm outputs include maize grain, flowers, fruits; and livestock and livestock products. These outputs are then sold to consumers at a profit, which is calculated as the difference between the value of outputs and the cost of inputs.
1.2 KEY PRINCIPLES OF BUSINESSES

Table 1.1 summarises some key business principles and how these are applied to the farming business. This helps one to appreciate some of the practices that make businesses successful.

**TABLE 1.1: KEY BUSINESS PRINCIPLES APPLICABLE TO A FAMILY FARMING BUSINESS**

<table>
<thead>
<tr>
<th>Business Principle</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment of resources with a profit motive.</td>
<td>All business resources are invested with a motive to make profit.</td>
</tr>
<tr>
<td>Provision of products or services to satisfy the market.</td>
<td>Businesses offer goods and services of value to satisfy the market in exchange for a monetary return.</td>
</tr>
<tr>
<td>Legal and ethical activities with a defined purpose.</td>
<td>Businesses undertake activities that conform to the laws and standards of the society in which they operate, and they clearly state what they exist to do for customers and stakeholders, including their core business.</td>
</tr>
<tr>
<td>Plan, analyse the environment, and manage risk.</td>
<td>Businesses make plans, continuously check what happens within and outside of the business, stay alert to uncertain events, and work to reduce potential loss.</td>
</tr>
<tr>
<td>Record keeping.</td>
<td>Businesses keep up-to-date records for reference in planning and decision making.</td>
</tr>
<tr>
<td>Relationship management and continuity.</td>
<td>Businesses develop long-term relations with other stakeholders and continue to operate even beyond the life of the founder.</td>
</tr>
</tbody>
</table>

1.3 THE FARMER AS AN ENTREPRENEUR

Various writers hold different views on entrepreneurs and their role in the economy. Generally, an entrepreneur is someone who undertakes innovations and finance and business acumen in an effort to transform innovations into economic goods and ultimately profit. In this context, can we realistically say that Zimbabwean farmers are entrepreneurs? The most logical answer is—it depends on if that farmer is a commercial or subsistence farmer. Farmers become entrepreneurs when business principles listed in Table 1.1 are applied in farm operations, and farm activities are geared toward making a profit. Figure 1.2 illustrates a family that has undertaken farming as a business.

**FIGURE 1.2: ILLUSTRATION OF A FAMILY INVOLVED WITH DIFFERENT ACTIVITIES OF A FARM BUSINESS**
Like other family businesses, the farm business offers great opportunity for family members to work together and adopt a culture of planning and making decisions together. Family members can easily adopt internal communication systems that facilitate good and effective management systems that are critical tenets of successful businesses. Unlike a disjointed approach to the farm business, adoption of the concept of farming as a family business brings family members (men, women, and children) closer together.

1.4 FROM SUBSISTENCE TO COMMERCIAL FARMING

Subsistence farmers typically have different objectives than commercial farmers. The difference in objectives is reflected in beliefs, attitudes, and investment patterns. Subsistence and commercial farmers also have different risk tolerance levels when it comes to savings and issues of food security. Subsistence farmers tend to have less tolerance for risk than commercial farmers, as most of them are on the borderline in terms of savings and liquid assets. Due to the sensitivity of this category of farmers to risk, they tend to involve themselves with off-farm activities associated with low risk, such as taking up formal employment. Shifting from subsistence to commercial farming requires knowledge and a mindset change on the part of the farmers. Characteristics of subsistence and commercial farmers are summarised in Table 1.2.

TABLE 1.2: COMPARING AND CONTRASTING SUBSISTENCE AND COMMERCIAL FARMING

<table>
<thead>
<tr>
<th>Subsistence Farming</th>
<th>Commercial Farming</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production for self-sufficiency and limited incentive for the market.</td>
<td>Production for the market with a strong focus on generating profits.</td>
</tr>
<tr>
<td>Limited participation in input and output markets.</td>
<td>Active participation in input and output markets.</td>
</tr>
<tr>
<td>Limited investment in inputs and technology.</td>
<td>Active investments in inputs and technology.</td>
</tr>
<tr>
<td>Reliance on retained seeds or donated inputs and traditional technology.</td>
<td>Reinvestment of profits into inputs and technology.</td>
</tr>
<tr>
<td>Little valuation of inputs and outputs.</td>
<td>Valuation of inputs and outputs.</td>
</tr>
<tr>
<td>Wide product mix.</td>
<td>Narrow product range.</td>
</tr>
</tbody>
</table>

1.5 WHY PRACTISE FARMING AS A FAMILY BUSINESS?

This manual advocates for an approach to farming that increases family income by promoting the involvement of all family members in the planning, decision-making, and management aspects of the farm business. The family business approach requires change of attitude and allows for all family members (men, women, and youths) to participate in decision making on matters relating to business operations and investments. Full utilisation of knowledge, skills, ideas, and experience embodied in all family members has great potential to increase financial and non-financial benefits to the family and community at large. Some of the benefits that can accrue to the family and to the society in general are highlighted in Table 1.3.

TABLE 1.3: BENEFITS OF FARMING AS A BUSINESS

<table>
<thead>
<tr>
<th>Benefits to the Family</th>
<th>Benefits to the Society</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth in income due to market participation.†</td>
<td>Improved consistency in supply of products.</td>
</tr>
<tr>
<td>Improved standards of living due to increased income.</td>
<td>Improved quality of products.</td>
</tr>
<tr>
<td>Diversity of consumed products purchased using increased income.</td>
<td>Growth of rural-based businesses and employment creation.</td>
</tr>
<tr>
<td>Improved nutrition and household food security.</td>
<td>Improved distribution of food and raw material through trade.</td>
</tr>
<tr>
<td>Increased productivity and efficiency of the family farm.‡</td>
<td>Growth of productivity and supply base for agro-industry inputs.</td>
</tr>
</tbody>
</table>

† Discussed in detail in Module 9.
‡ Discussed in detail in Module 7.
1.6 DECISION MAKING AT A FAMILY LEVEL

Decision making at family level describes the process by which families make choices between alternatives, to achieve a desired result. Family decision making implies that more than one member’s input and contribution is involved. Therefore, the decision-making process is centered on core communication processes essential for creating shared meaning on issues up for discussion. In the decision-making process, families should acknowledge the differences among members and negotiate their needs to arrive at consensus. To have effective decision-making processes, families should identify the issues to be discussed (for example, allocation of resources); understand all possible alternatives and options; achieve satisfaction in choosing the best choice for the whole family; enact an action plan for implementing the decision; and evaluate the decision and refine as needed. As illustrated in Figure 1.3, decisions for a family farm business should be made by the whole family.

FIGURE 1.3: INVOLVEMENT OF ALL FAMILY MEMBERS IN DECISION MAKING

![Decision Making Illustration]

1.6.1 WHAT DECISIONS ARE TO BE MADE?

Some decisions that have to be made in a farming business are allocation of labour (for example, between farming and non-farming activities; management of agricultural enterprises; management of non-farming activities; acquisition of inputs (cash or credit); marketing of products; allocation of financial resources; and allocation of land and equipment.

1.7 ISSUES OF GOVERNANCE IN FAMILY FARM BUSINESSES/ SUCCESSION

For family businesses to be successful, it is important to adopt transparent systems of governance where information is openly shared by all family members. This allows for smooth succession in cases where other family members become unavailable. In the contemporary set-up where gender roles are changing, deliberate actions must be taken to equip all family members with skills to run farm businesses. This means any member of the family (male or female) should be in a position to continue running the farm business in the event of the current leader being incapacitated or dying. Therefore, efforts should be made to involve all family members in every aspect of the business.
1.8 CONFLICT RESOLUTION IN FAMILY BUSINESSES

Conflict is bound to happen wherever more than one person is involved with a business, including family centred enterprises. However, unlike other organisations, families may resolve conflicts better because there are more reasons for remaining united other than the business itself. Table 1.4 summarises potential conflict areas in a family farming business and possible ways of resolving conflicts that arise.

**TABLE 1.4: POTENTIAL CONFLICT AREAS AND WAYS OF RESOLVING CONFLICTS**

<table>
<thead>
<tr>
<th>Potential Conflict Area</th>
<th>Possible Ways of Resolving Conflict</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketing—who goes to the market?</td>
<td>Efforts should be made to involve more than one person in marketing activities.</td>
</tr>
<tr>
<td>Money—how is it used and distributed?</td>
<td>Money should be used transparently, so that it benefits all members of the family.</td>
</tr>
<tr>
<td>Roles—who does what?</td>
<td>Roles should be shared based on skill and competence.</td>
</tr>
</tbody>
</table>

1.9 CASE STUDY—HOUSEHOLD FARM-LEVEL DECISION MAKING

Bongi and her husband Tapiwa belong to the Chitanga community, of Masvingo South. The family was very poor, and had limited access to productive resources. Failure to utilize their agricultural land productively forced Tapiwa to search for employment in the nearby Triangle estates, where he was then hired as a general hand. However, Tapiwa’s earnings were too small to support his family adequately. To worsen the situation, Tapiwa moved in with a new wife, leaving Bongi to provide for the children on her own. Bongi started growing vegetables to raise income to support her family. However, in a village where women were not expected to participate meaningfully in economic activities, it was not long before Bongi’s in-laws complained about her frequent visits to the market. Bongi’s only hope of feeding and educating the five children under her custody was to till the land. Using income generated from gardening, Bongi bought two cows. Before long, Tapiwa’s employment contract was terminated, forcing him to take his second wife to the village. Without consulting with family members, Tapiwa decided to pay the outstanding lobola for his second wife using the two cows that Bongi had worked for. This left the expanded family without draught power, hence further reducing the family’s capacity to effectively work the land. Bongi could not do anything since women in this community were culturally expected to be subservient and not allowed to make decisions on capital assets. An empowerment campaign initiated by a lobby group pushed for the interests and rights of women farmers in the area. The campaign aimed to create an environment that recognized women as partners in family farm businesses and initiate ground-level actions for entitlement of women over land and productive resources. The impact of the campaign was that both men and women started appreciating the value of working together and making joint decisions on resource allocations and other important issues of the farm business. Even Tapiwa saw value in this and proceeded to mend his relationship with Bongi. He is now consulting Bongi on all important decisions concerning the family and their farm business, and this has given the family some good measure of success. Apart from growing vegetables, the family diversified into other commercial crops to increase their earnings from farming. Bongi and Tapiwa are now role models in their village and are influencing other families to work together and run their farming activities along business lines. Tapiwa’s second wife left as soon as she realized that Tapiwa was now more involved with Bongi than herself.
1.9.1 KEY LESSONS ARISING FROM THE CASE STUDY

- Gender disparities and discrimination against women are common in Zimbabwe, especially in remote farming areas.

- Gender disparities affect women’s access to resources, decision making, and participation in economic activities.

- Women can succeed in the business of farming in the same way as men.

- Families that recognise skills and talents in all their members and harness these for purposes of planning and managing their farm businesses are more likely to succeed than those that are disjointed.

1.10 SUMMARY OF KEY ISSUES

1. A business is a commercial activity where goods and/or services are supplied to the market at a profit.

2. Just like other businesses, farming is a business where inputs (seed, fertiliser, etc.) are processed (ploughing, planting, weeding, etc.) to produce outputs that are then sold to the market at a profit.

3. Farming becomes a commercial enterprise when entrepreneurial and business principles are applied.

4. The farm that is run as a family business benefits both the family and the community through increased income, standards of living, etc.

5. Farming as a family business involves decision making where every member of the family (father, mother, children, and extended family) participate in the process.

6. Families that recognise skills and talents in all their members and harness these for purposes of planning and managing their farm businesses are more likely to succeed than those that are disjointed.
LEARNING OBJECTIVES

By the end of this module, participants are expected to:

- Be able to explain the concept of risk in the business of farming.
- Understand the different risks that farmers face in the business of farming.
- Describe and explain some strategies to manage risk at the farm level.
- Understand the involvement of the whole family in managing farm risk.

KEY WORDS

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk</td>
<td>The possibility of incurring losses due to uncertain outcomes.</td>
</tr>
<tr>
<td>Uncertainty</td>
<td>A state where the true outcome of events is unknown and there is a possibility of more than one outcome, ranging from favourable to adverse.</td>
</tr>
<tr>
<td>Risk Vulnerability</td>
<td>Degree of exposure to risk.</td>
</tr>
<tr>
<td>Risk Mitigation</td>
<td>Putting in place clear plans of how to deal with risk and make risky events or threats less damaging.</td>
</tr>
</tbody>
</table>
2. INTRODUCTION

Profits are expected in every business venture, but they are not always certain. This is because businesses operate in a rapidly changing and unpredictable environment that impacts upon the outcomes of business activities. While the physical, political, economic, social, technological, and trading environment presents opportunities for business, it also offers threats that make business risky. However, this does not stop businesses from operating. Entrepreneurs have to expect, accept, and manage risks as they relate to business. Due to the dependence of agriculture on physical and market conditions that are uncertain, farm business operators need to be risk conscious in order to avoid devastating losses. This module looks at the concept of risk, the risks associated with family farm businesses, and strategies of managing risk at the farm level.

2.1 THE CONCEPT OF UNCERTAINTY

Uncertainty refers to a state where the true outcome of events is unknown, and there is a possibility of more than one outcome, ranging from favourable to adverse. In Figure 2.1 the farmer had clear plans of investing $800 on 1 hectare to get 6 metric tonnes of maize and ultimately earn a profit of $400. However, this outcome was not certain as there were other factors that went on to influence the outcome, and these were beyond the farmer’s control.

When affected by threats like drought and market uncertainty, numerous other outcomes can be expected. In worst case scenarios, zero outputs, revenues, and profits can be registered. In the same manner, an expected impact of improved livelihoods may be threatened, even if a good output and income are obtained and the money ploughed back into the business.

2.2 THE CONCEPT OF RISK

Risk refers to the possibility of incurring a loss due to uncertain outcomes. When factors threatening the expected favourable output are high or powerful, this increases the uncertainty of outcomes and the probability of loss is high—thus, there is high risk in that activity. For example, if there are signs of limited rainfall in a particular year, a good maize yield is not certain and the risk of producing maize will be high. The major question that remains is what are the factors that threaten favourable outcomes in farming businesses?
FIGURE 2.1: THE CONCEPT OF RISK IN FARMING

We have all the inputs and labour; therefore, if we invest $800 on 1 hectare of maize we should get a good return.

“What went wrong? Why is the output so low? Why is the revenue low and why do we have a loss?”

“Our yields were negatively affected by erratic rains father! We should have considered this in our planning.”

EXPECTED OUTPUT
- 6 metric tonnes
- $1,200 revenue
- $400 profit

ACTUAL OUTPUT
- 3 metric tonnes
- $600 revenue
- $200 loss
2.3 RISKS ASSOCIATED WITH FARMING BUSINESSES

The expected chain of activities in farming is that farmers put together good-quality inputs and resources and conduct good production practices. On the other hand, the expected results are that farmers get good yields, sell at a profit, improve their livelihoods, and plough back a fraction of their income into the business.

However, factors related to the physical, political, social, and economic environment can threaten and disrupt this chain, hence producing unfavourable results. In the farming as a family business concept, the three distinct stages where results can be disrupted are: 1) Production stage—which affects output level; 2) Market level—which affects revenue and profit; and 3) Income distribution level—which affects family livelihood. Risk is discussed in the context of these three levels, as shown in Table 2.1.

### TABLE 2.1: SOME RISKS ASSOCIATED WITH FARMING BUSINESSES

<table>
<thead>
<tr>
<th>Risk Type</th>
<th>Possible Causes</th>
<th>Possible Effects</th>
</tr>
</thead>
</table>
| Production/Output       | • Climate change/droughts/floods.  
                          • Input shortages/inaccessibility.  
                          • High input costs.  
                          • Poor quality inputs.  
                          • Poor management skills.  
                          • Poor timing of operations.  
                          • Pests and diseases.  
                          • Ill health and labour shortages. | • Destruction of crops or livestock.  
                          • Stunted growth.  
                          • Poor yields and low profits.  
                          • Poor-quality products.  
                          • High field and post-harvest losses. |
| Market/Income           | • No market for products/low prices.  
                          • Poor marketing strategies.  
                          • Availability of substitute products.  
                          • Buyers have other suppliers.  
                          • Lack of storage facilities.  
                          • Poor infrastructure and logistics.  
                          • High marketing costs.  
                          • Poor quality products.  
                          • Perishability of products. | • Destruction of harvested products (especially perishables).  
                          • Low profits or losses.  
                          • Desperate sales at low prices.  
                          • Lack of funds for future farming activities.  
                          • Inadequate income for family livelihood. |
| Income Distribution     | • Poor finance management skills.  
                          • Skewed control of income.  
                          • Failure to involve family in finance planning and distribution.  
                          • Failure to repay debts/loans.  
                          • Failure to finance operations.  
                          • Failure to honour household responsibilities. | • Omission of some commitments (for example, loan repayments).  
                          • Loss of property resulting from defaults on loan repayments.  
                          • Lack of funds for next farming activities.  
                          • No change in quality of life.  
                          • Conflict and family disunity. |

2.4 RISK MANAGEMENT MEASURE AT FARM LEVEL

Managing risk is very important for the success of agricultural operations. While some risks can be managed through changes in farming and marketing practices, others cannot be avoided as they are natural (for example, droughts and floods). Therefore, managers of farm businesses need to focus on managing manageable risks, and take measures to reduce the negative impact of those that are uncontrollable. Table 2.2 summarises risk management strategies that can be adopted at the farm level to ensure the success of farming businesses.

### TABLE 2.2: FARM-LEVEL RISK MANAGEMENT STRATEGIES

<table>
<thead>
<tr>
<th>Risk Type</th>
<th>Mitigation/Management Strategies</th>
</tr>
</thead>
</table>
| Production/Output       | • Training to improve production practices.  
                          • Planning production as a family and in advance.  
                          • Adopting appropriate business practices in farming.  
                          • Diversification of enterprises (crops and livestock).  
                          • Adoption of appropriate technologies.  
                          • Proper timing of production.  
                          • Staying up to date with disaster warnings. |
### Risk Type: Market/Income

- Starting the marketing process early, before harvesting.
- Planning marketing as a family.
- Collaboration with other farmers in marketing.
- Value addition where possible.
- Bulk selling of produce.
- Contract farming/committed buyers before production.
- Training in marketing skills.
- Proper timing of marketing of products.

### Income Distribution

- Planning for raising finances and expenditure as a family and valuing contributions of spouse and children.
- Financial management training or advice.
- Commitment to repayment of debts.
- Commitment to reinvesting in the farming business.

### 2.5 FAMILY INVOLVEMENT IN MANAGING FARMING RISK

All types of risk discussed in this module affect or are affected by family relationships, communication patterns, and livelihoods. Therefore, risk management or mitigation strategies call for involvement of family members to be effective. The following case illustrates the involvement of the family in risk management in a horticulture production enterprise.

### 2.6 CASE STUDY—FAMILY INVOLVEMENT IN MANAGING RISK

After a very good harvest of tomatoes in January 2012, Mr Sibanda, a peri-urban farmer in Bulawayo, was hoping to get buyers who would buy tomatoes in bulk so that he could buy inputs for the next crops and pay his children’s school fees. He started harvesting tomatoes and putting them in crates without firm orders. When he went to Bulawayo’s 5th Avenue Vegetable Market to sell his tomatoes, he discovered that the market was flooded with tomatoes and nobody wanted to buy his at the price he was asking. Mr Sibanda held on to his tomatoes for two weeks, but still could not get bulk buyers, as desired. As his tomatoes were going bad, he was forced to reduce his selling price to 40 per cent of what he expected initially. He also had to throw away a considerable portion of his tomatoes because they had gone bad. It was only at that point that his family members realized there was a marketing crisis, and Mr Sibanda was not going to make the money he expected to make from selling tomatoes. Mr Sibanda then called his family to discuss how they could sell the remaining tomatoes and minimize their losses. Mr Sibanda’s daughter came up with a brilliant idea of packing the tomatoes in small units and supplying local shops and butcheries. From that day, the family started wholeselling clean, packed tomatoes to retail shops, vendors, and individuals in their suburbs and other nearby suburbs. By the end of February, they were inundated with orders as traders were attracted by the innovative packaging that made it easier for them to sell tomatoes to customers frequenting local shops.

#### 2.6.1 CASE STUDY QUESTIONS AND LESSONS

- What type of risk did Mr Sibanda face in his tomato business?
- What do you think caused this risk?
- What strategies did the family employ to manage the risk?
- What advice would you give to the Sibanda family for them to be able to deal with similar risks in future?
### 2.7 SUMMARY OF KEY ISSUES

1. Risks are a normal feature in business. Therefore, farmers must anticipate risks at production, marketing, and income distribution levels, and put appropriate risk management strategies in place.

2. Information gathering, enterprise diversification, planning, and family involvement, among others, are key strategies for managing all forms of risk in the farming business.
MODULE 3: PLANNING A FARM BUSINESS

LEARNING OBJECTIVES

By the end of this module, participants are expected to;

- Appreciate the importance of planning for a family farm business.
- Appreciate the essential elements of the planning process.
- Understand the importance of a family approach to farm business planning.
- Understand the essentials of farm analysis and farm planning processes.
- Be able to carry out the strategic planning process for the family farm business.

KEY WORDS

Planning  Setting performance expectations and goals for groups and individuals to channel their efforts toward achieving set objectives.

Evaluation  Comparison of actual impacts against strategic plans, and looking at original objectives, what was accomplished, and how it was accomplished.
3. INTRODUCTION

Planning is an important aspect of any business. Planning involves setting goals and choosing the means to achieve these goals. It is "an anticipatory decision-making process" that helps in coping with complexities. Without a proper plan, farmers will not know how to organise and deploy labour and other resources effectively. In a family business, the most important thing is to have every family member involved with the planning process. When all members of the family are involved in the planning process, ownership is inculcated, and the likelihood of the plans being upheld is enhanced. Figure 3.1 illustrates family participation in a planning event.

FIGURE 3.1: PLANNING TOGETHER AS A FAMILY

3.1 WHY PLAN?

Making a good plan will help families involved with farm businesses to:

- Set out goals for the business.
- Work out how targets will be achieved.
- Anticipate risks and other possible obstacles.
- Work out any extra support that might be needed.
- Think about how to deal with possible problems.
- Think about required changes, and plan to make these changes successful.

Let us put down our plans and targets for the coming season.
3.2 CASE STUDY—FAMILY FARM BUSINESS PLANNING

Mrs Rwafa is a widowed smallholder commercial farmer from the Rukweza area of Makoni district. While her husband was still alive, she was not directly involved with the affairs of the farm because all planning, decision making, and management functions were carried out by her husband. When Mr Rwafa passed away, the wife had no choice but to take over all farm duties that were previously carried out by her husband. In her first season as manager, Mrs Rwafa rushed to the shops to secure seed for planting after receiving the first rains. At the shops, Mrs Rwafa discovered that the seed that she had intended to buy had all been bought by other farmers. As she returned from the shops, she met Mrs Gweshe who had bought her seed on time and was on her way to the fields to plant. The two women engaged each other in a discussion on the farming activity at hand. Below is a short abstract of their discussion:

I had also wanted to plant with the first rains and therefore had gone to the shops to buy seed. Unfortunately seed in all shops is finished.

My husband used to do all this for me and now I am in trouble.

Buying seed late is risky since many people will be buying seed at the same time. I bought my seed in August when prices were low and very few people were buying.

I have learnt the hard way, next year I will plan and do my things on time.

Mai Rwafa, how can you afford to be moving around when we have just received our first rains? Instead you should be planting.

Getting seed at this time may not be an easy task. Better luck next season.
3.2.1 KEY LESSONS FROM THE CASE STUDY

- Family members should work together in farming businesses. When families work and plan together, there is continuity of the business in the event of one of the partners dying.
- Planning of farming operations ahead of season helps farming businesses to correctly time their operations.

3.3 FARM STRATEGIC PLANNING

Although the term “strategy” is commonly used by businesses worldwide, it is not commonly used in smallholder commercial agriculture in Zimbabwe. Essentially, a strategic plan answers the questions: a) where is the business going? (Goals); b) how is the business going to get there? (Strategy); and c) how will business managers and owners know that the business has achieved set objectives? (Evaluation). A well thought out strategic plan allows farm business managers and owners to communicate with the outside world. If one has good business ideas, people will only consider investing in the proposed or existing business after looking at the strategic plan. Even if one does not need external investors, strategic planning remains a critical process because it allows business owners or managers to state the goals of the business on paper. Goals that are stated on paper can more easily be pursued than those that are in the mind. Below are some of the specific questions a strategic plan will answer:

- Where is the business going to be in 2, 5, or 10 years from now?
- How much money is required for investment?
- What return is expected from this investment?
- How does this investment compare with other alternatives (in terms of risk and return)?
- Is there a market for the product? (The strategic plan will consider market availability, price stability, competition, etc.)
- What are the possible risks to the investment (pests, diseases, drought, perishability, etc.)?
- How is the business going to reach its customers?

3.4 GUIDELINES FOR SUCCESSFUL PLANNING

Some general tips about how a family can get the most out of planning:

- Do not be afraid of dreaming big.
- Use planning to think of different options.
- Generous time should be allocated to the planning process.
- Get advice and opinions from people you know well and trust.
- Ask questions if you are not sure about something.
- Use planning to break things down and think through them.
- Use planning to think about the support you have and the support you need.

3.5 THE PLANNING PROCESS

Planning is not an event with a clear beginning and end, but is an ongoing process that reflects and adapts to changes in the environment. The process requires a series of steps to be undertaken as shown in Table 3.1.
### TABLE 3.1: STEPS IN THE PLANNING PROCESS

<table>
<thead>
<tr>
<th>Step</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Analyse opportunities.</td>
<td>This involves analysis of various opportunities that exist in the environment. For example, which commodities are being demanded in the market, by which buyers, and at what prices?</td>
</tr>
<tr>
<td>Explore options.</td>
<td>Having analysed opportunities, the next step is to explore options that are feasible. This is based on such factors as land ownership, experience, knowledge, and infrastructure.</td>
</tr>
<tr>
<td>Select the best option.</td>
<td>This involves picking the best option among several that are feasible. For example, one may choose to concentrate on poultry and maize only, and not embark on beef production.</td>
</tr>
<tr>
<td>Detailed planning.</td>
<td>A detailed plan of the option selected is produced (for example, what resources [inputs] are required; and what processes, markets, finances, and human resources are involved).</td>
</tr>
<tr>
<td>Evaluate the plan.</td>
<td>This involves revisiting the plan to see if it is the best plan given the prevailing conditions.</td>
</tr>
<tr>
<td>Implementation.</td>
<td>This involves putting the plan on the ground.</td>
</tr>
</tbody>
</table>

### 3.6 WHAT TO PLAN

Planning involves making decisions on production, human resources, operations, finances, and strategies. Below are some of the things to consider in producing a family farm business plan:

- What is it that we want to do on this farm this season?
- What inputs do we need?
- How much money do we need to invest?
- What returns do we expect from this investment?
- How does this investment compare with other alternatives?

### 3.7 SUMMARY OF KEY ISSUES

1. Planning involves setting goals and choosing the means to achieve these goals. It is an anticipatory decision-making process that helps in coping with complexities. Planning involves deciding the future courses of action from amongst alternatives.
2. Planning allows the family to set goals and objectives together and determine the feasibility of achieving both goals and objectives.
3. For planning to be successful, families should dream big, think of different options, and avoid planning under pressure as this may affect the planning process.
4. The farm business planning process involves analyzing opportunities, exploring different options, selecting the best option, producing a detailed plan, and implementing and evaluating the plan.
5. A farm business plan should include what to do, how to do it, how much it costs, and what returns to expect.
MODULE 4: FARM BUSINESS RECORD KEEPING

LEARNING OBJECTIVES
By the end of this module, participants are expected to:

- Understand the importance of record keeping in a family farm business.
- Understand the common types of records required in a family farm business.
- Appreciate the dangers of not keeping records for a family farm business.
- Appreciate some tips for improving record keeping for a family farm business.
- Make decisions based on records.
- Demonstrate competence in design and use of appropriate farm records.

KEY WORDS

**Diary**
A record (originally in handwritten format) with discreet entries arranged by date, reporting on what has happened over the course of a day or other periods.

**Records**
Collection of data that is to be analysed and used to make decisions.
4. INTRODUCTION

Record keeping is the art of collecting useful pieces of data or information on the happenings of a particular undertaking, with the view of processing it in the future (for example, analysing sales and costs and calculating profits). Although record keeping is an important aspect of the family farm business, many farmers do not keep records. This makes it difficult for them to know how much they spent and how much income was earned from their farm business enterprises. Without good farm records, it becomes difficult for farmers to identify problem areas and know whether their businesses are generating profit or not. Therefore, record keeping is an important activity that is necessary for operating farm businesses successfully.

Family farm businesses should keep records, and this responsibility should be shared by all family members. Responsibility for any type of record should be allocated to the family member who is most capable, regardless of their sex. Figure 4.1 demonstrates confusion that can result from a poor storage and filing format.

FIGURE 4.1: CONFUSION RESULTING FROM A POOR STORAGE AND FILING FORMAT

4.1 WHY SHOULD RECORDS BE KEPT IN A FARM BUSINESS?

- To track individual enterprise performance.
- To evaluate farm/enterprise profitability.
- To establish a basis for pricing.
- To facilitate access to loans.
- Records are helpful when farmers seek advice from extension agents.
- Records are a good management tool because they provide figures for planning and budgeting.

I do not remember the last time we vaccinated the cattle.
4.2 GENERAL PRINCIPLES FOR RECORD KEEPING

Records should be kept and used to benefit those that keep them. To be useful, records must be accurate, neat, and written clearly; be complete; be easy to record; be easy to keep and retrieve; provide necessary information for management; be easy to analyse; and be analysed regularly.

4.3 CLASSIFICATION OF RECORDS

Farm business records are often classified into livestock and cropping.

4.3.1 LIVESTOCK RECORDS

Table 4.1 shows records that are normally kept for livestock enterprises.

**TABLE 4.1: COMMON RECORDS FOR LIVESTOCK ENTERPRISES**

<table>
<thead>
<tr>
<th>Record Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mating Records</td>
<td>Taking note of female number, male number, when mated, and whether aborted or not.</td>
</tr>
<tr>
<td>Farm Diary</td>
<td>Record of every transaction on the farm, recorded daily.</td>
</tr>
<tr>
<td>Birth Records</td>
<td>The date, sex, and weight of offspring.</td>
</tr>
<tr>
<td>Financial Records</td>
<td>Record of income and expenditure.</td>
</tr>
<tr>
<td>Weather Records</td>
<td>Record of rainfall, temperature, humidity, etc.</td>
</tr>
<tr>
<td>Death Records</td>
<td>Date and cause of death, if known.</td>
</tr>
<tr>
<td>Sales Records</td>
<td>Quantity of sale, value, and name of buyer.</td>
</tr>
<tr>
<td>Health Records</td>
<td>Record of vaccination, dosing, and treatment.</td>
</tr>
<tr>
<td>Stock Records</td>
<td>Record of all animals by age and gender.</td>
</tr>
</tbody>
</table>

4.3.2 CROPPING RECORDS

Table 4.2 shows records that are commonly kept for cropping enterprises.

**TABLE 4.2: COMMON RECORDS FOR CROP ENTERPRISES**

<table>
<thead>
<tr>
<th>Record Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planting Records</td>
<td>Planting dates, inputs used (for example, quantity and type of seed and fertiliser), and labour requirements.</td>
</tr>
<tr>
<td>Farm Diary</td>
<td>Daily record of every transaction on the farm.</td>
</tr>
<tr>
<td>Financial Records</td>
<td>Record of all financial transactions (income and expenditure).</td>
</tr>
<tr>
<td>Land Use Records</td>
<td>Record of land preparation, conservation, and other land uses.</td>
</tr>
<tr>
<td>Weather Records</td>
<td>Record of rainfall, temperature, humidity, etc.</td>
</tr>
<tr>
<td>Maintenance Records</td>
<td>Record of operations such as planting, weeding, fertiliser application, etc.</td>
</tr>
<tr>
<td>Sales Records</td>
<td>Quantity of sale, value, and name of buyer.</td>
</tr>
</tbody>
</table>

4.4 EXAMPLES OF FARM RECORDS

Records needed by farmers are determined by the uses to be made of them. Below are some examples of common farming business records:

4.4.1 INCOME AND EXPENSE RECORD

This is a record of all income and expenditure incurred during a given accounting period. It is necessary for every family business to keep this record. In the record, efforts must be made to specify quantities, prices, dates, and payment schedules. Table 4.3 illustrates an income and expense record for a farmer producing maize and poultry.
TABLE 4.3: INCOME AND EXPENSE RECORD

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Income</th>
<th>Expense</th>
</tr>
</thead>
<tbody>
<tr>
<td>01/10/11</td>
<td>Sold 2,000 birds @ $5/bird</td>
<td>Chicken 10,000</td>
<td>Feed</td>
</tr>
<tr>
<td>12/10/11</td>
<td>Purchased 100 bags of fertiliser @ $30/bag</td>
<td>Maize</td>
<td>Fertiliser 3,000</td>
</tr>
<tr>
<td>15/10/11</td>
<td>Sold 20 mt of maize @ $250/mt</td>
<td>Feed</td>
<td>Seed 5,000</td>
</tr>
<tr>
<td>22/10/11</td>
<td>Purchased maize seed @ $1,700/mt</td>
<td>Seed</td>
<td>Fertiliser 1,700</td>
</tr>
</tbody>
</table>

4.4.2 FARM SALES RECORD BOOK
This is a record of all the sales on a farm over a given period. Table 4.4 shows an example of a sales record book.

TABLE 4.4: SALES RECORD OF A MAIZE ENTERPRISE

<table>
<thead>
<tr>
<th>Harvest Date</th>
<th>Quantity (mt)</th>
<th>Sale Date</th>
<th>Quantity Sold (mt)</th>
<th>Price/mt ($)</th>
<th>Value ($)</th>
<th>Buyer</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>30/03/11</td>
<td>10.0</td>
<td>04/04/11</td>
<td>10.0</td>
<td>200</td>
<td>2,000</td>
<td>CB Foods</td>
<td>Cash</td>
</tr>
<tr>
<td>10/04/11</td>
<td>6.0</td>
<td>16/04/11</td>
<td>6.0</td>
<td>180</td>
<td>1,080</td>
<td>Ilanga Millers</td>
<td>Cash</td>
</tr>
<tr>
<td>TOTAL</td>
<td>16.0</td>
<td></td>
<td>16.0</td>
<td></td>
<td>3,080</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4.5 SUMMARY OF KEY ISSUES

1. Farming businesses should keep records of their operations.
2. Records to be kept include income and expenditure, stock, labour usage, farm inventory, marketing crop, and livestock records.
3. Records allow farmers to track events on the farm, including finances, labour utilization, profitability, and viability of projects.
4. Records also assist farmers when they seek funding from banks.
5. Records are important for tracking enterprises’ performance.
6. Family members should share the responsibility of keeping records.
MODULE 5: FARM BUSINESS FINANCIAL MANAGEMENT

LEARNING OBJECTIVES

By the end of this module, participants are expected to:

✓ Appreciate the importance of financial management in a farming business.
✓ Understand the concept of farm budgeting and the components of a farm budget.
✓ Appreciate the different types of farm budgets.
✓ Appreciate the importance of inclusive budgeting (inclusion of family members).
✓ Be able to prepare and analyse the profit and loss account.
✓ Understand budget preparation processes and guidelines.
✓ Appreciate sensitivity analysis—profit level at different levels/scales of production.

KEY WORDS

Budget A financial plan and a list of all planned expenses and revenue sources.
Gross Margin (GM) The difference between revenue and cost before accounting for certain other costs.
Partial Budget An analysis that looks at changes that occur in costs and incomes as a result of small changes in a farm programme.
5. INTRODUCTION

Just like in other businesses, farmers handle considerable amounts of money in their businesses. Money must be managed effectively to ensure that it is available for expenses, improvements, and growth of the business. For many farming families, income is both irregular and unpredictable. Therefore, farm business managers have to exercise prudent financial management in order for their businesses to succeed. Prudent financial management on a family farm business translates to using limited financial resources in a way that maximises return or profit.

5.1 WHAT IS FARM BUDGETING?

A budget is a formal plan for carrying out business activities in the future. It shows the process of carrying out an activity and the end result. Budgeting is the planning process or the development of a plan of action (budget). Families involved with farm businesses should budget together and share responsibilities in the budgeting process. Figure 5.1 is an illustration of a family budgeting together.

FIGURE 5.1: FAMILY PREPARING A FARM BUDGET TOGETHER

Remember that labour costs may increase during harvesting.
5.2 USES OF FARM BUDGETS

Budgets are normally used to:

- Decide what to produce, how much to produce, and the resources needed.
- Itemise the financial aspects of the farming business.
- List the inputs and production practices required by an enterprise.
- Evaluate the performance of different farm enterprises.
- Estimate benefits and costs of changes in production practices.
- Provide the basis for a total farm plan.
- Show the capacity of the farming business to carry risk.
- Support applications for credit (show the ability of the business to pay debt).
- Inform all interested parties of the costs incurred in producing an agricultural product.

5.3 COMPONENTS OF A BUDGET

A farm budget has the following two parts:

- Physical input and output coefficients — these show the physical relationships of transforming farm resources into outputs (for example, 100kg of soya bean seed/ha yielding 3mt/ha of output).
- Financial relationships—these show the monetary value of inputs and outputs. Financial relationships allow specification of costs of production and income from production.

5.4 STEPS IN PREPARATION OF A FARM BUDGET

The process of coming up with a farm budget begins with an assessment of individual enterprises on a farm. These are then put together to come up with a complete or whole farm budget. The steps that are required to come up with an effective budget are discussed below.

**STEP 1: DEFINING A PRODUCTION PROGRAMME**

At this stage, farming families should define the production programme (livestock or cropping). This step is influenced by factors such as:

- The family’s farming experience and preference.
- Market availability.
- Climatic potential of farming area.
- Resources available to the family.

**STEP 2: ESTIMATING AND SPECIFYING INPUT REQUIREMENTS**

At this stage, the family needs to specify and estimate the inputs that are needed for the production programme as defined in Step 1. This is achieved by estimating input requirements for each operation and estimating the cost of inputs.

**STEP 3: ESTIMATING COST OF PRODUCTION**

This stage involves estimation of all production processes anticipated. Each process or activity has to be priced realistically. Examples of production processes for a maize project are land preparation, planting, weeding, harvesting, and marketing.
STEP 4: ESTIMATING QUANTITY AND VALUE OF OUTPUT
This stage involves estimating the anticipated quantity and value of output. This should be based on facts rather than wishful thinking. The most critical parameters to consider in this process are average yields and prices.

STEP 5: COMPARING COSTS AND RETURNS TO DETERMINE NET RETURNS
This stage involves comparing anticipated costs and returns to determine net returns.

5.5 COMMON TYPES OF FARM BUDGETS
A farm budget includes enterprise budget, whole farm budget, partial budget, and cash flow projections. In deciding among alternatives, the farming family should look at the future outcomes of the different possible choices to come up with a plan that will increase profits. The most common types of budgets that are useful for a farming business are whole farm budget, gross margin (GM) budget, partial budget, and cash flow budget.

5.5.1 WHOLE FARM BUDGET
The whole farm budget combines all the enterprises and resources of the farm to provide an overall picture of the expected net returns for the period. The budget provides a basis for preparation of net worth statements and cash flow statements in the absence of farm records. This budget summarises the total farm business and determines the relationships among different parts of the farm.

Whole Farm Budgeting Process
To develop a whole farm budget:

1. List the goals and objectives of the family business.
2. Inventory the resources available for use in the business.
3. Determine the physical production data that will be used.
4. Identify reliable input and output prices.
5. Cultivate the expected variable, and fixed costs and all returns.

Role and Applicability of the Whole Farm Budget
A whole farm budget is used in planning costs and returns of a whole farm business. It tests the feasibility of undertaking the farm business. Whole farm budgets are produced in the following situations:

- When setting up a new farm.
- When planned changes are likely to have an impact on several enterprises on the farm.
- When intended changes are likely to alter the existing inter-relationships among farm enterprises.
- When adding or expanding existing crop or livestock enterprises.
- When there is a major shift in supply and demand, which affects prices and markets.
- When there is a substantial change in farm goals (for example, change in focus from cattle ranching to cropping). Following is an example of a whole farm budget:

<table>
<thead>
<tr>
<th>Enterprise</th>
<th>Land Size (ha)</th>
<th>Costs ($)</th>
<th>Returns ($)</th>
<th>GM/Ha ($)</th>
<th>Total GM ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maize</td>
<td>10</td>
<td>800</td>
<td>1,400</td>
<td>600</td>
<td>6,000</td>
</tr>
<tr>
<td>Soya Beans</td>
<td>20</td>
<td>500</td>
<td>1,000</td>
<td>500</td>
<td>10,000</td>
</tr>
<tr>
<td>Poultry (10,000 birds)</td>
<td>-</td>
<td>27,200</td>
<td>32,600</td>
<td>5,400</td>
<td>5,400</td>
</tr>
<tr>
<td>Whole Farm GM</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>21,400</td>
</tr>
</tbody>
</table>
5.5.2 GROSS MARGIN/ENTERPRISE BUDGET
GM budgeting is the estimation of costs and returns expected on each enterprise and comparison of the two. This is achieved by doing the following activities for each enterprise:

- List all operations to be carried out.
- Estimate input requirements for each operation.
- Estimate cost of inputs and price of output.
- Prepare the enterprise GM budget.

Uses of the GM Budget
Enterprise budgets are the basis for constructing whole farm and partial budgets. Enterprise budgets are also useful in assessing:

- The structure of the business in terms of costs and returns.
- The relative size and importance of each enterprise.
- Varying degrees of profitability.
- The level of unproductive overhead (fixed) costs.
- Results from previous years.

Key Terms Used in Enterprise GM Analysis
Gross Income — is the total value of production from an enterprise. It includes sales, value of produce consumed at home, and value of retained produce.

Variable Costs — are production costs that can be directly allocated to a particular enterprise in a production season and they change with the size and scale of production. Variable costs are costs that can be avoided (for example, by not harvesting a crop, one avoids harvesting labour costs and fuel costs).

Gross Margin — this is gross income less variable costs. It is a measure of enterprise viability.

\[
GROSS\ MARGIN = GROSS\ INCOME - VARIABLE\ COSTS
\]

Table 5.1 shows a sample GM budget for dry land maize.

### TABLE 5.1: SAMPLE GM BUDGET FOR DRY LAND MAIZE (1HA)

<table>
<thead>
<tr>
<th>Description</th>
<th>Unit</th>
<th>Quantity</th>
<th>Price/Unit ($)</th>
<th>Total ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income</strong> (Yield x selling price)</td>
<td>Tonnes</td>
<td>6</td>
<td>250</td>
<td>1,500</td>
</tr>
<tr>
<td><strong>Less Expenditure</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Land Preparation Costs</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ploughing (Ox ploughing)</td>
<td>Labour days</td>
<td>1</td>
<td>45</td>
<td>45</td>
</tr>
<tr>
<td>Discing</td>
<td>Labour days</td>
<td>0.5</td>
<td>40</td>
<td>20</td>
</tr>
<tr>
<td>Marking</td>
<td>Labour days</td>
<td>4</td>
<td>5</td>
<td>20</td>
</tr>
<tr>
<td><strong>Total Costs for Land Preparation</strong></td>
<td></td>
<td></td>
<td></td>
<td>85</td>
</tr>
<tr>
<td><strong>Planting Costs</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Seed</td>
<td>10kg</td>
<td>2.5</td>
<td>20</td>
<td>50</td>
</tr>
<tr>
<td>Basal fertiliser (Compound D)</td>
<td>50kg</td>
<td>4</td>
<td>30</td>
<td>120</td>
</tr>
<tr>
<td>Labour</td>
<td>Labour days</td>
<td>4</td>
<td>5</td>
<td>20</td>
</tr>
<tr>
<td><strong>Total Planting Costs</strong></td>
<td></td>
<td></td>
<td></td>
<td>190</td>
</tr>
</tbody>
</table>
### Description | Unit | Quantity | Price/Unit ($) | Total ($) |
--- | --- | --- | --- | --- |
**Crop Maintenance Costs**<br>Top dressing (AN) | 50 kg | 4 | 33 | 132<br>Insecticide (Dipterex) | kg | 4 | 5 | 20<br>Herbicides<br>Alachlor | Litres | 1.75 | 8 | 14<br>Dual | Litres | 1.5 | 14 | 20<br>Gramoxone | Litres | 1.5 | 15 | 24<br>**Total Crop Maintenance Costs** | 209<br>**Harvesting and Marketing Costs**<br>Labour | Labour days | 16 | 5 | 80<br>Packing bags and twine | Units | 120 | 0.2 | 24<br>Transport | Units | 100 | 1 | 120<br>**Total Harvesting and Marketing Costs** | 224<br>**Miscellaneous Cost (10%)** | 71<br>**TOTAL COSTS**<br>GM | 780<br>**Return Per Dollar Invested (RPDI)**<br>RPD1=720/780<br>RPDI=0.92 | GM/TVC

Adapted from Musitini, Zhou and Mapupa (2012)

### 5.5.3 PARTIAL BUDGET

Partial budget is an analysis focusing on changes that occur in costs and incomes as a result of small changes in a farm programme. It is used to calculate the expected change in profit for a proposed change in the farming business. Partial budgeting is a planning tool adopted to analyse relatively small changes in the whole farm by looking at only income and expense items that will change and not total values. Partial budgeting is also a systematic process of choosing alternatives. Four key questions are answered by a partial budget:

- What new or additional costs will be incurred?
- What current income will be lost or reduced?
- What current costs will be reduced or eliminated?
- What new income will arise?

Partial budgeting is applicable for decision making when there is:

- A change in the combination of enterprises.
- A change in production methods or management practices.
- When a new technology (for example, herbicide) is adopted.

By comparing total reduction in profit with total increase in profit, the net change in profit can then be worked out. If:

- AI = Additional Income; RI = Reduction on income; RC = Reduction on cost; AC = Addition on cost, then:

\[
\text{Total Gain (A)} = \text{AI} + \text{RC} \quad \text{and Total Loss (B)} = \text{RI} + \text{AC}
\]

Therefore, Net change in profit = \( A - B \)

For Net Gain: \( (AI+RC) > (RI+AC) \).
Example of a Partial Budget

Mrs Gwavava usually hires casual labour to weed 1 ha of maize. A new herbicide has been introduced on the market and she wants to try this chemical. The question to be answered is would it be a positive economic move to switch from use of hired labour to the use of this new herbicide? Table 5.2 illustrates this example.

### TABLE 5.2: PARTIAL BUDGET EXAMPLE

<table>
<thead>
<tr>
<th>REDUCED COSTS ($)</th>
<th>ADDITIONAL COSTS ($)</th>
<th>ADDITIONAL INCOME = Nil</th>
<th>REDUCED INCOME = Nil</th>
<th>TOTAL = $100</th>
<th>TOTAL = $60</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weeding labour = 80</td>
<td>Depreciation of sprayer = 30</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation of hoes = 20</td>
<td>Purchase of chemical = 20</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Protective clothing = 10</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Change = $100 − $60 = $40</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The above implies that if Mrs Gwavava switches from hired labour to use of herbicide, she may not experience any change in income but additional costs will be lower than reduced costs by a margin of $40. Therefore, the proposed move is viable.

### 5.5.4 CASH FLOW BUDGETING

Cash flow budgeting is a forecast of the movement of money into (cash inflows) and out of (cash outflows) the farming business over a given period of time. A cash flow budget can be used to assess the timing, amount and predictability of future cash flows, and it can be the basis for resource utilisation over time. It gives a forecast of the cash (liquidity) position of the farming business for the period ahead. It seeks to answer the following questions:

- Is the plan financially feasible?
- Will there be sufficient capital, and if not would the plan sustain a loan?
- How much will need to be borrowed?
- When does the business get peak financial inflows and outflows?

Characteristics of a cash flow budget:

- It measures cash income and expenditure only.
- All personal expenses and income are included as these have an impact on the budget.
- It contains estimates or projections for a future time.
- A cash flow budget indicates the timing, amount, and duration of peak cash requirements or indebtedness.
- It reveals opportunities for the manipulation of purchases and sales to best advantage and assists in keeping peak cash requirements to a minimum.
- Purchases and debt repayments can be rearranged and placed in months of highest cash inflows.
- A cash flow budget identifies sources and uses of cash.

### TABLE 5.3: CASH FLOW BUDGET EXAMPLE

<table>
<thead>
<tr>
<th>Item Description</th>
<th>Months</th>
<th>Cumulative Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Dec 2011</td>
<td>Jan 2012</td>
</tr>
<tr>
<td>INCOME</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance brought forward</td>
<td>200</td>
<td>1,200</td>
</tr>
<tr>
<td>Loan</td>
<td>3,000</td>
<td>-</td>
</tr>
</tbody>
</table>
### Item Description

<table>
<thead>
<tr>
<th>Item Description</th>
<th>Dec 2011</th>
<th>Jan 2012</th>
<th>Feb 2012</th>
<th>Cumulative Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maize sales</td>
<td>-</td>
<td>-</td>
<td>6,000</td>
<td>6,000</td>
</tr>
<tr>
<td>Total Income</td>
<td>3,200</td>
<td>1,200</td>
<td>5,900</td>
<td>9,200</td>
</tr>
<tr>
<td>EXPENDITURE</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Seed</td>
<td>500</td>
<td>-</td>
<td>-</td>
<td>500</td>
</tr>
<tr>
<td>Fertiliser</td>
<td>1,000</td>
<td>500</td>
<td>-</td>
<td>1,500</td>
</tr>
<tr>
<td>Chemicals</td>
<td>200</td>
<td>100</td>
<td>100</td>
<td>400</td>
</tr>
<tr>
<td>Labour</td>
<td>300</td>
<td>700</td>
<td>500</td>
<td>1,500</td>
</tr>
<tr>
<td>Loan repayment (+ interest)</td>
<td>-</td>
<td>-</td>
<td>3,300</td>
<td>3,300</td>
</tr>
<tr>
<td>TOTAL EXPENDITURE</td>
<td>2,000</td>
<td>1,300</td>
<td>3,900</td>
<td>7,200</td>
</tr>
<tr>
<td>NET CASHFLOW</td>
<td>1,200</td>
<td>-100</td>
<td>2,000</td>
<td>2,000</td>
</tr>
</tbody>
</table>

**Notes on cash flow:**

- If cash inflows > cash outflows, the farming business is viable and liquid, for example in December 2011.
- If cash inflows < cash outflows, the farming business is not viable and there is need for extra funding, for example in January 2012.
- Overall, the business is viable because it managed to borrow, pay back, and remain with a positive cash flow.

### 5.6 SUMMARY OF KEY ISSUES

1. Financial management is a crucial element of family farm businesses because farmers handle considerable amounts of money. It is important for family members to share the responsibility of managing finances in accordance with their capabilities.
2. Farm budgets are important for planning of resource usage, evaluating performance and input usage, providing the basis for planning, supporting applications for loans, and assessing the capacity of a business.
3. The budgeting process involves determining the production programme, estimating and specifying input requirements, estimating the cost of production, estimating and quantifying value of output, and comparing costs and returns to determine net returns.
4. Common farm budgets include whole farm budget, GM budget, partial budget, and cash flow budget.
MODULE 6: FARM BUSINESS FINANCIAL MOBILISATION

LEARNING OBJECTIVES

By the end of this module, participants are expected to:

- Appreciate the role of finance in family farm businesses.
- Appreciate the various sources of finance available.
- Be able to evaluate and select finance options.
- Understand the factors affecting access to farm credit.
- Understand the factors considered by banks before granting loans.
- Be able to write a bankable funding proposal.

KEY WORDS

Collateral  Borrower's pledge of specific property or assets to a lender to secure repayment of a loan.

Proposal  Detailed presentation to a financier of a business to be undertaken.

Equity  Interest of ordinary shareholders in a business, in this case the farm business.

Net Worth  Sometimes called net assets, net worth equals total assets minus total outside liabilities of an individual or a business.
Any business whether individual, family, or corporate requires money to operate. Money is required to pay salaries, pay utility bills and buy inputs before the business generates income. Therefore, managing a business successfully requires prudent financial management and ensuring that the business continues to operate, so as not to close down prematurely.

6.1 HOW MUCH MONEY IS NEEDED?

It is very important to establish how much money is needed in a business. This requires a thorough look at every possible cost that may be incurred. Finance requirements are better reflected through a cash flow forecast, as discussed in Module 5. This is usually prepared to indicate the amounts of money received and paid out, on a monthly basis.

6.2 WHERE DO FAMILY FARMING BUSINESSES RAISE MONEY?

Traditionally, family farm businesses confine their financial strategy to personal resources. However, farmers now realise the need for additional finance to make their businesses viable. There are several potential sources of finance for agriculture in Zimbabwe, as shown in Figure 6.1. However, not all sources of finance are appropriate to all farm businesses. Different sources of finance carry different obligations, responsibilities, and opportunities.

**FIGURE 6.1: SOME FINANCIAL SOURCES OPEN TO FARM BUSINESSES IN ZIMBABWE**
Farmers need to fully understand the terms and conditions that apply to any form of financing before they commit themselves to borrow or sign contracts.

6.2.1 INDIVIDUAL FINANCING OF AGRICULTURE
Families or individuals who have some personal net worth may draw upon their personal assets to support a farming business. These funds may be invested into the business in the form of equity. Personal contribution may come from cash in the bank or investments that can be liquidated. This is the most common source of finances for family farm businesses in Zimbabwe.

<table>
<thead>
<tr>
<th>Advantages of Individual Financing</th>
<th>Disadvantages of Individual Financing</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Often predictable and reliable, therefore promotes timeliness of operations.</td>
<td>✗ Usually not enough to promote commercial farming.</td>
</tr>
<tr>
<td>✓ There are no hassles normally associated with loan application, preparing business proposals, and paying interest.</td>
<td>✗ In the event of failure, the family may lose their whole investment and may struggle to recover.</td>
</tr>
</tbody>
</table>

6.2.2 PERSONAL FRIENDS AND RELATIVES
This is income gathered from friends, relatives, or professional support networks. This is usually based on personal relations and, therefore, does not require rigorous vetting.

<table>
<thead>
<tr>
<th>Advantages of Personal Friends and Relatives</th>
<th>Disadvantages of Personal Friends and Relatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Often reliable and fast since it does not require rigorous vetting.</td>
<td>✗ Often difficult to get a reasonable amount of money.</td>
</tr>
<tr>
<td>✓ Interest rates are usually low and often not charged.</td>
<td>✗ May strain personal relations if money is not returned as per agreement.</td>
</tr>
</tbody>
</table>

6.2.3 INDIVIDUAL BANK LOANS

<table>
<thead>
<tr>
<th>Advantages of Bank Loans</th>
<th>Disadvantages of Bank Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Loan amount based on credit worthiness.</td>
<td>✗ Often require collateral.</td>
</tr>
<tr>
<td>✓ Timely supply of loans.</td>
<td>✗ May not offer backup technical support to farm businesses.</td>
</tr>
<tr>
<td>✓ Have personnel to deal with farmer problems.</td>
<td>✗ High interest rates.</td>
</tr>
</tbody>
</table>
Banks are the principal and most frequently used source of finance for businesses, including farming. Banks can offer short-, medium-, or long-term loans, depending on availability of money, availability of collateral, and credit worthiness of the borrower. However, currently almost all the facilities in Zimbabwe are short term-based (4–12 months) because of liquidity challenges in the banking sector. This makes planning difficult as farmers are expected to pay back before the business has stabilised, or even generated income.

6.2.4 COMMERCIAL LENDING TO GROUPS
Often farmers are required to form groups with a constitution and management committee, before they can be supported. If one member of the group fails to pay back the loan, the whole group is held accountable. Most banks prefer to pay money directly to input or service providers rather than giving farmers cash. This is meant to ensure that the loan is strictly used for the purpose for which it is intended.

<table>
<thead>
<tr>
<th>Advantages of Group Lending</th>
<th>Disadvantages of Group Lending</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Limited or no collateral.</td>
<td>☒ Often difficult to organise groups.</td>
</tr>
<tr>
<td>✓ Lower chances of defaulting.</td>
<td>☒ Lenders are often sceptical of working with groups.</td>
</tr>
<tr>
<td>✓ Allows for cost-effective provision of extension support.</td>
<td></td>
</tr>
</tbody>
</table>

6.2.5 CONTRACT FARMING
Contract farming involves private companies extending lines of credit to producers in the form of farming inputs and technical assistance. Under contract farming terms, contractors commit themselves to buy the entire product contracted out to producers at an agreed price. On the other hand, producers provide labour and manage the contracted farming activity. Contract farming is discussed in more detail in Module 10.

<table>
<thead>
<tr>
<th>Advantages of Contract Farming</th>
<th>Disadvantages of Contract Farming</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Ensures use of loan for intended purposes.</td>
<td>☒ Supplied inputs may not be the best for farmers.</td>
</tr>
<tr>
<td>✓ Technical support is built into the contract.</td>
<td>☒ Insufficient inputs are often supplied.</td>
</tr>
<tr>
<td>✓ Minimum or no collateral required.</td>
<td></td>
</tr>
</tbody>
</table>

6.2.6 NGOS AND OTHER RELIEF ORGANISATIONS
Programmes administered by NGOs and Relief Organizations include direct distribution of inputs, agro dealer voucher schemes, livestock restocking, and other related programmes. These programmes are normally targeted at vulnerable members of the society. Although many people may be assisted, the quantity of inputs provided is often insufficient to support commercial production.

<table>
<thead>
<tr>
<th>Advantages of NGO Financing</th>
<th>Disadvantages of NGO Financing</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Transparent allocation of resources.</td>
<td>☒ Limited coverage.</td>
</tr>
<tr>
<td>✓ Timely delivery of inputs.</td>
<td>☒ Not suitable for commercial farming.</td>
</tr>
<tr>
<td></td>
<td>☒ Poor-quality inputs often distributed.</td>
</tr>
</tbody>
</table>

6.2.7 GOVERNMENT SUPPORT
Government often provides finance to agriculture through input and livestock support programmes. Inputs that are supplied through government programmes are often late and inadequate, making it difficult to plan farming activities on the basis of these.

<table>
<thead>
<tr>
<th>Advantages of Government Support</th>
<th>Disadvantages of Government Support</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Accessible to many farmers when available.</td>
<td>☒ Programmes are unreliable.</td>
</tr>
<tr>
<td>✓ Low or no interest.</td>
<td>☒ Often underfunded.</td>
</tr>
<tr>
<td></td>
<td>☒ Inputs often come late.</td>
</tr>
</tbody>
</table>
6.2.8 COMMUNITY-BASED COOPERATIVES

Cooperatives often lend money to their members at reasonable interest rates. Some cooperatives are self-financing whilst others are supported by donor agencies or government.

<table>
<thead>
<tr>
<th>Advantages of Cooperatives</th>
<th>Disadvantages of Cooperatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Selection criteria for members is not very strict.</td>
<td>✗ Usually face viability problems due to poor administration.</td>
</tr>
<tr>
<td>✓ Interest rates are usually lower than market rates.</td>
<td>✗ Usually poorly funded.</td>
</tr>
</tbody>
</table>

6.3 FACTORS AFFECTING ACCESS TO AGRICULTURAL FINANCE

Smallholder commercial farmers struggle to access loans in Zimbabwe due to institutional (legal) as well as social factors. Figure 6.2 shows some of the factors that limit accessibility of financial assistance to smallholder commercial producers in Zimbabwe.

**FIGURE 6.2: FACTORS AFFECTING ACCESS TO CREDIT BY SMALLHOLDER FARMERS**

- **LACK OF COMMERCIAL EXPERIENCE**
  - Many small to medium-sized commercial farmers are not getting enough funding due to lack of commercial farming experience.

- **RISKY NATURE OF FARMING**
  - Financial institutions consider lending to small farmers a very high-risk business due to the problem of moral hazard and adverse selection.

- **LAND TENURE AND COLLATERAL SECURITY**
  - Zimbabwe’s land tenure puts more emphasis on user rights than on security of tenure, so that farmers are denied the privilege to use their land as collateral.

- **ACCESS TO INFORMATION**
  - Smallholder farmers have limited access to information, and as a result fail to participate in major private sector investment programmes.

- **POOR OUTPUT AND INPUT MARKETS**
  - Farmers are also affected by thin markets for inputs and farm output in some areas.

6.4 ACCESSING AGRICULTURAL LOANS, WHAT DO BANKS CONSIDER?

Most financial institutions in Zimbabwe are hesitant to extend loans to smallholder commercial producers due to security issues. Figure 6.3 shows some of the common factors that banks and financial institutions consider before extending loans to business clients.
6.5 WRITING A FARM BUSINESS PLAN

Business plans are needed whenever money is to be borrowed. This requirement stands, even in cases where sufficient collateral is pledged to support the application. Although farm business proposals should be on the basis of guidelines provided by the funder, there are some basic rules that apply to almost every application. Figure 6.4 is a checklist of the key components of a business proposal.
FIGURE 6.4: MAJOR COMPONENTS OF A FARM BUSINESS PLAN

Cover Letter
The cover letter should state the type of support requested, the goals of the business and how it fits into the guidelines of the funder, the total budget, and the names of other funders contributing to the project, if available.

Executive Summary
It is an overall summary of farming business goals and objectives and the plan to meet them in the coming period (for example, five years).

Background Information
This shows information like business name, address, contact details (name, email, website, telephone, mobile phone, and fax), type of ownership (partnership, sole proprietor, limited company, or corporation), business advisers and their contact information, and all the people involved in the operation.

Mission and Goals
A mission statement for a farming business should be created to reflect the purpose of the business to the public, customers, employees, lenders, and owners. Mission statements must reveal more than a motive for profit.

Operations and Management
This section explains the production aspects of the farm. It should include everything from planning to planting and harvest.

Marketing Strategy and Plan
Marketing products and services is essential to farming business profitability and viability, yet many farms lack a specific, organized plan. A producer should have a detailed plan describing how he or she will market commodities, services, or attractions.

Financial Plan
Financial statements are a very important and necessary component of a farming business plan. The financial position and performance of a farm can be ascertained using three important financial statements (balance sheet, income statement/profit and loss, and cash flow budgets).
6.6 GUIDELINES FOR PREPARING A FARM BUSINESS PLAN

FIGURE 6.5: FAMILY WORKING ON A FARM BUSINESS PLAN

There is no one universally accepted method of preparing a farm business plan. However, the following guidelines are helpful:

- **Be clear**—Keep your language simple and avoid getting too many ideas into one sentence. Tabulate wherever possible.

- **Be brief**—Keep only the essentials of what your reader ought to get from the plan.

- **Be logical**—The facts and ideas you present will be easier to take and make more impact if they follow one another in a logical sequence.

- **Be truthful**—Do not overstate your case.

- **Be quantitative**—Words alone may not impress unless they are backed by figures, so try to quantify wherever possible.

6.7 SUMMARY OF KEY ISSUES

1. Managing a successful family business requires financial investments.

2. Sources of finance for smallholder commercial farmers include individual financing, cooperatives, government, contract farming, commercial banks, and NGOs.

3. Smallholder commercial farmers struggle to access loans due to a combination of factors such as lack of commercial experience, risk nature of farming, land tenure and collateral security, access to information, and poor output and input markets.

4. Business plans are usually needed wherever money is to be borrowed. Therefore, it is important for smallholder commercial farmers to be able to prepare fundable business plans.
MODULE 7: FARM OPERATIONS MANAGEMENT AND DECISION MAKING

LEARNING OBJECTIVES

By the end of this module, participants are expected to:

- Understand the basic functions of management.
- Be able to apply management principles in farming operations.
- Be able to make informed operational decisions in a family business.
- Understand and exploit the inter-linkages amongst different activities of the farming business.
- Understand the role of family members in operations and management of the business.

KEY WORDS

Operations - Day-to-day activities undertaken to implement business plans.
Managing - Being in charge of business functions. It involves planning, organising, directing, leading, and controlling operations of the business.
Resources - Possessions or available sources of wealth useful in undertaking operations.
Delegation - Assigning responsibility and operational authority of work to subordinates.
A business can have big dreams, but if these are not put into action, they remain dreams with no tangible results. Plans have to be broken down into day-to-day activities to produce goods and services for the market. These day-to-day activities (land preparation, planting, crop maintenance, harvesting, transporting, storage, and feeding) need to be carefully managed for a farming business to be successful. Farming activities have to be carried out according to plans, and resources must be efficiently and effectively used. This module focuses on basic elements of operations management, their application in farming businesses, and the role of family members in operations management.

7. 1 UNDERSTANDING MANAGEMENT FUNCTIONS

Management involves planning, organising, leading, directing, and controlling of business operations to achieve organisational objectives. Figure 7.1 shows how these functions apply in family farm businesses.

FIGURE 7.1: MANAGEMENT FUNCTIONS IN A FAMILY FARM BUSINESS
7.2 ORGANISING AND STRUCTURING OF THE FAMILY BUSINESS

Organising business operations into structures helps to group related activities together and clarify responsibilities and lines of authority. This ultimately helps in effective mobilisation and allocation of resources and tasks. Structures also identify leaders of each activity, hence it is important to note that the family should decide on who leads the business and who are the assistants. It should be noted that being the head of the family does not always translate into being the head of the farm business. The family business concept in this module encourages families to work together and choose a leader of the business based on capability rather than social relations. Figure 7.2 gives an example of a family business structure.

**FIGURE 7.2: SIMPLE FAMILY BUSINESS STRUCTURE**

It is important to note that the basis of structuring differs, depending on a family’s preferences. For example, some families may prefer a functional-based structure, with teams in charge of operations, marketing, and finance. The most important guideline is that the structure should promote timeliness, efficiency, and effectiveness in carrying out farming business operations.

Based on the operational plan and structure, the farm business leader needs to ensure that appropriate and adequate farming equipment, materials, inputs, and labour resources are deployed in time for the operations. This includes wise allocation of fertilisers, seed, chemicals, feed, drugs, and water to avoid wastage and reap optimum yields. Resources should be deployed in a manner that promotes productivity and profitability of the farming business. When allocating resources, decisions must be made on the basis of the following:

- Land size and availability of capital.
- Nature of farming tasks involved (for example, planting, weeding, and harvesting).
- Labour and equipment demands of the farming enterprise.
- Expected outcomes from the enterprise.
- Profit potential of the enterprise.
- Staff capabilities.

7.3 LEADERSHIP OF THE FAMILY BUSINESS

Management of farm operations requires good leadership qualities and skills. The success of operations will depend on the leadership style applied by the business leader. A leader can be autocratic (decisions made by one person) or democratic (involves others). Table 7.1 gives some evaluations of the two extremes of management styles.
TABLE 7.1: LEADERSHIP STYLES IN FARMING BUSINESS

<table>
<thead>
<tr>
<th></th>
<th>Autocratic</th>
<th>Democratic</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Definition</strong></td>
<td>• Decisions are made by one person.</td>
<td>• Decisions are made with involvement of other members of the business.</td>
</tr>
<tr>
<td><strong>Example in Farming</strong></td>
<td>• Father makes key decisions alone (for example, on what to plant on which field, which livestock to buy or sell, and how to use money from sales).</td>
<td>• Father involves wife, children, and workers in making farming decisions.</td>
</tr>
<tr>
<td><strong>Advantages</strong></td>
<td>• Quick decisions can be made.</td>
<td>• The decision-making process is enriched by the participation of others.</td>
</tr>
<tr>
<td></td>
<td>• Fails to capture rich contributions of family members and others.</td>
<td>• Motivates family members and workers.</td>
</tr>
<tr>
<td></td>
<td>• May frustrate other members of the farm business.</td>
<td>• Takes time to reach consensus, hence delaying the decision-making process.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Decision-making process may cause arguments and conflicts.</td>
</tr>
</tbody>
</table>

This module strongly supports the democratic leadership style, which considers participation and contribution of all family members as critical for business success. The democratic leadership style builds family morale and togetherness, thus aiding the attainment of both economic and social goals.

7.4 MOTIVATION IN FARMING OPERATIONS

Farm managers essentially work through other people. As a result, workers need to be encouraged and kept willing to work. To achieve this, farm managers need to develop and apply appropriate motivational skills that will keep family members and farm workers interested in the business of the farm. This involves assessment of what motivates people to work hard and to offer that as a reward. Generally, workers are motivated when their needs are met. The following is a list of incentives that can motivate farm workers to be productive:

- Good salary or wage.
- Fringe benefits like education for children, child care facilities subsidised accommodation, transport, medical assistance, protective clothing, entertainment, and funeral assistance.
- Recognition for good performance with awards or positive comments.
- Opportunity to participate or contribute in business decisions.
- Equal opportunities for both male and female for empowerment, staff development, and training.
- Flexible working hours that allow women to breast feed their children as necessary.
- Job security.
- Transparency.
- Good interpersonal relations.

Family members working in a farm business must be retained as special employees. Although rewards may not come on a monthly or weekly basis, family members must be rewarded in special ways for committing themselves to work on the farm. This issue is discussed in greater detail in Module 8.

7.5 TIME MANAGEMENT

Time is a limited and valuable resource that requires efficient management in businesses. Good time management is necessary for a business to succeed. Failure to manage time leads to unnecessary losses. This validates the saying that “time is money.” In farming operations, time management is critical because:

- Production and marketing of products is seasonal.
• Most products from farming activities are perishable.
• Market prices for products are highly volatile.

Effective time management in farming operations involves:
• Planning of farming activities in advance.
• Performing farming activities at the right time.
• Planting the right crops at the right time.
• Completing farming tasks within a reasonable time period.
• Punctuality and timely decision making.
• Prioritising activities and doing the most important work first.
• Meeting recommended deadlines for specific activities.

7.6 STAFFING AND STAFF DEVELOPMENT

Staffing is a management function that focuses on identifying, recruiting, selecting, and placing the right human resources in the right positions. For both family members and non-members, recruitment criteria should be performance focused. History and experience checks are necessary before a new employee is hired. New recruits must be introduced to the policies, rules, and procedures of the farm business to understand their boundaries before being assigned work. Although family members should be given priority for employment on the farm business, they should also be allowed to choose between staying and going to work elsewhere. However, efforts must be made to make the family business the preferred choice of employment.

Staff should continuously develop their knowledge and skills to improve work efficiencies. Therefore, opportunities for on-the-job or off-the-job training must be provided. Training and development options for farm employees include job rotation, attachments, apprenticeships, mentoring and coaching, work manuals, training workshops, and professional studies. Training workshops on farming practices, agribusiness, gender, and HIV/AIDS offered by the government, NGOs, associations, and unions are some of the best forms of staff development activities that are available to family farm businesses.

7.7 DELEGATION OF DUTIES

Delegation involves assignment of duties and operational authority and responsibility to a subordinate. The head of a farm business can delegate decision-making and operation duties to other family members so that he or she can concentrate on sourcing finance and markets. By carrying out duties that would ordinarily be done by the manager, subordinates mature and become empowered. Delegation is critical for continuity of farm businesses. Following are some important guidelines for effective delegation:
• Select and define the tasks that need to be delegated.
• Evaluate and choose a capable and trustworthy subordinate to carry out the tasks.
• Issue clear instructions and define operational boundaries.
• Empower/give authority to the delegated staff to make decisions.
• Allow the delegated staff to perform delegated tasks without too much interference.
• Monitor and evaluate performance of the delegated staff.
7.8 SUCCESSION PLANNING

Family businesses should be managed as ongoing concerns whose existence stretches into the foreseeable future. This implies the need to groom some or all family members to run the business to set the basis for continuity upon retirement or death of the current leader. Planning for succession may be taboo in some societies, but it is an important decision that has to be made for businesses to continue beyond those that started them. Zimbabwe is littered with examples of businesses that flourished when those who started them were alive, but collapsed soon after the entrepreneur passed on. This is a sensitive issue that can cause divisions in families, so it has to be approached with caution. The business should discuss and agree on who will take over so that the person can work as an assistant to the current leader. Always remember that family businesses with no proper succession plans risk dying with their owners!

7.9 CASE STUDY—DEPLOYMENT OF FARM BUSINESS RESOURCES

The Wamambo family of Chitekete in the Gokwe district of Midlands province is well-known for cotton farming, gardening, and running a general dealer at the local business centre. The young family started off as cotton farmers. Proceeds from consistent cotton sales were then invested into a modern home and a gardening project. The responsibility for running the garden enterprise was taken up by the wife, whilst the husband continued with the cotton enterprise. The family earned good income from the expanded business base and then decided to rent a groceries shop at a local business centre. At the time the shop opened doors to customers for the first time, there was very little activity in the business, hence allowing the couple to share the responsibility for running the shop in addition to their normal business responsibilities. However, from 2011, stock in the Wamambo family shop trebled, resulting in increased activity in the groceries shop. At the same time, the family expanded the area under cotton and the garden. The family is now overwhelmed and failing to cope with the increased volume of work, and divided attention to their three enterprises is taking a toll on their businesses. However, the couple does not believe in hiring external labour because they fear that employees may steal from them.

7.9.1 CASE STUDY QUESTIONS

- What good leadership and management principles were practiced by the Wamambo family?

- What would you say are the managerial weaknesses of the couple? Discuss how these weaknesses are affecting the success of the family business.

- Give advice to the couple on what they should do to end their problems.

7.10 SUMMARY OF KEY ISSUES

1. Operations management is critical to business success because it converts business plans into actions that give good results.

2. Planning is the key to good management. Organising, resource allocation, staffing, leading, coordination, motivation, and controlling are all implemented based on developed business plans.

3. It is critical to ensure that adequate and appropriate resources are available before implementing business plans.

4. In a family business, involvement of family members in planning, organising, resource allocation, and succession planning are critical for success.
MODULE 8:
LABOUR MANAGEMENT ON A FARM FAMILY BUSINESS

LEARNING OBJECTIVES
By the end of this module, participants are expected to:

- Understand the importance of labour in farming businesses.
- Understand labour requirements for cropping and livestock enterprises.
- Understand opportunities for men and women in farming businesses.
- Be able to devise means for dealing with farm labour shortages.

KEY WORDS

<table>
<thead>
<tr>
<th>Labour</th>
<th>People or machinery performing or required to perform productive tasks in the farm business.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vaccination</td>
<td>The administration of vaccines to stimulate the immune system of an animal to develop adaptive immunity to a disease.</td>
</tr>
</tbody>
</table>
Organisation of labour is one of the critical tenets of successful family businesses. When farming becomes a business, family labour may not be sufficient to carry out all farm operations. This necessitates planning for and hiring extra labour. Each farm business is unique and no single approach works for all. The family farm business involves interaction of family members who make business decisions. Figure 8.1 is a framework for discussing farm labour requirements.

**FIGURE 8.1: DISCUSSING FARM LABOUR REQUIREMENTS OF A FAMILY BUSINESS**

John, what are our labour requirements for the coming quarter?

We need 5 casuals to assist with planting in the next 30 days. We will also need 5 casuals for 2 days in December for harvesting potatoes.

We also have to budget for possible increases in casual wage rates as these usually go up during peak periods.
8.1 FARM LABOUR REQUIREMENTS

For family farm businesses to succeed, access to adequate and suitably skilled labour is required. Improving the skill level of farm labour is essential to enhance innovation and strengthen competitiveness. Some key operations for which labour should be organised in crop and livestock enterprises are:

- **Crop**—Land preparation, planting, fertiliser application, weeding, harvesting, processing, and marketing.
- **Livestock**—Cleaning and fumigation of structures, feeding and watering, vaccinations, slaughtering, and marketing.

8.2 FACTORS THAT INHIBIT GROWTH OF FARM LABOURERS

Some factors that make it difficult to satisfy farm labour demands in Zimbabwe are: 1) huge competition for labour from other sectors of the economy; 2) poor promotion of the industry; 3) increased urbanisation and decline in the rural population; 4) limited data on labour and skills in the sector; and 5) limited workforce planning and human resource management capabilities.

8.3 CHARACTERISTICS OF AGRICULTURAL LABOURERS

The main characteristics of Zimbabwean agricultural labour are shown in Table 8.1.

<table>
<thead>
<tr>
<th><strong>TABLE 8.1: CHARACTERISTICS OF AGRICULTURAL LABOURERS IN ZIMBABWE</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Characteristic</strong></td>
</tr>
<tr>
<td>Scatter</td>
</tr>
<tr>
<td>Organisation</td>
</tr>
<tr>
<td>Skill and Training</td>
</tr>
<tr>
<td>Social Status</td>
</tr>
<tr>
<td>Demand and Supply</td>
</tr>
<tr>
<td>Bargaining Power</td>
</tr>
<tr>
<td>At the Bidding of the Farm Owner</td>
</tr>
</tbody>
</table>
8.4 CASE STUDY—PLANNING LABOUR REQUIREMENTS

The following is a conversation between Mrs Mangenje and her son Mada, of Chirumhanzu district of the Midlands province in Zimbabwe.

Our groundnuts have to be harvested this week if we are to benefit from current moisture levels in the soil.

Unfortunately, we will not be able to finish on our own and most of the casual labourers seem to be occupied elsewhere.

How about getting our traditional seasonal labourers from the neighboring village?

I am told they are currently working for Mr Nkomo who has offered them a higher wage than we pay, and we still owe them payment for weeding our maize field. Therefore, it may not be easy to convince them to come.

Yep, that is tricky, what do you suggest we do?

I believe we have no option except to try and harvest what we can manage and probably wait until the casuals have finished what they are doing.
8.4.1 LESSONS LEARNED FROM THE CASE STUDY

- Planning involves securing labour and budgeting for the labour costs.
- Failure to plan for labour can affect the whole business, even if all other things are in place.

8.5 SUGGESTIONS FOR IMPROVING THE WELFARE OF FARM LABOURERS

The welfare of farm workers in Zimbabwe can be improved by: 1) forming lobby groups to improve their bargaining power; 2) protecting women and child labourers; 3) improving their working conditions; 4) regulating working hours; and 5) providing training to upgrade farm labourers’ skills.

8.6 SUMMARY OF KEY ISSUES

1. Sufficient labour has to be planned, budgeted for, and managed for family farm businesses to succeed.

2. All family members involved with farming should plan their work and resource allocation (including labour) together. This encourages sharing of ideas and responsibilities based on strengths and skills.

3. Farm labourers need to be sufficiently motivated, incentivised, and supervised for them to be productive.
MODULE 9: MARKETING OF FARMING PRODUCTS

LEARNING OBJECTIVES

By the end of this module, participants are expected to:

- Understand the concept of marketing.
- Understand the importance of marketing in family farm businesses.
- Understand characteristics of farm products.
- Evaluate different target markets and marketing channels for farm products.
- Make informed marketing decisions.

KEY WORDS

Marketing  The process of identifying and satisfying the needs of target markets at a profit.
Satisfaction  A feeling that needs or expectations have been met.
Need  A state of lacking something, which drives people to seek products that satisfy the gap.
Market  The aggregate of all actual and potential consumers of a particular product. It can refer to a place where products are bought and sold.
9. INTRODUCTION

Businesses can only talk about revenue and profit when the products they produce are sold. For products to be sold, the business has to find a market at the right time. To get attractive markets, the family business needs to put effort and skill into identifying and evaluating markets, marketing channels, resources, and strategies. This makes marketing a key function of the family farm business because it is responsible for generating revenue for the business. This module deals with the marketing concept and its importance in family farm businesses. It also highlights the nature of agricultural markets and how family members involved with farm businesses can work together to market their products successfully.

FIGURE 9.1: THE MARKETING MIX

9.1 UNDERSTANDING THE MARKETING CONCEPT

Marketing is the business function that seeks to identify and satisfy the needs of target markets at a profit. Marketing is premised on principles commonly referred to as the marketing mix, as shown in Figure 9.1.

Marketing principles form the core of marketing strategies, activities, and decisions in a business. The marketing function is concerned with:

- Identifying consumers and their needs.
- Evaluation and selection of attractive markets.
- Matching products to market needs.
- Costing and pricing of products.
- Communicating with customers and convincing them to buy.
- Attracting and retaining customers.
- Selling products and negotiating good terms.
- Serving customers and delivering products conveniently and consistently.
- Building long-term relationships with customers.

In a family farm business, the business should produce for known markets. Therefore, marketing activities should start with identifying potential customers before products are produced. The activities continue during production until products are bought and continue after selling the products to prepare for future business.
9.2 MARKETING DECISION MAKING IN THE FAMILY BUSINESS

Decision making is the process of evaluating and selecting particular courses of action given different options. Family farming businesses have options regarding product combinations, pricing, promotion, and distribution. These require information, evaluation, and choice based on the benefits and costs of each. Table 9.1 summarises some marketing options available to family farm businesses.

TABLE 9.1: MARKETING OPTIONS FOR FARM PRODUCTS

<table>
<thead>
<tr>
<th>Product Decisions</th>
<th>Pricing</th>
<th>Promotion/Communication</th>
<th>Distribution/Place</th>
</tr>
</thead>
<tbody>
<tr>
<td>Selling in bulk or small quantities</td>
<td>Cost considerations</td>
<td>Public announcements</td>
<td>Location of products (home, market, customer’s door)</td>
</tr>
<tr>
<td>Variety of products offered</td>
<td>Profit considerations</td>
<td>(schools, meetings, etc.).</td>
<td>Direct or indirect sales</td>
</tr>
<tr>
<td>Quality grading of products</td>
<td>Timing (seasonal) considerations</td>
<td>Public notices (shops, schools, farms, etc.).</td>
<td>Selection of distributors/traders</td>
</tr>
<tr>
<td>Packaging of products—types and sizes</td>
<td>Level of supply and demand of products</td>
<td>Sales representatives</td>
<td>Selection of transport mode</td>
</tr>
<tr>
<td>Marking or branding of products</td>
<td>Market and competitor prices</td>
<td>Word of mouth</td>
<td>Storage decision</td>
</tr>
<tr>
<td>Raw, semi-processed, or processed products.</td>
<td>Consideration of payment terms and payment mode.</td>
<td>Farm bill boards and sign posts.</td>
<td></td>
</tr>
<tr>
<td>Consistency in availability of products</td>
<td>Discounts—quantity, cash, state of products</td>
<td>Sponsorships/donations (school events, etc.).</td>
<td></td>
</tr>
<tr>
<td>Use of chemicals or organic manure</td>
<td>Consideration of location of products</td>
<td>Press adverts (newspapers, magazines).</td>
<td></td>
</tr>
</tbody>
</table>
<pre><code>                                                             | Type of market and customer.                 | Electronic sales.                                      |                                                        |
                                                             | Relationship status.                         | Field days.                                              |                                                        |
                                                             |                                               | Mobile phones.                                           |                                                        |
                                                             |                                               | Exhibitions/shows.                                      |                                                        |
                                                             |                                               | Internet and email.                                     |                                                        |
</code></pre>

The marketing function is huge and involves making choices among alternative marketing issues like consumer needs identification, products, channels, prices, promotional strategies, and others. None of the marketing activities has gender restrictions; hence men and women can perform marketing duties equally. Figure 9.2 illustrates marketing decisions that a farming business can make with the involvement of all family members.
FIGURE 9.2: MARKETING DECISIONS IN A FAMILY FARM BUSINESS

FAMILY BUSINESS
(Father, Mother, Children, Relatives)

MARKET RESEARCH AND TARGETING
Family members agree to continuously identify client needs and the prices of commodities.

PRODUCT DECISIONS
Family members agree to produce products that suit market requirements.

PRICING DECISIONS
The business calculates the cost of each enterprise and determines the best prices at which products must be sold.

PROMOTIONAL DECISIONS
The business agrees to put a notice at their gate and local shops and also spread the word around through friends and local schools.

DISTRIBUTION DECISIONS
The business hires a truck to take their products to the market in the nearest town.

CUSTOMER SERVICE AND RELATIONS
The business invites all its customers to a graduation party for their daughter. It also donates some eggs to a local boarding school at its Annual General Meeting.
9.3 THE NATURE OF AGRICULTURAL PRODUCTS

For family farm businesses to succeed, family members have to understand the characteristics of agricultural products, and how these affect marketing and profitability. Understanding agricultural products also helps farm businesses to come up with appropriate product marketing strategies. Following are some marketing issues that must be considered by family farm businesses:

- Seasonality—supply follows seasonal cycles.
- Perishability—product volumes must be matched to the size of the market.
- Volatility of prices—market prices are unstable.
- Uncertain quantities of output.
- Bulkiness—high volume-to-price ratio.
- Availability of substitutes and increasing competition.
- High price and quantity variations.

9.4 IDENTIFICATION OF BUYERS AND MARKETING CHANNELS

Family farm businesses should have capacity to identify potential buyers of their products and the distribution channels they intend to use for marketing. Evaluation of the buyers and channels, and looking at the advantages and disadvantages of each, helps family farm businesses to make the right choice of customers to target, and channels to use. This is a task that requires considerable market information to be gathered, shared, and discussed by family business members. Each member should contribute to the process because decisions made on target markets, channels, and sources of information determine the profitability of the family farm business. Table 9.2 gives examples of target buyers, marketing channels, and sources of information that can be identified and evaluated by family businesses.

<table>
<thead>
<tr>
<th>Target Buyers</th>
<th>Marketing Channels</th>
<th>Information Sources</th>
</tr>
</thead>
</table>

9.5 INTERNATIONAL MARKETS

International marketing of agricultural products is lucrative to family farm businesses because of the potential benefits that can be realised. Products such as cereals, fruits, vegetables, meat, eggs, milk, hides, cotton, and flowers can be sold outside Zimbabwe. All farmers wishing to participate in external markets must understand the standards, processes, and procedures that are characteristic of the markets they are targeting. Table 9.3 shows some general requirements for international markets and implications for family farm businesses. Family farm businesses need to know that conditions for marketing vary, depending on industries, products, and the needs of importing countries.
### TABLE 9.3: INTERNATIONAL MARKET REQUIREMENTS

<table>
<thead>
<tr>
<th>Requirements</th>
<th>Implications for Family Farm Businesses</th>
</tr>
</thead>
</table>
| Large Volumes                       | • Need for a mindset change to produce for big markets.  
                                           • Need for collaboration of family farm businesses in producer groups.  
                                           • Need to invest in adequate inputs and knowledge. |
| Strict Quality, Safety, and Health Standards | • Need to employ good inputs and practices, and adhere to expected standards.  
                                           • Need to invest in production infrastructure. |
| Licences and Permits                | • Need to be registered and licenced.  
                                           • Need to understand requirements and procedures.  
                                           • Need to be networked to national associations and bodies licenced to export. |
| Traceability of Products            | • Need to be registered entities and invest in production infrastructure. |
| Clearance by Government             | • Need to understand the regulation of marketing to foreign entities. |
| Deep Market Understanding           | • Need for research into the economic and socio-cultural environment of the market. |

### 9.6 ROLE OF MARKETING INSTITUTIONS

Marketing institutions for agricultural products can be general or product-specific. Table 9.4 gives examples of some marketing institutions that operate in Zimbabwe, their purpose and the assistance they give to farmers.

### TABLE 9.4: MARKETING INSTITUTIONS AND THE ROLE THEY PLAY IN MARKETING

<table>
<thead>
<tr>
<th>Institution</th>
<th>Purpose for Existence</th>
<th>Assistance Available to Farmers</th>
</tr>
</thead>
</table>
| Agricultural Marketing Authority (AMA) | • Promotes and regulates marketing of agricultural products in Zimbabwe and abroad.  
                                           • Promotes relationships and fair trade between farmers and buyers. | • Avails information on alternative markets for products.  
                                           • Registers and accredits reputable buyers. |
| Horticultural Promotion Council (HPC) | • Promotes production and marketing of horticultural products in Zimbabwe and abroad.               | • Facilitates access to local, regional, and international markets for horticultural products.  
                                           • Provides agronomic and technical advice. |

### 9.7 CASE STUDY—MARKETING OPPORTUNITIES FOR MEN AND WOMEN

In Figure 9.3, Mrs Ngwenya is negotiating a sale with Mr Nkosi at a local cattle selling point in Tsholotsho. Initially they were negotiating straight sales, but after disagreeing on the prices, they resolved to use weights.
FIGURE 9.3 NEGOTIATING A CATTLE SALE AT A SELLING POINT IN TSHOLOTSHO

Which of these are for sale and how are you pricing them?

Let’s weigh them to determine the live weight so as to agree on the price.

Now you can have your cash and I take my cattle.
9.7.1 LESSONS LEARNED FROM THE CASE STUDY

- Women can effectively participate in livestock marketing.
- Cattle sales are likely to be fair for both buyers and sellers if they are based on weights. Therefore, it is advisable to negotiate cattle prices on the basis of weights.

9.8 SUMMARY OF KEY ISSUES

1. Involvement of all family members in the marketing process allows for transparency and sharing of expertise and experience.
2. Marketing covers planning, production, management, and final offering of products to buyers and consumers.
3. Marketing planning is critical if desperate sales are to be avoided.
4. Knowledge of target customers, including their business and purpose of buying, is critical for successful marketing to be achieved.
5. Extensive knowledge of the products being marketed, including classes, grades, guiding prices, nutritional advantages, and benefits to the buyer are cornerstones of successful marketing.
6. Appropriate timing of marketing and production activities is critical for successful marketing.
7. Investing effort and time in understanding market needs and trends and responding with appropriate action is important in marketing.
# MODULE 10: CONTRACT FARMING

## LEARNING OBJECTIVES

By the end of this module, participants are expected to:

| ✓ Understand and appreciate the essence and objectives of contract farming. |
| ✓ Understand the nature of cropping and livestock contracts in Zimbabwe. |
| ✓ Understand the key components of a contract. |
| ✓ Understand the obligations/roles of each party in a contract. |
| ✓ Understand the benefits and challenges in implementation of contracts. |
| ✓ List the critical issues to look at before signing a contract. |
| ✓ Understand the role of government and its arms in contract management. |

## KEY WORDS

**Contract**

An exchange of promises between two or more parties to do, or to refrain from doing, an act that is enforceable in a court of law. It is a legally binding agreement.

**Monopsony**

A state in which demand comes from one source. If there is only one customer for a certain good, that customer has a monopsony in the market for that good.
10. INTRODUCTION

Contract farming is a contractual arrangement between producers and buyers of a farm product. The contract can either be oral or written, and will specify one or more conditions of production and marketing of an agricultural product. In essence, contract farming commits the farmer to produce a certain commodity at a certain time for an agreed price and, in return, the contractor undertakes to buy the commodity, and may provide agricultural extension and other services to producers in order to satisfy production requirements in terms of quality and quantity. Contract farming in Zimbabwe includes schemes for crops, livestock, timber, and wildlife.

10.1 BENEFITS OF CONTRACT FARMING TO FARMERS

Contract farming offers many advantages to the farmer, as shown in Table 10.1.

**TABLE 10.1: BENEFITS OF CONTRACT FARMING TO THE CONTRACTED FARMERS**

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Access</td>
<td>Farmers can access markets that were formerly out of reach for them.</td>
</tr>
<tr>
<td>Increased Incomes</td>
<td>Contract farming promotes production of commodities that are sold for a higher price and may be grown without significant extra effort.</td>
</tr>
<tr>
<td>Reduction in the Risk of Price Fluctuations</td>
<td>Binding product prices are normally specified in the contract before production, thereby cushioning both the farmer and the contractor against price fluctuations.</td>
</tr>
<tr>
<td>Credit and Financial Intermediation</td>
<td>Contracting offers opportunities for lending to farmers who would otherwise be ineligible for credit.</td>
</tr>
<tr>
<td>Timely Provision of Inputs</td>
<td>Contracting enables timely delivery of inputs and products to markets, even in areas that have poor road networks.</td>
</tr>
<tr>
<td>Monitoring and Labour Incentives</td>
<td>Contract farming is a more efficient way of managing the productivity of labour since efficiency is directly related to return.</td>
</tr>
<tr>
<td>Reduction of Production Risk</td>
<td>Contract farming allows farmers to significantly reduce their risk in the event of crop failure because losses are shared by the contracting parties.</td>
</tr>
<tr>
<td>Introduction of Higher-Value Crops</td>
<td>Through contract farming, farmers can start growing new crops that they would otherwise not produce under conventional farming arrangements.</td>
</tr>
<tr>
<td>Improved Collective Bargaining</td>
<td>Contract farming results in improved awareness of the need for collective efforts for farmers’ common good and promotion of group and farmer association development.</td>
</tr>
<tr>
<td>Household Spill-over Benefits</td>
<td>Household spill-over benefits include improved food security, which results from adoption of improved husbandry methods.</td>
</tr>
<tr>
<td>Improved Access to Extension</td>
<td>Many contracting companies provide extension advice and other technical assistance that would, otherwise, not be available to farmers under normal circumstances.</td>
</tr>
</tbody>
</table>

10.2 BENEFITS OF CONTRACT FARMING TO CONTRACTING FIRMS

Some common benefits of contract farming to contracting firms in Zimbabwe are listed in Table 10.2.

**TABLE 10.2: BENEFITS OF CONTRACT FARMING TO CONTRACTING FIRMS**

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost Efficiency</td>
<td>Contract farming allows agro-business firms to improve cost efficiency and minimise risk by avoiding land purchases and hiring of labour.</td>
</tr>
<tr>
<td>Quality Consistency</td>
<td>With firms extending production methods and monitoring farmer practices, product quality consistency is improved.</td>
</tr>
<tr>
<td>Facilitation of Trade Standard Requirements</td>
<td>Multinational firms are using contract farming to facilitate the flow of traceable standard practices and to maintain control over inputs and production processes.</td>
</tr>
</tbody>
</table>
10.3 GENDER ISSUES IN CONTRACT FARMING

Gender is a major issue in contract farming involving smallholder producers in Zimbabwe. In a number of cases, contract farming has been a catalyst for antagonism between men and women because contracts are commonly signed by male family heads. As traditional contract signatories, men also control essential resources and the marketing of contracted products. Female suicides have been recorded in the cotton growing areas of Gokwe and Sanyati after male family members failed to account for proceeds paid out by ginners following delivery of a contracted crop to their depots. One way of dealing with challenges of this nature is to ensure that contracts are allocated and payments are made to the principal workers in a family farming business, rather than the household head. Family members must also deal transparently with each other, discuss openly, and put profit-sharing mechanisms in place. The position of women must also be elevated through exposure, training, and improved access to information on contracts and contract farming.

10.4 COORDINATING PRODUCTION

Coordination is a critical factor in contract farming. For effective contractual arrangements and coordination, contractors need to 1) identify suitable production areas; 2) select suitable farmers; 3) facilitate formation of groups; 4) provide material inputs; 5) provide logistical support; and 6) make arrangements to purchase products. These arrangements can be made with the support of local leaders and extension personnel.

10.5 CHALLENGES FACING CONTRACT FARMING IN ZIMBABWE

In spite of the stated benefits of contract farming to producers, contractors, and the public; contract farming has challenges, as shown in Table 10.3.

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract Enforcement</td>
<td>There is currently no legal enforcement of contracts in Zimbabwe, making it easy for both parties in the agreement to breach some clauses in the contract.</td>
</tr>
<tr>
<td>Increased Labour Burden</td>
<td>Contracting may reduce the burden of labour management for the contractor, but in actual fact, the burden is transferred to the producers.</td>
</tr>
<tr>
<td>Monopsony Control</td>
<td>Some buyers pay low prices to desperate farmers as they hold monopoly on the marketing of a given commodity.</td>
</tr>
<tr>
<td>Bias Toward Large Farms</td>
<td>One criticism that has been levelled against contractors is their bias toward large-scale producers at the expense of smallholders.</td>
</tr>
<tr>
<td>Demand for Top-Level Managerial Skills</td>
<td>Contract farming requires high-level managerial skills on the part of the contracting firms to be able to supervise producers.</td>
</tr>
<tr>
<td>Increased Risk</td>
<td>Contracting firms are required to bear increased risk in contract farming.</td>
</tr>
</tbody>
</table>

10.6 SELECTION OF FARMERS TO BE CONTRACTED

There are no universally accepted criteria for selecting farmers to produce on contract. However, most companies vet farmers on the basis of 1) suitability of their land for production of intended crops; 2) security of tenure; 3) farming experience; 4) past production record; 5) willingness to cooperate; and 6) availability of labour.

10.7 LIVESTOCK AND CROP CONTRACTS

This section looks at cropping and livestock contracts that are common in Zimbabwe.

10.7.1 POULTRY CONTRACT FARMING

Poultry is one of the sectors where contract farming has been successful. There are three large players involved with poultry, namely: Lunar Chickens, Irvine’s, and Sun Crest. Irvine’s and Sun Crest have been operating in Zimbabwe for more than 10 years, but Lunar is a relatively new player. Following are some common characteristics of poultry contracts:
• Contracts are open to producers who are able to provide housing facilities for flocks above 5,000 birds.
• Preference is given to producers who are located within ≤100 km of processing plants.
• Contracts are usually written, but simple.
• Contractors examine a farmer’s capacity and facilities, and provide inputs in the form of day-old chicks, feed, and vaccines on credit. Contractors also provide technical advice and support.
• The entire cost of chicks, feed, and vaccines is deducted when broilers are delivered to the company.
• In keeping with good husbandry and hygiene practices, production is based on an “all in-all out” system with a three-week clean-out period between flocks.
• Farmers undertake to sell all mature birds to the contractor at an agreed price.

10.7.2 CROP BASED CONTRACTING
Crop-based contracts have been more successful with cotton and tobacco than with other crops. More than 80 per cent of cotton in Zimbabwe is produced by smallholder farmers under contracts with ginning companies. Following are some general characteristics of crop-based contracts in Zimbabwe:
• Contracts are usually done by buyers of a commodity who would want to ensure a guaranteed supply of the product.
• Contractors supply inputs (seed, fertiliser, and chemicals) and technical support, whilst growers provide land, labour, and management.
• Firms prefer to work with organised groups of growers because this reduces side marketing and defaults on loans. Working with organised growers also makes it easy to monitor activities on the ground.

10.8 BASIC CHARACTERISTICS OF A GOOD CONTRACT DOCUMENT
Adherence to basis contracting principles lays the foundation for a successful contractual relationship. Good contracts should:
• Be written down. Contracts that are not written down are difficult to enforce, although they are considered as binding.
• Be enforceable in a court of law. For contracts to be enforceable, they should not contain clauses that contradict the law.
• Clearly define the parties that are involved as seller-buyer, producer-processor, or supplier-purchaser.
• Clearly specify the product under consideration (quality and quantity).
• State the time of delivery.
• Clearly state prices, payment obligations, and other financial terms.
• Indicate mutual obligations, specifying the responsibilities of each party.
• Indicate duration.
• Refer to an arbitration mechanism for settlement of disputes.
• Have a signature clause.

10.9 ADVICE FOR PRODUCERS BEFORE SIGNING A CONTRACT
Producers must clearly understand the terms and conditions of contracts before they agree to sign a contract. Following is some advice that could keep growers away from contractual disappointments:
- Make sure the contract is read and understood, including all clauses in fine print. It is the producer’s right to ask questions or ask the contractor to translate the contract into vernacular.
- Do not accept inputs out of desperation because some contractors may take advantage of such desperation to exploit producers.
- Understand contractual obligations and assess ability to fulfill them.
- Understand contractor obligations and ensure that they deliver on their side of the contract.
- Make an effort to get information about market trends, prices, and risks before signing a contract.
- Make an effort to find out more about contractor trading history and reputation before signing.
- Be wary of contractors who always bring their contracts and inputs late in the season.

10.10 GOVERNMENT SUPPORT

Government’s role in contract farming is to create an enabling regulatory environment that provides for competitiveness and protection of both producers and contractors. Government is also well-positioned to foster linkages and relationships between investors and producers.

10.11 ENABLING AND REGULATORY ROLE

Contract farming depends on either legal or informal agreements between the contracting parties. These, in turn, have to be backed up by appropriate laws and an efficient legal system. Government needs to be aware of the implications of all laws and policy decisions on agribusiness development, including contract farming. While it may not be considered a precondition, it is desirable that governments play an arbitration or dispute resolution role. The Government of Zimbabwe has established dispute resolution guidelines for agricultural contracts and offered some contract brokering guidelines through the contracts office at the Ministry of Agriculture, Mechanisation and Irrigation Development.

Other government enabling activities to sustain contract farming may include:

- Provision for training in technological and managerial skills at all levels.
- Provision of research and extension services. State-supported research and extension services intervention can benefit smaller ventures that cannot sustain their own research and extension programmes.

10.12 SUMMARY OF KEY ISSUES

1. Contract farming is a contractual agreement between producers and buyers, whether oral or written, specifying one or more conditions of production and marketing of an agricultural product.
2. Contract farming enhances access to better markets, increases incomes, increases access to inputs, promotes efficient utilisation of labour, reduces risk, allows farmers to introduce higher-value crops, improves farmer awareness and knowledge, and improves access to extension advice.
3. Contract farming enhances cost efficiency, improves quality consistency, improves standard trade requirements, and reduces burden on central government.
4. Challenges of contract farming include contract enforcement, monopsony control, burden of labour requirements, bias toward large firms, increased risk for the contractor, and increased requirements for top-level management skills.
5. A good contract should be binding and enforceable by law. Therefore, it is important for both farmers and contractors to assess this before committing themselves to contracts.
ANNEX 1: BIBLIOGRAPHY


