



# Outgrowers – a key to the development of rural areas in Sub-Saharan Africa and to poverty reduction

Report of the DEG / DIE Workshop  
August 18, 2006

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Workshop Report

18<sup>th</sup> August 2006

**Workshop jointly organised by DEG and DIE**

Bonn, January 2007

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## Abbreviations

ADAF	Appropriate Development for Africa Foundation
AfDB	African Development Bank
AMC	Association des Maires du Congo
AU	African Union
BMP	Best Management Practice
BMZ	Bundesministerium für Entwicklung und Zusammenarbeit
CDC	Cameroon Development Company
CFA	Commission for Africa
CIF	cost insurance freight
DC	Development Cooperation
DED	Deutscher Entwicklungsdienst
DEG	Deutsche Investitions- und Entwicklungsgesellschaft
DIE	Deutsches Institute für Entwicklungspolitik
EAGA	East African Growers Association
EU	European Union
EurepGAP	Euro-Retailer Produce Association Good Agricultural Practice
GOPDC	Ghana Oil Palm Development Company Ltd.
GTZ	Gesellschaft für Technische Zusammenarbeit
ICP	International Coffee Partners
IDS	Institute of Development Studies
InWent	Internationale Weiterbildung und Entwicklung gGmbH
IPM	Integrated Pest Management
KfW	Kreditanstalt für Wiederaufbau
MC2	Mutuelles Communaires de Croissance
MDGs	Millennium Development Goals
MRL	Maximum Residue Limit
NEPAD	New Partnership for Africa's Development
NES	National Extension Systems
NGO	Non Governmental Organisation
NWCA	North West Cooperative Association
OG	Outgrower
ONG	Organisation non gouvernementale
PPP	Public-Private Partnership
ProCGRN	Programme de Conservation et de Gestion des Ressources Naturelles
QMS	Quality Management Systems
SIAT	Société d'Investissement pour l'Agriculture Tropicale
SLE	Centre for advanced training in rural development
SOGB	Société des Caoutchoucs du Grand Bereby
SPFS	Société des Palmeraises de la Ferme Suisse
SSA	Sub-Saharan-Africa
TA	Technical Assistance
TNC	Tesco nature's Choice
TOT	Training of Trainers
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development,
ZEF	Zentrum für Entwicklungsforschung





# 1 Prefaces

## 1.1 Michael Brüntrup (DIE, Bonn): Perspectives of contract farming in this reader

The present reader is the compilation of the presentations made at the workshop “Outgrowers – a key to the development of rural areas in Sub-Saharan Africa and to poverty reduction”, held on August 18, 2006, in Cologne in the premises of DEG. It was jointly organised by DEG and DIE and assembled about 60 participants from private agro industries, cooperatives, governmental and non-governmental development organisations, research, and the media, working and interested in African agriculture.

Agriculture is (again) widely seen as a key to reduce poverty in Sub-Sahara Africa (SSA). The sector accounts for roughly 35 percent of GDP, 40 percent of exports, and 75 percent of employment. Many SSA countries have clear comparative advantages in agriculture, for the continent as a whole it is the most important growth and export pole, apart from mineral resources with their often problematic political economy. In addition, agricultural growth is more pro-poor than any other sector growth. Thus, without agriculture broad based growth and poverty alleviation in SSA is hardly imaginable.

However, the overall ability of the sector in SSA to fulfil its role has been weak in recent decades. Per capita production has declined or stagnated since the early 1970s, contrary to the rest of the world. Many reasons are forwarded to explain this: Ecological problems, adverse terms of trade including low agricultural prices due to the support of agriculture in industrialised countries, lack of appropriate technologies that revolutionised other parts of world agriculture, market failures and government failures in SSA countries. Structural adjustment programmes (SAP) have tried to improve the national macroeconomic conditions and free entrepreneurial spirits by means of stabilisation, liberalisation and privatisation. But the impact on the agricultural sectors has been weaker than hoped for, particularly exports performed weakly. The private sector did not sufficiently step in to provide much needed private investment as well as technology, input supply, credit and marketing.

A notable exception, and a hope for African market oriented farming, are outgrower or contract farming schemes. Both concepts are often (and in this reader) used synonymously to describe ways of vertical integration between small farmers and agro processors or traders. They do not have precise definitions but enclose a wide variety of institutional arrangements of vertical integration. A frequently used classification distinguishes ‘market specification’, ‘resource providing’ and ‘production management’:

“In the first modality, the transaction between growers and buyers is agreed on terms of what to be produced (product and quality attributes) and what are the commitments for future sale (timing, location and price). The second modality adds the provision of farming inputs to the former contract type. Beyond specifying what to produce and what the conditions for marketing are, in-kind credit is offered via the provision of key inputs, often with cost recovery upon farm product delivery. Finally, under production management contracts growers agree to follow precise technological guidance on how to produce. But regardless of the typology, the general term “contract farming” refers to a particular form of supply chain governance adopted by firms to secure access to agricultural products, raw materials and supplies meeting desired quality, quantity, location and timing specifications. In this context, contract farming is seen as one of the alternative forms of vertical coordina-

tion in which firms can engage, which can also be spot markets, full vertical integration and different forms of vertical alliances.”

Contract farming is not a new phenomenon. Ancient types of contractual arrangements may have existed in old ages already. Modern types have emerged in the 19th century in the USA and in Taiwan for the processing of perishable crops such as sugar. In the industrialised world it is nowadays a widespread practice, governing for instance 36% of the agricultural production value in the USA.

In SSA, contract farming has an equally long history, particularly if one counts the production arrangements of small farmers with marketing boards and cooperatives among contract farming. However, the latter two must be regarded as a very special case of contract farming. Marketing boards exert monopolistic and regulatory powers aside the contractual arrangements. Their performance in SSA is viewed very critically, most have been dismantled and privatised during SAP, although in some cases they still exist at least in a rudimentary way (e.g. cotton boards in some West African states). Cooperatives are owned by producers and distribute surpluses that they produce to their owners – thus, the interest, power and information antagonism between agro industry firm and producers, typical in other contract schemes and most important point of criticism of outgrower schemes, is basically missing although in large cooperatives a conflict of interest may exist between management and producers. Cooperatives have been introduced during the colonial period in SSA, particularly and first for cash crops, but later for food crops, too, sometimes by enforcement. Most compulsory cooperatives have been abolished during SAP.

Contract farming by private firms has already coexisted with marketing boards in the pre-SAP period, some have stabilised and strengthened privatised markets after SAP, some have emerged independently in recent years and created new markets.

Contractual arrangements are expected to gain importance in the globalising world, since they offer, for both firms and producers, a number of advantages and responses to old and new exigencies of food markets. These include:

- From the side of the agro industry, better availability of primary products and therefore better use of industrial capacities and the possibility/security for delivering “just in time”, better control of quality from the field to the shelf for an ever growing consumer demand for quality and food safety, establishment of (private) labels often in an environment of fierce competition between huge agribusinesses and retailers, emergence of many niche markets in saturated food markets with respective requirements throughout the chain.
- From the point of view of farmers, in addition to maintaining or gaining access to modern global market chains through such agribusiness contracts, outgrower schemes often provide the only feasible access to technology, inputs, credit and/or information. Through cooperatives or the condensed demand of agro industries, economies of scale are possible. Not at least, farmer organisations gain in professionalism and better, organised standing in political debates.

More advantages, but also some problematic issues exist around outgrower or contract growing schemes. The present reader compiles a very rich set of empirical information on such schemes in SSA, mostly around the investment experiences of DEG. It shows the wealth of different approaches and some details that can often make the difference between success and failure. Such

information, particularly on private firms, is hard to gather in scientific literature since they are often operating outside the official development world and thus outside the public attention or reach.

A word of caution at the end: The reader is not a scientifically based nor actor balanced compilation of studies. There are no impact studies presented, and only few farmer organisations (cooperatives) were present. Yet, the case studies presented are often very clear in their presentation of strengths and weaknesses and allow for conclusions on advantages and welfare effects of contract farming for small farmers.

In fact, it can be taken for granted that an existing and operational contract between an agrobusiness firm and farmers is sufficient proof that the arrangement is beneficial for both – under the existing conditions: It can be assumed that a contractual relation between both sides of the contract, their joint position (against other competitors on the market) is better than their individual positions – there is a win-win situation. If not, none of them would agree to it or somebody might drop out voluntarily in a coercion free situation which is nowadays almost everywhere the case in SSA. However, this assumption does not neglect that benefit distribution of contract farming could be even more in favour of farmers, or that under different conditions (better credit, input or market access otherwise) a farmer would opt not to agree to (the specific terms of) the contract. However, it is reality that exactly such favourable conditions are lacking everywhere in SSA.

However, the reader clearly demonstrates that contract farming has a great potential for many kinds of products under a wide range of circumstances. Given the developments of global and national agricultural value chains, it constitutes a highly and increasingly important element of keeping SSA agriculture in general and small farmers in particular in the market and to improve their productivity and incomes.

## **1.2 Roger Peltzer (DEG, Cologne): Contract farming – a way of fighting rural poverty in Sub-Saharan Africa**

Development processes leading to more productivity and income are not primarily the result of good resource availability or supply of outside capital but have more to do with the way in which societies, village communities or even individuals organise themselves, how they encourage motivation and how they develop or sanction the infringement of agreed rules.

Working with contract farmers is a form of social organisation in the rural environment which – if it runs smoothly – promotes and rewards the farmers' entrepreneurial initiative while creating the conditions they need to increase their productivity, to improve the quality of their products and in many instances to act with more consideration for the environment as well. Working with contract farmers therefore may be one of the most efficient methods of developing rural regions in Sub-Saharan Africa. The example of Europe also supports this point: contract farmers cooperating with agro-industrial enterprises have made decisive contributions to the development of whole regions: this applies in particular to vegetable growing, whether in Brittany in France, in Belgian Flanders, in the German Lower Rhine region or in the Polish region of Thorun.

When considering Sub-Saharan Africa, the question often raised is what significance contract farming has in the context of the rural population as a whole and whether it merely applies to a limited number of relatively well-to-do farmers who almost exclusively grow cash crops. As far as we know, there are no reliable figures available on Sub-Saharan Africa as a whole. **Rough estimates**

**from the four countries Burkina Faso, Cameroon, Kenya and Zambia, however, show that the significance of contract farming for African agriculture (if the members of large cooperatives are included) is clearly higher than usually assumed.** In Burkina Faso and Zambia, for example, 30 to 40% of all farmers are contract farmers, who cooperate with the respective cotton companies in both countries. However, countries with more diversified agricultural production, such as Cameroon and Kenya, also have a high number of contract farmers. Cameroon, for instance, has about 650,000 contract farmers (out of approximately 1.5 to a maximum of 2 million farming households) in the areas of cotton, palm oil, rubber, rice, coffee, cocoa, green beans and tobacco. In Kenya it is estimated that, out of 3 to 4 million farming households, 1.2 million are contract farmers in the coffee, tea, dairy cattle, barley for brewing, vegetable, sugar and corn sectors. The vast majority of these contract farmers work on an area of one to a maximum of 10 hectares of land. If seasonal farm workers are included, it becomes obvious that contract farming can address the core of rural poverty in Sub-Saharan Africa. The above examples also show that contract farming systems are not directed solely at export crops. The example of Kenya with its well-developed agro-industry illustrates, in particular, how willing the agro-industry is to include contract farmers in supplying the domestic market as well. This applies especially to the dairy industry with approximately 250,000 contract farmers, but also to barley for brewing, corn and vegetables, which are not solely sold for export. The expected spread of “modern“ types of retail chains in Africa over the coming years – the South African retail chain Shoprite, for example, is on the march through Africa – will contribute to the rapidly growing importance of agro-industries supplying the local markets in Sub-Saharan Africa. These agro-industries will have to rely on contract farming so that they have regular access to products of reliable and high quality.

Furthermore, quite a number of cash crops are grown in rotation (like cotton) or in mixed cultures, like coffee and cocoa. In these cases, reasonably supported cultivation of cash crops will go hand in hand with the increase in production of food for the local market.

**From the development-political point of view, contract farming has the huge advantage that any kind of Development Cooperation (DC) can be established on existing, more or less well functioning organisational structures of private-sector companies and cooperatives. This suggests that a DC focussing on contract farming could make a significant contribution to reducing rural poverty in Sub-Saharan Africa. At the same time, DC utilising contract farming structures promises efficiency gains in comparison with available intervention options.** This is why the instrument of contract farming concepts is to be examined more closely.

### **I. Contract farming: the interests of the parties involved**

In the ideal case, contract farming consists of a farmer and an agro-industrial enterprise contracting before sowing that the farmer will sell all or a part of his harvest at an agreed price and in a defined quality to the agro-industrial enterprise as the contractual partner. The fixed price plus the purchase commitment are frequently a strong production incentive for the smallholders. Moreover, the company can provide the farmer with the appropriate high-quality seeds and, if necessary, with fertiliser and pesticides, as well as technical advice and infrastructure services. Such advance deliveries and services on account will then be deducted from the price to be paid to the farmer after harvest. The scope and type of advance services and deliveries will differ from case to case. In the case of certain cash crops like coffee, the purchase price is usually not contracted in advance owing to the liberalised environment, but is determined by the world market price on the day of sale (farm gate price)

with a certain discount for the goods and services rendered in advance. The contractual relationship and the resulting consultancy ensure the farmers' access to high-quality seeds (from which they would otherwise be excluded) and their compliance with the standards of good agricultural practice when it comes to using fertilisers and pesticides.

It is important that a contract farming relationship between a farmer and a private agro-industrial enterprise in many ways resembles the contractual relationship between the member of a cooperative and a big cooperative. Cooperatives, too, guarantee purchase and provide their members with advanced deliveries and services to a certain extent. The conflicts between the contractual partners involved are similar up to the point of pricing when the overall interest of the cooperative competes with the individual interest of its members. Our discussions below about the opportunities and risks of contract farming can largely be applied to cooperatives as well, which is why this essay also relates to members of cooperatives.

It should also be mentioned that both contract farmers and members of cooperatives voluntarily conclude contracts with the respective agro-industrial enterprise or their cooperative. As a rule, the farmers generally have a choice and often make use of it by growing other products on their own account.

**What makes agro-industrial enterprises in Africa regularly cooperate with contract farmers instead of exclusively farming areas of land under their own direction?** The motives are varied and differ from one product to another, possibly also from one country to another. For certain products, such as cotton, rain-fed agriculture in rotation with food crops has proved its unrivalled efficiency in Sub-Saharan Africa. Trials on large-scale irrigation cultivation of cotton have generally failed – with few exceptions – partly because of the high maintenance costs for the irrigation systems, security required, mobilisation of thousands of harvest workers, etc. Furthermore, when special care is required in the cultivation and harvesting of the plants, qualified family-run farms can produce a considerably higher quality than big plantations, as frequently demonstrated by small coffee-growers in East Africa, for instance. In addition, working with contract farmers is an important element of risk diversification for many agro-industrial companies: harvest risks, for example due to climatic conditions, can be avoided or reduced thanks to the geographical spread of the contract farmers. From the business point of view, competition between the company's own core plantation and the department organising purchase through contract farmers can also be very useful. While organising the support for contract farmers is certainly time-consuming, the investments required and sometimes the administrative overheads are initially considerably lower when compared with the development of company-owned plantation areas. In addition, in more and more African countries the land question plays a decisive role. For instance, in many African countries large areas for plantations are no longer available or only as a result of protracted negotiations that might stretch over several years. Many African governments as well as the society of the countries involved are increasingly judging foreign plantation owners by their promotion of independent farms. Consequently, big South African enterprises such as South African Breweries or Ilovo (sugar) attach great importance to cooperation with contract farmers, even if it is not necessarily the most efficient solution from a business point of view – as in the case of sugar. The cooperation with contract farmers therefore becomes a core element of corporate social responsibility and the promotion of Black Empowerment by these companies.

From the farmers' point of view it is particularly the guaranteed sales, possibly the guaranteed price as well (which provides a good basis for calculation) and the access to high-quality input that militate in favour of contract farming. This is all the more important for small-scale farmers in Africa who do not have systematic access to loans unless they can support their loan requests with sales contracts and guaranteed sales prices.

**It can be concluded that smallholders in Sub-Saharan Africa have a promising economic future thanks to contracts with agro-industrial companies or cooperatives and that – as well as large-scale plantation cultivation – they are playing and will play a decisive role in the development of Africa's agriculture.** However, there will be also competition and displacement among African contract farmers with the result that the size of the small-scale farms will tend to become larger and that the more efficient ones will prevail at the expense of non-competitive farms. However, this can and will contribute to the socially desirable development of a larger number of medium-sized farms and a rural African middle class.

## **II. The risks of contract farming**

**The core problem of contract farming is non-compliance with contracts by both parties.** If yields are considerably higher than planned and the prices go down, companies will avoid buying from contract farmers or only buy from them as a last resort, whereas poor harvests and high prices are a strong incentive for farmers to sell on the market rather than to the company at the agreed lower prices. Depending on the amount to be deducted for prepaid inputs, farmers tend to sell their harvest to traders who have not been involved in the advance financing of the harvest and therefore buy without discounts. Repeated breaches of contract will undermine contract farming in the respective region and with the product concerned.

Successful contract farming therefore needs careful design customised to the specifics of the region, the product and the parties' interests. No problem exists, for instance, if there is demand for certain products of a specified quality only for export purposes – which applies, for example, to haricots verts grown in Cameroon for Bonduelle - and if prices well above local prices are achieved. In this case, cooperation has been successful for many years with as many as 10,000 smallholders, who only use about one-fifth of their acreage for contract farming.

In contrast to this, the long-standing dispute between the World Bank and many African countries about the privatisation of quasi-governmental cotton companies was essentially a dispute about the basic philosophy of contract farming. While the World Bank wanted to give the individual farmers a freedom in the choice of ginnery they sold their cotton to, the Africans and French argued that this would deprive the quite successful contract farming of its basis. Meanwhile, the World Bank has partly given way to this argument. There is a consensus developing that privatised cotton companies should continue to have regional monopolies with due consideration given to the cooperating smallholders. Wherever this is not the case, as in Zambia for instance, cotton companies find themselves unable to prepay fertilisers for the farmers. Years of experience in Zambia have shown that the lower the cash payout ratio, the stronger the tendency of farmers to breach contracts and to sell their cotton to the first trader to come along. If discounts of more than 30% are contracted for advance financings, farmers will tend to break the contract, no matter how high the productivity gains resulting from the fertilisers and the absolute amount of income after deductions is.

Moreover, many cooperatives are facing massive loyalty problems in the aftermath of liberalisation (e.g. in the coffee sector). Some of them have lost 50-80 % of their turnover to traders. These traders argue with some justification that the inefficiency of the cooperative associations burdens the farmers with very high administrative costs and that they have not let the farmers participate in the development of world market prices. The reverse of the coin is that the massive slump in turnover has deprived cooperatives of the resources to maintain their agricultural consultancy services to their member farmers, which many traders have benefited from as so-called “free riders”. This is one reason why the liberalisation of the coffee and cocoa market has caused quality to decline markedly in many countries.

Contract farming and the environment in which it is implemented should therefore be designed in a way that farmers are particularly encouraged to comply with contracts. The important elements are:

- Attractive prices for contract farmers to enable them to achieve higher average incomes than in other alternatives over one or more years.
- Building up confidence. Especially private agro-industrial companies have to invest in confidence-building measures for the farmers (punctual payment, incentives, compliance with contracts in difficult environments, etc.). Well-run enterprises like Bonduelle in France know very well that cooperating farmers are critical with respect to the success of Bonduelle despite all the inevitable controversy, especially about pricing. The quality of the cooperation with contract farmers therefore has a high management priority in such companies.
- An important element of confidence-building is that agro-industrial companies in Africa learn how to deal appropriately with the living conditions of the farmers and their families on the whole. Rotation and the cultivation of mixed cultures, for instance, can provide a strategy of risk-hedging for smallholders, which makes sense and should thus be encouraged in the long-term interests of the agro-industrial companies as well.
- Sector policies should be designed so that they allow for regional monopolies (e.g. in the case of cotton) under certain preconditions.
- Fixed purchase prices should only be contracted if they can also be complied with and kept up nationwide. A recommended alternative is to take world market prices as a basis for purchase prices. Prices fixed prior to sowing do not make any sense in the case of certain products for the local market, whose prices are subject to severe fluctuations depending on harvest and season and where the agro-industrial company – e.g. a preserves factory for tomato paste – competes with the local market for fresh food. As far as I know, all such “tomato”- projects with contract farmers in Sub-Saharan Africa have failed. In such cases, purchase contracts can only be implemented if it is possible to build up efficient daily markets with generally accepted prices in the respective regions during the harvest period. The prices of these markets can then form the basis for pricing at the time of delivery by the farmers.
- Payment modalities are another important issue for the farmers. Prompt payment to the farmers will improve compliance with contracts. Moreover, cash-flows should be adjusted to the needs of the farmers. If, for example, the payment of school fees, school uniforms, etc. is two months before the harvest, many farmers might tend to sell to trad-

ers offering suitable advance payments, even if they have to accept large discounts in comparison with a later sale. Contract compliance will increase if the agro-industrial company (or cooperative) manages to address these needs appropriately, for instance by cooperating with micro-finance institutions.

- Another important element is concentrated support and supervision of the farmers. The systems should be designed to enable the agro-industrial enterprise or cooperative to be in touch with farmers via consultants or lead farmers during sowing, growing and harvest periods, if possible once a week. This will not only guarantee the necessary regularity of consultancy but will also ensure that there is a relatively accurate record of expected yields and that the supplies can be properly monitored. The implementation of such systems, known as “encadrement”, is complex, but can become a win-win situation if the farmers’ productivity can be increased and the increased production be accorded to the agro-industrial company. If farmers systematically breach contracts and fail to supply all or large parts of the harvest to the contractual partner despite, for example, advance finance and intensive consultancy services, sanctions have to apply. In this context it is important for the agro-industrial companies to be able to rely on the local police, courts or traditional arbitration courts.

However, contract farming can also bear considerable risks from the smallholders’ point of view. This is especially the case if they are tied to a single product without any alternatives in case of crisis. Big agro-industrial enterprises can also take advantage of them when fixing purchase prices or prices for inputs. The public debate about contract farming however frequently overemphasises these risks, which are usually less of an issue in the reality of Sub-Saharan Africa. This is particularly because big international companies are subject to rigorous public control by the civil societies and governments, which usually do not permit blatantly unfair contractual relations. This attitude prevails to some extent in any country, irrespective of the degree of democratisation of the state concerned. Furthermore the farmers can and often do drop out of contract farming and turn to other alternatives if contract farming no longer seems attractive to them. From the smallholders’ point of view, there is a higher risk of the contractual partner becoming insolvent – for example as a result of blatant management errors – and therefore unable to pay the farmers.

The risks resulting from an unequal balance of power in relation to contract farming can be limited. It is important, for example, that there are competing private (and possibly quasi-governmental) enterprises within a sector, especially when regional monopolies are allowed. This means that all parties involved will retain alternative courses of action, for example in the event of a party going bankrupt as a consequence of mismanagement. It is also important that farmers’ unions or cooperative associations are qualified so that – if farmers cannot select between competing providers – they can participate in discussions on fixing of purchase prices for fertilisers and other agrochemicals. This also requires a high degree of transparency on the purchase and sales prices agreed by the agro-industrial partner. In cases of dispute regarding quality classification, determination of purchase and input prices, neutral mechanisms of arbitration should be envisaged, particularly where farmers are confronted with regional monopolies. Added security is provided by product labels or certifications which subject all contractual partners to independent control and create more transparency (see below).



From the point of view of DC and international finance institutions it is important to assess thoroughly the strategy, management quality and financial standing of the private enterprise whenever there is cooperation with agro-industrial enterprises involving contract farming and the use of public funds.

### III. Contract farmers, labels and certification

Direct consumer protection (hygiene, residues of agrochemicals) is becoming more and more important and both retail companies and to some extent consumers are increasingly asking for products produced according to acceptable ecological and/or social minimum standards. This is why practically all agricultural exports from Sub-Saharan Africa to Europe (but also to Japan and the USA) are facing the challenge of providing evidence of the sustainability of their production and the quality of their products by means of labels (Rainforest Alliance, Utz Kapeh, Cotton Made in Africa) or other relevant certifications. It is already virtually impossible today to export fruit and vegetables or flowers to Europe without EurepGAP or MPS (Milieu Programma Sierteelt) and KFC (Kenya Flower Council) certificates, respectively. Fair-trade products are also playing a conspicuous and growing role.

While certification of agricultural production is a great opportunity for Africa on the one hand – as it helps promote conditions for sustainable production and ensure access to markets in the long run – it is a huge challenge for smallholders on the other hand.

Investing in Fair-trade labels, for which the consumer pays a higher price, is usually worthwhile for the farmers. The investments are amortised within a short period of time by the correspondingly higher prices. However, the relevant markets are still only niche markets. In the case of standard certifications for the mass market (e.g. EurepGAP for fruit and vegetables), the slightly higher prices usually cover only the current certification costs. However, the necessary initial investments into infrastructure, e.g. warehouses, waste separation, qualification, introduction of a feasible yet extensive system of documentation (to achieve certification maturity), make amortisation of these investments considerably more difficult for smallholders. Beyond the initial certification, maintenance during the first few years, i.e. until handling the standards has become routine for the farmers, involves follow-up costs, which are not necessarily paid for by market prices. Larger farms clearly benefit from the economies of scale in this context.

It should, however, be noted that it is far easier to organise and finance certification of smallholders if they are contract farmers cooperating with agro-industrial enterprises. They will then also benefit from economies of scale, and existing contractual relations usually provide important foundations for the necessary documentation for certification. The required control routine can also be implemented in a far more efficient manner.

The experience of the DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH – also shows that the incentives in favour of certification can be significantly increased for agro-industrial enterprises and cooperatives, as well as for smallholders, if such projects are combined with DC-financed programmes aimed at increasing the farmers' productivity as farmers and companies will thus enjoy the direct benefits of their relevant endeavours. However, it is important to organise both the programmes for enhancing productivity and the certification of smallholders over a period of several years. This is the only way to secure the sustainability of demonstration effects and of first-time certification. **Now that the German DC has committed itself to quite a number of start-up**

**financing projects in the area of certification and productivity enhancement in Sub-Saharan Africa, it is facing the major challenge of securing maintenance of these programmes and ensuring that they are self-financing in the foreseeable future.**

#### **IV. The efficiency of agricultural consultancy: the public versus the private sector.**

The privatisation of many quasi-governmental plantations in Sub-Saharan Africa has led to a situation where it is often private companies (e.g. in the cotton, palm oil, rubber sectors) who provide consultancy services to (contract) farmers. In other sectors, private enterprises have voluntarily – i.e. without any former involvement of quasi-governmental enterprises – built up cooperation with independent farmers (sugar mills, dairies, vegetable cultivation).

Apart from a few exceptions, private enterprises have organised agricultural consultancy far more efficiently than quasi-governmental or governmental institutions – also out of self-interest. Besides the well-known factors of public mismanagement, the reasons are manifold.

A key issue is the selection of personnel. Governmental enterprises and administrations tend to hire highly qualified academics as agricultural consultants, who try to avoid “getting their hands dirty” in practice or who perceive their transfer to the countryside as a “disciplinary measure”. By contrast, private enterprises rely on highly motivated people with secondary school qualifications, who are usually from rural areas, speak their people's language and regard their job as a great opportunity. They will therefore seize the opportunity by committing to the work with the aim of consolidating and boosting their own social advancement. This human factor cannot be valued highly enough.

Another important issue is cost awareness since the costs involved in the support given to contract farmers and the provision of inputs directly flow into the income statement of a private agro-industrial enterprise. It will therefore buy at favourable prices and, in case of doubt, will use bicycles and motorcycles rather than pick-ups and jeeps. As the companies cannot afford losses in the repayment of their preliminary financings, their supervision and monitoring of contract farmers is usually much tighter and more efficient than in the case of parastatal companies.

Private companies are also innovative when it comes to developing incentives to ensure that both their staff and the farmers act in compliance with the contracts. To achieve objectives in the long run, thousands and tens of thousands of contractual farmers cannot be controlled by sanctions but only by systems with incorporated mechanisms to promote the achievement of targets.

As far as DC is concerned, cooperation with efficient private agro-industrial enterprises therefore offers two related advantages. DC programmes can usually be implemented at considerably lower cost than cooperation with governmental organisations and achieve the same output. Moreover, DC programmes can rely on existing support infrastructure for contract farmers, thereby saving on investments in experts, physical infrastructure, communication, vehicles, etc.

For instance, the DEG in cooperation with Dunavant Zambia initiated a very efficient two-year programme in order to increase productivity for 100,000 smallholders (with a current cost-benefit ratio of 8). Project implementation costs amount up to 1.7 million euros, with one-third of the amount being financed by the private partner Dunavant Zambia. Comparable Technical Assistance of official DC-programmes are likely to cost several times that amount.

## **V. The use of DC in cooperation with commercial agro-industrial enterprises**

Well-established agro-industrial enterprises with well-structured support programmes for their contract farmers are possible cooperation partners for the DC whenever these programmes were not or were only partly carried out by the companies out of commercial self-interest.

This is evident in the case of certain social programmes (basic health care, Aids prevention and treatment). The use of DC may also make sense in areas of these companies' core business if they are smallholders or contract farmers who benefit primarily from it.

Systematically, this applies primarily to the following areas: implementation of contract farming systems in regions or for products where there has been no previous experience. For example, the implementation of a contract farming system for palm oil farmers in Nigeria proves to be very complex as there are a lot of local interferences, which oppose the development of contract compliance. Without "help", a private enterprise will not take on such risks.

DC knock-on financing might also make sense in cooperation with agricultural research enabling testing of new crop rotations or aimed at increased soil fertility or enhanced food safety. Big agro-industrial enterprises are already involved in the financing of research institutes through charges on certain products (cotton, palm oil). DC can help broaden the financial basis of these – efficiently run – research institutes.

There are two reasons why it is vital for micro-finance organisations to be incorporated more strongly into contract farming models. One reason is that agro-industrial enterprises are relieved of their function as a bank and can offer the farmers payment modalities that satisfy their specific needs more effectively. Another reason is that a micro-bank will be all the more successful if it can work in an environment characterised by increased agricultural production. This will boost the business volume and reduce the risks of default. Micro-banks in Cameroon, whose members are mainly contract farmers, show by far the best financial performance in comparison with other micro-banks in the country.

DC can be vital to the implementation of standards and certifications and to the introduction of programmes to increase productivity for and with smallholders. In this area, contributions are required which far exceed the 200,000 euros available under the classic PPP projects. And Europe is bound with this respect if it wants to make the implementation of ecological and social minimum standards in Africa compatible for smallholders. Substantial input into model trials is needed to make certification of smallholders in groups more cost-effective and more efficient.

Normally, agro-industrial companies are not able to handle the financing for smallholders' new permanent cultures (palm oil, rubber, coffee) by themselves. Trees, for instance, normally need several years to reach full production. This requires considerable investments on the part of the smallholders. Owing to severely fluctuating world market prices it is not appropriate to provide such financings under market terms and conditions because the smallholders might run the risk of having to repay considerable loan amounts, including capitalised interest rates, at a time when world market prices are low. In the past, such planting programmes for smallholders (which are also of considerable social importance in terms of "Black Empowerment" and the generation of fairer income distribution) have been financed by the states involved with the help of DC. Such funds are generally no longer available. DC could re-initiate an increasing number of such programmes in collaboration with efficient agro-industrial enterprises.

Another useful field of application for DC funds could be the support of agricultural reform processes. In many African states, public expectations are growing that big plantation companies should transfer part of their land to the farmers. Such processes – if they are to be organised on a legal basis – have to be financed by substantial amounts. In these cases, it also seems to make sense to organise the farmers who benefit from the reform by means of contract farming concepts, which can provide them with the necessary know-how and inputs.

A basic requirement applicable to all measures proposed is that a substantial financial participation of the private agro-industrial companies must be earmarked for implementing and executing the measures. On one hand, the private companies benefit from these measures – at least indirectly. On the other hand, private involvement ensures cost-effectiveness and helps realising only those programmes that promise long-term success from the point of view of the companies – who, after all, have excellent local know-how.

## **VI. Outlook / Challenges for the German DC**

With its know-how in the field of contract farming, the German DC is well positioned to respond to the political demand for increased use of DC to combat rural poverty in Sub-Saharan Africa by providing appropriate and efficient tools.

With its sector project in the areas of certification and Fair-trade labelling, GTZ is (directly and indirectly) already promoting the certification of smallholders. KfW and DEG have built up customer relations with quite a number of agro-industrial companies and cooperatives, which are cooperating to a large degree with contract farmers all over Sub-Saharan Africa. Such cooperation can systematically be expanded. In this context, DEG is also involved in a number of PPP projects dealing with the organisation and certification of smallholders. Within the scope of the PPP sector project “4c Coffee” and “Cotton Made in Africa”, there is a chance of improving the living conditions for hundreds of thousands of smallholders in cooperation with qualified private enterprises.

The German DC has a realistic chance in this area to build up a significant and perceivable special focus within the scope of its network for sustainable economic development in Africa. A considerable increase in PPP funds for the focus intervention areas mentioned in section V of this article would be important in this context. Since the realisation of relevant concepts is always linked to the availability of suitable and willing private-sector partners, whose regional distribution does not always correspond to the sector focus of the BMZ, it is important that the Ministry – within its discretionary powers - is willing to give DC to projects even if the particular country focus is not labelled “rural development”.

Last but not least, BMZ, KfW, GTZ and DEG, possibly with the involvement of DIE, should expand their existing cooperation in this area, which is still rudimentary at present, and they should do so in a suitably flexible and targeted manner.

## 2 Welcoming Address

### **Dr. Winfried Polte (DEG, Cologne): Introduction and comments on the questions to be discussed**

Ladies and gentlemen, dear colleagues from the Ministry, GTZ, KfW and, last but not least, from DEG,

as a development finance institution we also consider it our task to harness our clients' and partners' manifold experience for the development-political discussion in Germany and to help our clients get in touch with each other. Because know-how transfer is often even more important than providing money.

This is why I am delighted to welcome here today also experts from Burkina Faso, Ghana, Cameroon, Kenya and Zambia, who deal with smallholders' production in Sub-Saharan Africa (SSA) day in, day out and who are therefore virtually in the front line of things. It is my pleasure to welcome Professor Humphrey of the Institute for Development Studies in Sussex, who has dedicated a part of his scientific studies to the topic of smallholders and who will fit our subject in the current development-political discussion. Welcome also to Dr. Foerster from the Federal Ministry for Economic Development and Cooperation (BMZ). He will rank the topics we will discuss today in the broad political line of the Ministry. The fact that our Workshop meets with so much attention and that the room is fully booked reflects the interest in the question of how efficiently we can contribute to poverty reduction in rural areas. Especially the most recent report of the UNCTAD on the so-called "Least Developed Countries" focuses on the enhanced promotion of the productive capacities in these countries. Our experience has shown that the agricultural sector with its high direct and indirect employment effects is of vital importance to the achievement of the MDGs. So once more a warm welcome to all of you on behalf of the organisers German Development Institute (DIE) and DEG here on our premises with a panoramic view of Cologne Cathedral.

The so-called "hot spots" of poverty and malnutrition are particularly concentrated on the rural areas of the so-called Third World and here especially on Sub-Saharan Africa. The reasons are manifold: warlike conflicts, droughts, marginal soils. Another major cause is the lack of productivity and sustainability of smallholders' production in many regions of Africa. Large-scale semi-governmentally organised agricultural extension programmes, which have been in the focus of development cooperation over the past few decades, have frequently not proven particularly suitable for the promotion of smallholder production. Mismanagement, but also lack of incentives and markets for smallholders, have doomed many of these programmes to failure. In contrast to this, the attention of the development-political discussion has recently been more and more on smallholder models organised by the private sector. Efficient structures of work with outgrowers – the French have a good word for it calling it "encadrement" – make it possible to provide smallholders with high-quality input at low prices, for example seeds, or agrochemicals, to give them qualified technical assistance and, at the same time, secure the sales of the smallholders' production. By the way, it doesn't make that much of a difference whether the contracts are between smallholders and an agro-industrial core enterprise or between smallholders and a well-run cooperative.

It may not be common knowledge that outgrower structures have also put their stamp on the European agriculture and have made a vital contribution to the rise of marginalised regions, which applied, for instance, to Brittany in France after the Second World War. In today's Europe, vegetable

is almost exclusively produced by outgrowers. The close cooperation between farmers and agro-industrial enterprises often proves advantageous for both sides.

However, there are also clashes of interests and problems. What if one of the two parties fails to comply with the contracts? What if the "Balance of Power" between the two contractual parties becomes destabilised and, for example, supplies to dependent farmers are systematically over-priced? These conflicts and problems will also be dealt with in today's presentations and discussions. Because we do not only learn from the successes but also from problems and mistakes.

Relying on outgrowers is exciting and interesting from the developmental point of view for further reasons, which I am only going to touch.

The land issue is one of the key subjects for an increasing number of African states. This is why land reforms are frequently indispensable and paramount for the political stability of these countries. The Latin American scientist Hernando de Soto is one of those who never cease to point to the significance that a codified property system has on poverty reduction. However, land reforms will all the sooner be successful the faster the relevant farmers can be made familiar with modern cultivation and marketing methods. Outgrower concepts can help to this. For the first time, DEG is currently negotiating a financing of a land assignment to smallholders, which will contractually be incorporated into the "encadrement" of an agro-industrial enterprise. This concept will be presented to you today.

Another mega trend of our time is certification. An increasing number of consumers and producers all over the world are keen to learn whether the goods they consume have been produced under hygienically, socially and environmentally acceptable conditions. Sophisticated certification procedures, for example according to EurepGAP, are trying to offer such security. However such certification requirements are often insuperable obstacles particularly for smallholders. Also in this context smallholders can best be supported by means of contractual links to agro-industrial enterprises or cooperatives. We will hear concrete field reports on this topic later today.

Another exciting aspect is the incorporation of micro finance organisations as part of the financial transactions between farmers and agro-industrial enterprises. Enterprises working with thousands or ten thousands of outgrowers frequently also take over banking functions. This is not unproblematic. Micro-banks, which also have a dynamic development in Africa, can be a great help in this respect, as we will hear in one of the presentations.

Let me finally mention the broader horizon of DEG. Over the past few years, our company has financed 30 enterprises, which work together with outgrowers all over the world, especially in Latin American countries like Argentina and Uruguay, but also in China and other Asian countries. The number of outgrowers cooperating with our clients should come up to around half a million smallholders. We have precise evaluation data on 23 of these projects co-financed by us. These companies present with an annual export performance of approximately 1,300 million euros and their annual tax payments directly contribute 33 million euros to finance the governmental budgets in deficit.

With the help of trust funds of the Federal Republic, so-called Public Private Partnership (PPP) funds and funds of the Technical Assistance (TA), DEG is additionally committed to the field of financing the cultivation of permanent cultures (rubber and palm oil) by smallholders, the certification of vegetable farmers according to EurepGAP, of cocoa farmers according to the criteria of

Rainforest Alliance or of coffee farmers in compliance with the 4c coffee codex. In this field, which increasingly proves to be a focus of our PPP and TA measures, we should have committed eight projects in Sub-Saharan Africa by the end of 2006, projects which are primarily for the benefit of smallholders.

The most ambitious of these projects is certainly the initiative “Cotton made in Africa”, where we are trying – together with the Otto Group in Germany, cotton producers from Africa, NGOs, the Federal government and GTZ – to establish a social and ecological minimum standard for the cotton used in the textile retail trade. Already yesterday, a number of today's workshop participants intensively dealt with the fine-tuning of this ambitious project. I hear that all parties involved are full of enthusiasm and that the first jackets made of “Cotton made in Africa” will be on the market already at the end of this year. This is the first project to combine classical DEG financing on the one hand and several PPP projects on the other, to one cross-border strategic project in Sub-Saharan Africa. Let us hope that the textile retail trade in Germany and Europe will carry this project along. Our friends from Burkina Faso and Zambia will report on the effects of “Cotton made in Africa” on the smallholders.

Let me finally say that I hope for interesting information and lively discussions and let me encourage all of you – despite the full programme – to take part in the discussions.

### 3 Opening Session

#### 3.1 Dr. Andreas Foerster (BMZ, Bonn): German development policy in Sub-Saharan Africa and the role of agribusiness

##### Development policy framework for Africa

	Country specific	Regional
<b>Good Governance</b>	<ul style="list-style-type: none"> <li>• Decentralization</li> <li>• Governace Reform Process</li> </ul>	<ul style="list-style-type: none"> <li>• Governace Reform Process</li> <li>• Peace &amp; Security</li> </ul>
<b>Private Sector Development</b>	<ul style="list-style-type: none"> <li>• Enabling Environment</li> <li>• Development of financial systems</li> <li>• Agribusiness</li> </ul>	
<b>Water</b>	<ul style="list-style-type: none"> <li>•Urban Water and sanitation</li> <li>•Water Ressources</li> </ul>	<ul style="list-style-type: none"> <li>•Water Ressources</li> </ul>

##### Components of our agribusiness profile

- Strengthening the bilateral portfolio on macro-, meso- and microlevel
- Harmonization of agricultural policies in the region
- Policy harmonization among donors
  - Lead in donor forum: Global donor platform for rural development, EU Forum Rural Development
  - Secondment of staff to key institutions (World Bank, AfDB)
- Agenda setting on G8 level in partnership with AU, NEPAD

#### 3.2 Prof. Dr. John Humphrey (University of Sussex, Brighton): International value-added chains taking the agricultural industry as an example - Contract Farming, Markets and Poverty Reduction

Good morning,

first of all, let me say that it is a pleasure to be able to address this workshop on contract farming, and in particular, to thank, Roger Peltzer of DEG for inviting me to attend. I look forward to the



presentations later in the day, and I am sure that I will learn a lot from them. The title of my talk is “Contract Farming, Markets and Poverty Reduction”. I have linked these three issues together because contract farming offers real opportunities for poverty reduction in some of the poorest of the developing countries. However, it is important to realise the changing reality of markets, particularly global markets, and to design strategies that take into account the realities of global competition. In doing this, I will draw upon my background as a researcher and teacher in development studies, concerned with broad questions of economic development and poverty reduction, and upon my work on value chain linkages, not only in horticulture, but also in manufacturing.

### **Agriculture and poverty reduction**

We know how important agricultural development is for the overall goal of poverty reduction:

- 40 to 60 % of the world’s poor live in rural areas
- Agricultural output and productivity growth effective in reducing poverty: Every 1% growth in agriculture is more effective in reducing poverty than a 1% increase in manufacture or services
- Known successes in non-traditional agricultural exports

### **Global market trends and implication**

**Three main trends in the global trade of agricultural and food products:**

- Vertical coordination
  - Customising to buyers’ needs: quality, delivery, processing and packaging
- Emphasis on standards
  - Increasing emphasis on process controls and certification: for food safety but also for social and environmental issues
- Increasing competition, a “buyers’ market”
  - Hence the need for product differentiation

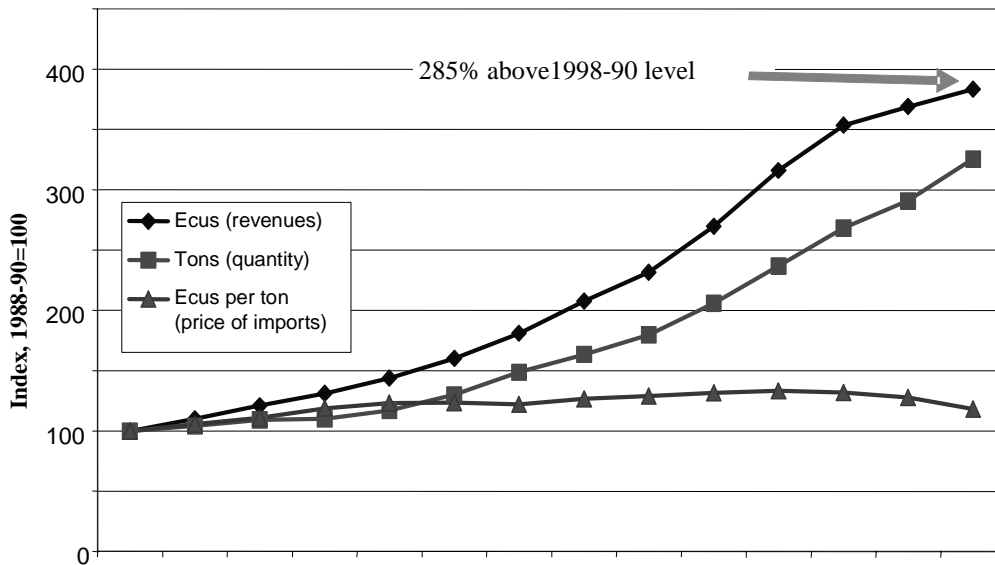
**Implication:**

- Need for control, right to the farm level
  - EurepGAP as one example
- Close linkages between farmers and exporters/processors
  - Coordination on volumes, products, quality, QMS, etc.

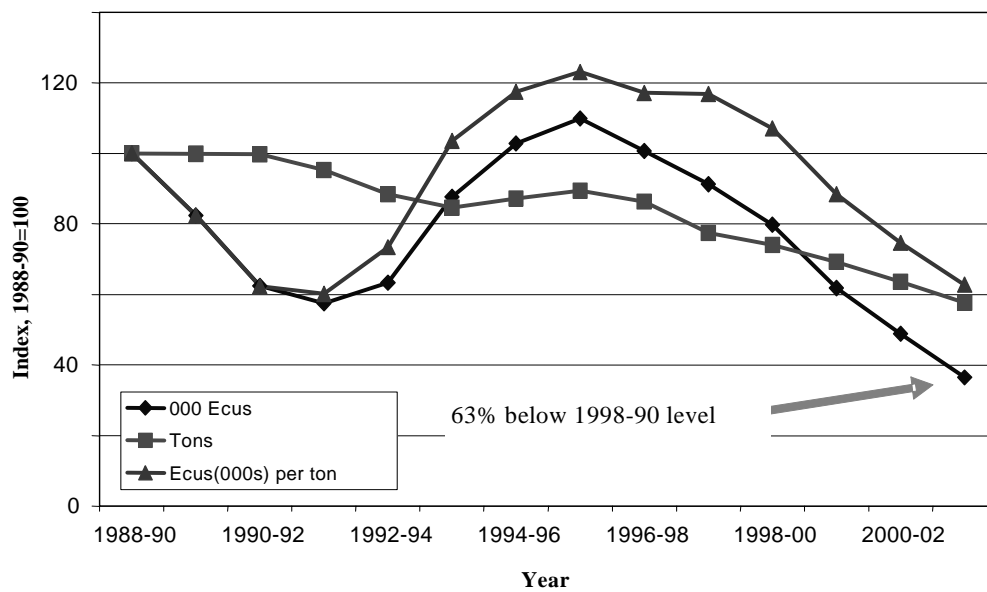
Hence, linkages and farmer organisation matter

**Opportunities in global markets:** The prospects for export-led poverty reduction depend greatly on the price and volume trends in particular markets

**Pea and Bean Exports, Africa to EU**  
**3-year Moving Average, Index 1988-90=100**



**Coffee Exports, Africa to EU**



**Benefits of outgrower schemes**

- Technology transfer
  - Interim Commission on Phytosanitary Measures (ICPM)
  - New product varieties, etc.
- Predictability of incomes, volumes and prices across the year
- Incorporation into more dynamic markets

## **Major questions**

- Who do we mobilise to support small farmer incorporation into more complex value chains?
- How to keep this incorporation sustainable as the need for control increases?
- Are there other, complementary, routes to promote the welfare of small farmers and to reduce rural poverty?
- Who promotes small farmer linkages to global markets?
  - Exporter/processors
  - Retailers/importers, marketers
  - NGOs, international donors
  - Standards-creating organisations
  - National governments
  - Coalitions of the above

## **Sustainability: the impact of process-based standards**

- Increasing use of process standards at farm level, both public and private:
  - Public standards for food of animal origin
  - Private standards, such as EurepGAP, for food of non-animal origin
  - Company standards
  - Labour standards and environmental impact also based on audit and certification
- Can outgrower schemes sustain the cost?

Another big challenge in global markets is standards. The standards environment is rapidly becoming more complex and more stringent. A clear example would be the greatly increased stringency of maximal residue levels for pesticides. Public mandatory standards and private – particular EurepGAP - both show a fundamental shift in standards from quality control through inspection and testing of products to quality assurance through the specification and monitoring of processes. This change in standards philosophy is expressed explicitly in the European food safety legislation, but equally apparent in North America. The basic principles of the European food safety regulation are:

- Food safety is a characteristic of the food production chain as a whole.
- Food safety requires risk assessment, risk management and risk communication. In other words: process controls and traceability.
- Food safety is primarily the responsibility of food business operators. They have a duty to ensure traceability and to manage risks.

## **Alternatives**

- Target on the most sustainable small farms:
  - Educated farmers, more resources
- Make standards easier to achieve
- Focus on less demanding export markets:
  - Eastern Europe, the Middle East, East Asia
- Realize potential of domestic market:
  - Respond to challenge posed by changing nature of retail
  - Broader impact on poverty

- Selectively support large farms:
  - Are small farms always better for reducing poverty than large ones?
  - Be open to support large and small farms: they may have different advantages in different circumstances

Horticultural consumption (as well as consumption of dairy products) increases with urbanisation and rising incomes. Future fast-growing markets will be therefore in Eastern Europe, the Middle East and parts of Asia, including China, which is likely to become a net importer of horticultural products.

The retail systems and trading practices of these countries are very different. Good quality products without traceability may sell very well. But there are some questions: will they see the same types of vertical coordination? Is it possible, for example, that retailers and traders will operate differently in these markets? Might looser value chain linkages develop, with greater switching of suppliers and buyers, but possibly “enhanced” and sustained by certification to provide confidence, and by the use of Information and Communication Technologies (ITCs) for traceability and for coordinating supply and demand. Even with multiple buyers and sellers there are much more codified information travelling along with the products – about the products and who produced them.

Domestic markets are often much larger than export markets, even for a successful horticultural exporter such as Kenya. This is a big issue for policy. What are the opportunities for small farmers in the domestic market, and what should policymakers be doing to support small farmers obtain higher and more stable incomes? Recent research on the expansion of supermarkets in developing countries has raised important questions. I am now fairly convinced that the penetration of supermarkets into fresh food retailing in developing countries has been exaggerated. Supermarkets are expanding total food sales, but their penetration in fresh food retailing is much less, and it is there where their impact on sourcing will be greatest. All this leads to the argument that there are many other segments of the domestic market that require the attention of policymakers. Certainly in Africa there are big problems with respect to marketing inefficiencies and power inequalities that reduce farmers’ incomes. Overall, though, the domestic market has been a little neglected because of the apparent attractiveness of export markets and the push to integrate countries into the global economy. The profits are not that big as an entry into the export market of horticulture but they may spread across a much greater number of farmers.

Finally, one has to pose the question of whether supporting large funds is not equally effective in reducing poverty. One advantage of small farming is that it can be more labour-intensive. This does not apply to horticulture. Research in Kenya shows, that the labour-intensity production is roughly the same on both, large files and small holdings. Policy should focus on ensuring good labour conditions, compliance with minimum wage legislation and reducing some of the potential hazards of wage employment, such as separating migrant workers from their families.

### **Conclusion**

- Policies for small farmers have to be sustainable in a competitive business environment
- Be realistic about the obstacles
- Look beyond existing markets
- The goal is poverty reduction: small farmer development is one important part of this broader goal

## 4 Session I: The organisation of smallholders: a condition for productivity and quality increases (certification)

Moderation: Karl Weinfurtner (DEG)

### 4.1 Ben Sekamatte (Dunavant Zambia Ltd., Zambia): Pilot Plots – a concept aimed at productivity increase for 100,000 cotton farmers (Zambia Yield Programme)

#### Company's position

Crop year	2000/1	2001/2	2002/3	2003/4	2004/5
Registered farmers	55,383	98,394	109,658	144,608	185,458
Crop purchases (Mt)	39,634	67,300	72,100	112,500	131,300
Full-time employees				773	785
Seasonal employees				1,798	2,812
Market share	53%	58%	62%	63%	66%

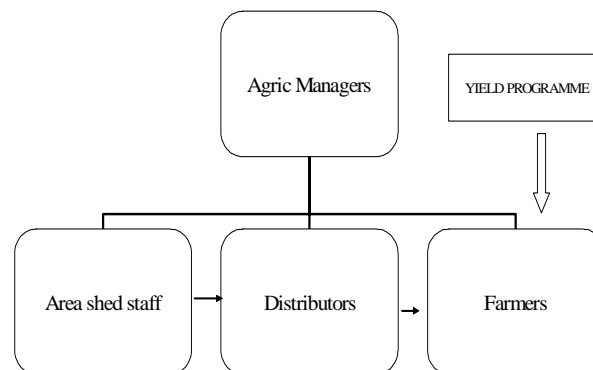
#### Stagnated smallholder yields

- Average yields of 650kg/ha
- Barely 25% of the potential for commercial varieties
- Low production efficiency

#### Farmer-friendly policies

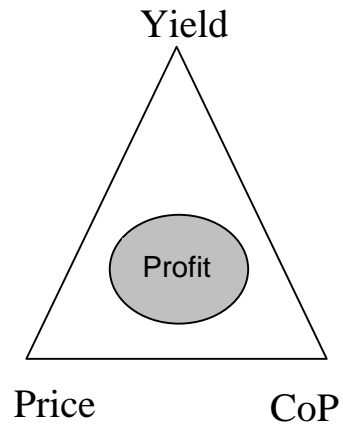
- Guaranteed pre-planting price
- Guarantee to buy all crop
- Full in-put pre-financing
- Free harvest picking & delivery bags
- Prompt cash payments for cotton delivered
- Farmer training, support & extension
- Commitment to fight HIV/Aids, through a comprehensive training programme of:
  - 3,500 community educators, 1,500 care givers, 200 civic leaders

#### Reaching the farmers



### Focus of the Yield Programme

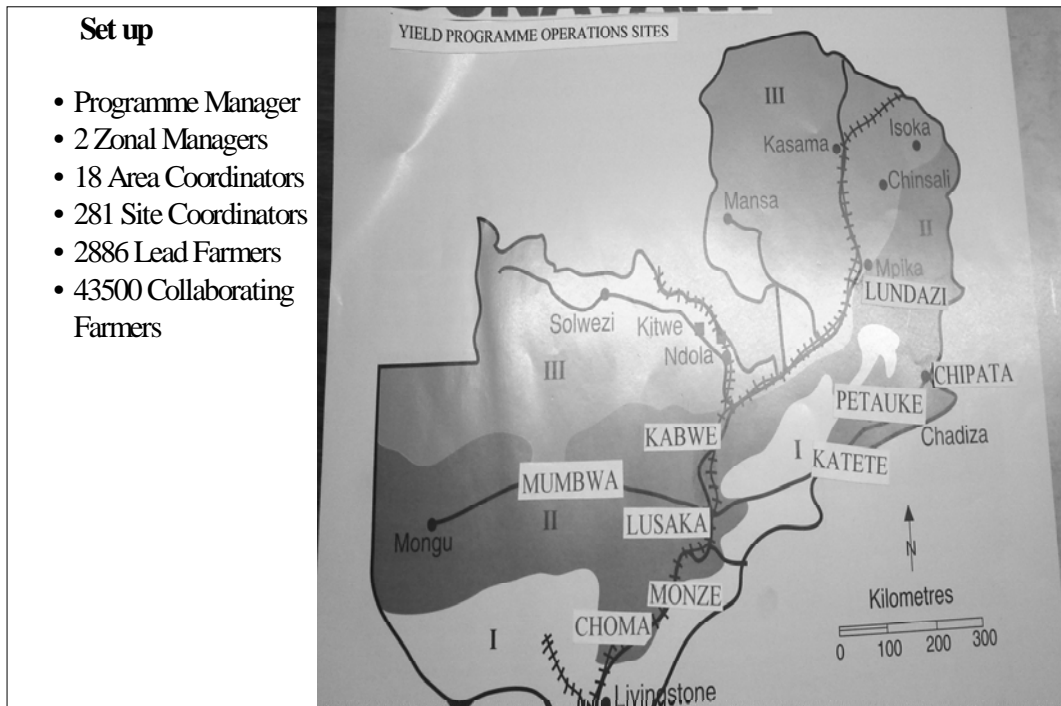
- Early and proper land Preparation
- Correct time of planting
- Correct plant population
- Keeping a weed-free crop
- Wise Pest Management
- Improve production efficiency & therefore yield
- Increase net earnings
- Improve ecological and social sustainability
- Through tailored trainings of over 100,000 farmers in two years



### Yield Programme operation sites

#### **Set up**

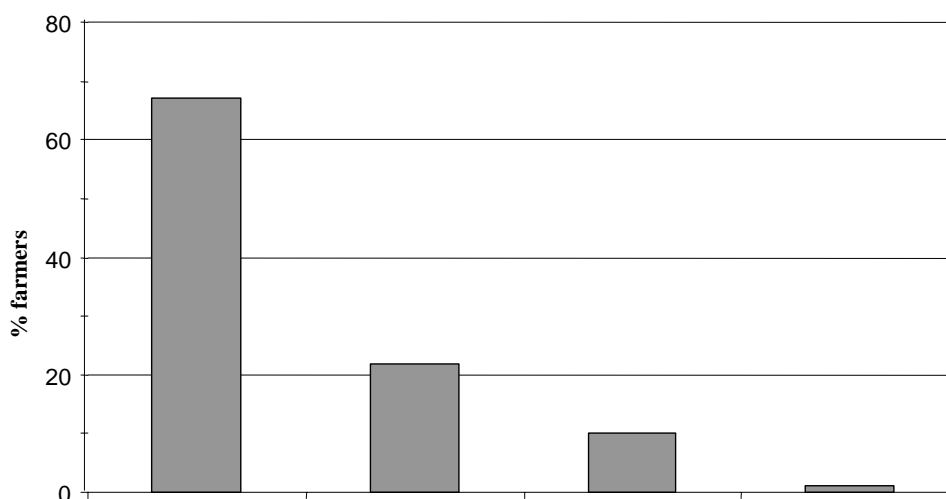
- Programme Manager
- 2 Zonal Managers
- 18 Area Coordinators
- 281 Site Coordinators
- 2886 Lead Farmers
- 43500 Collaborating Farmers



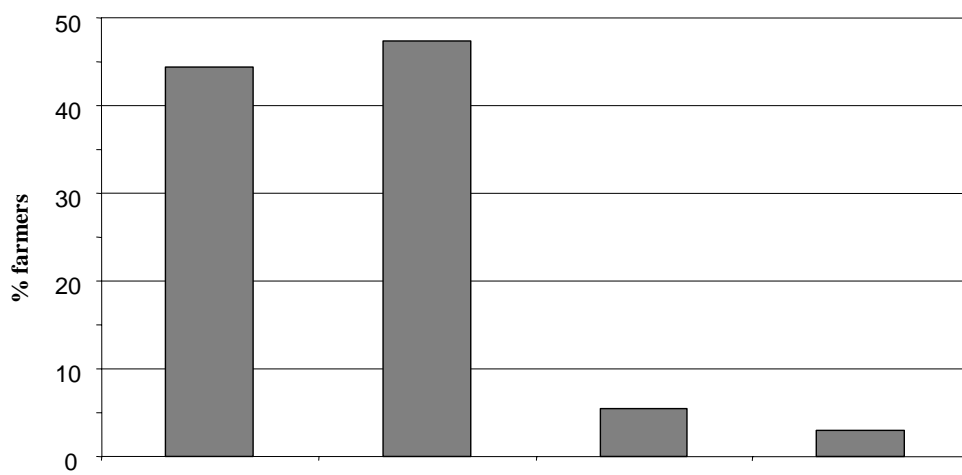
## Result Indicators PY1

Variables	Ordinary Farmer (OF)	Collabora Farmer (CF)	%increase vs OF	Lead Farmer	%increase vs OF	%increase vs CF
Seed cotton price K/kg	850	850		850		
Kwacha Exchange Rate (K / US \$)	3,100	3,100		3,100		
Yield of seed cotton (kg /ha)*	580	984	70%	1,481	155%	51%
Gross Income (K)	493,000	836,400	70%	1,258,850	155%	51%
Direct cost (K) including 5% the subsidized cost of Ulva sprayer	217,000	217,000	0%	217,000	0%	0%
Net Income / ha US \$	<b>US \$ 89</b>	<b>US \$ 200</b>	124%	<b>US \$ 336</b>	278%	68%
Income enhancement US\$		111		247		
No. Yield Farmers trained		42,900		3,146		
Allocated proportion of Program Cost Us \$		600,000		300,000		
Cost per Yield farmer US \$		14		95		
Cost Benefit ratio to Yield farmer		8		3		
* Yields are based on 829 (29%) LFs, 6006(14%) CFs & 912 OFs. All cost are on per hectare basis / farmer						

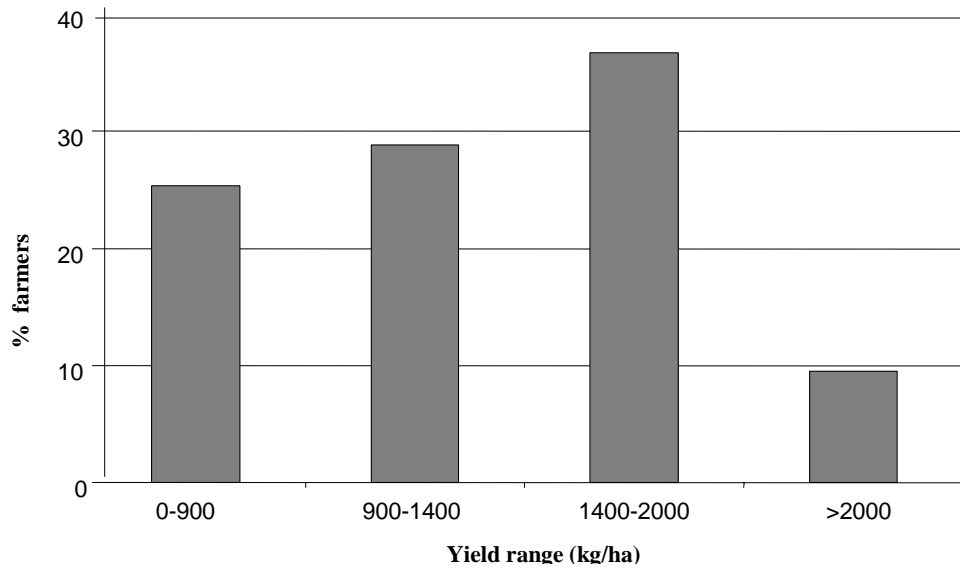
## Ordinary Farmers analysis



### Collaborating Farmers analysis



### Lead Farmers analysis



### Difficulties of dealing with large numbers of smallholder farmers

- Cost
  - Settlement patterns
  - Poor infrastructure
  - Need for large numbers of right attitude field staff
- Diverse cultural backgrounds
  - Lingual, gender and attitude problems
- Illiteracy- Ignorance
- Land tenure systems



## **Culture & Gender: Women in the Yield Programme**

Participation: -Field Days – Women 22%; Farmer Exchange Visits – Women 18%

Region	Site coordinators		Lead farmers		Collaborating Farmers	
	Total	% Females	Total	% Females	Total	% Females
<b>EAST</b>	122	13	1,119	11	16,500	26
<b>CENTRAL</b>	46	7	373	13	6750	15
<b>SOUTHERN</b>	114	6	1,119	16	17,250	22

### **‘Ignorance’, tradition versus productivity, health and environment**

- Land belongs to Chiefs – Perfect rotations may be affected by land size
- Food crops take priority at onset of rains
- Traditional intercrops-food, labor security but pre-harvest intervals?

#### **Challenge:**

- Only one in five Lead Farmers attended to his / her own cotton plot as good as he / she did on the demonstration plot

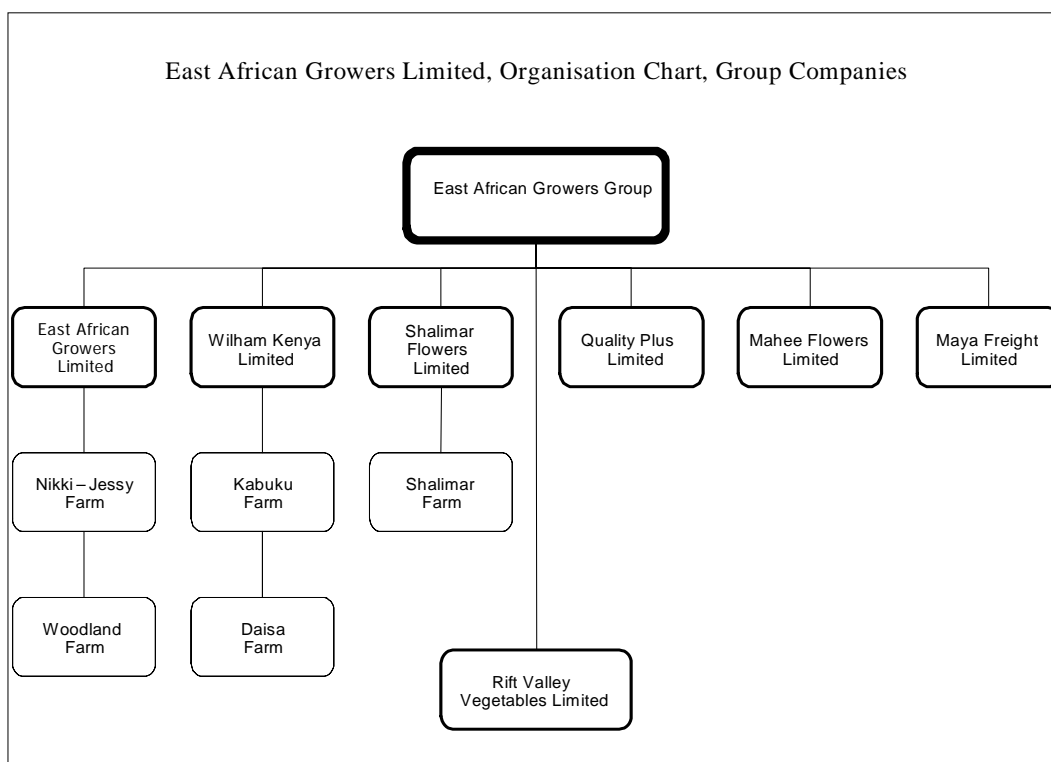
## **4.2 George Salomon (East African Growers Ltd., Kenya): The certification of vegetable farmers according to EurepGAP - a key to the development and poverty reduction of rural areas in Sub-Saharan Africa**

“A Critical look at the EurepGAP Certification of small outgrower farmers in Kenya.”

### **EAGA Group – Highlights**

#### **The EAGA group has special advantages**

- Carefully chosen farm sites to ensure total dependability of production
- Consistent high quality supply from our own farms for 52 weeks a year
- Qualified experienced professional staff
- Ecoplus farming forms the basis of our farming policies and practice
- The EAGA Group has in excess of 1,800 ha of land under cultivation spread over different climatic zones of the country, of which 750 ha are owned by the EAGA Group, and, the rest is under outgrower production totaling 5,300 smallholder farmers



### **The Group's annual turnover**

- Export in excess of 11,000 mt by air and 3,000 mt by sea (USD 40 Million)
- On a yearly basis we are increasing the tonnage by 5-7%
- Import in excess of 2,000 mt of fresh fruit annually for the local market

### **Why Outgrowers? – Strengths / Weaknesses**

#### **Strengths**

- Use 'labour-intensive' techniques - this enables them to grow crops which cannot be mechanized, such as those requiring transplanting, pruning, training and staggered harvesting, i.e. many crops grown for export
- Grow crops requiring skilled management and attention to detail
- Produce crops with lower costs
- Live in geographically dispersed farms in a wide range of climates that allow for greater continuity of supply
- Exist in large numbers with access to land that increases the supply base to the export horticulture sector

#### **Weaknesses**

- Their scattered distribution and independent decision-making increase the difficulty and cost of monitoring to ensure traceability of produce
- Have higher transaction costs because they require greater organization and coordination
- Have difficulty in obtaining technical information, advice, services and essential inputs such as credit, seeds, fertilizers, and machinery
- Have weak negotiation skills often accompanied by poor levels of education

## **Standards - EurepGAP / TNC**

### **Why standards? - Key areas of concern:**

- Food safety (Food-borne illness / chemical input / residues)
- Environmental impact (Depletion of natural resources / effects of pollution)
- Socio-economic factors (Ethical issues / legal requirements)

### **Why Good Agricultural Practice (GAP)?**

- Need for transparency – Increased traceability
- Due diligence – Adherence to food safety
- Sustainable production – Use of IPM and ICM (Integrated Pest and Crop Management)

### **Advantages**

- Production meets requirements
- Increased accessibility to markets
- Certified product purchased at a price above non-certified
- Reduces consumer risks
- Provides standards as the product is customer specific

### **Disadvantages**

- Cost of implementation and maintenance of the scheme
- Changes are required to the method of production
- Cost of the compulsory annual audit
- Added costs – no proportional increase in returns

## **Problems of certifying outgrowers in Kenya**

The EurepGAP protocol is a very expensive exercise for small-scale farmers who find it almost impossible to achieve all the requirements that it stipulates.

### **Farmer Shortcomings**

- Amorphous legal setup – Mainly self-help groups
- Poor agricultural practices – Lack of knowledge that limit them to utilize up-to-date methods of production, that would guarantee them both quality & quantity
- Lack of financial management skills
- High poverty & illiteracy levels = Broker exploitation
- Small pieces of land that do not justify the high investment required for EurepGAP
- Lack of consistent credible markets = Broker exploitation
- Low yield / production that are not sustainable due to lack of financial capability

### **Standards Shortcomings**

- Maintenance of the Quality Management System (QMS) – This details the internal control procedures e.g. hygiene
- Farmers lack the capacity to set up and maintain such a system
- Many farmers do not have access to permanent water sources, therefore, farm only for a period of 4 to 8 months a year. On resumption after a break, the whole implementation system has to start from scratch
- The amount of paperwork required is enormous. Currently, the EAGA is absorbing the cost, meaning that in her absence the system is not sustainable

- Some compliance criteria are impractical for the smallholder e.g. water & soil sampling, MRL (Maximum Residue Limit) testing are too expensive
- Exporters prefer to work with large scale farmers, thereby sidestepping the smallholder due to the large investment requirement and uncertainty that the smallholder will comply with the standard and avoid side-selling

### **Certification of outgrowers**

There are only two options for EurepGAP certification that are economically feasible for the outgrower:

- **Option I** – Certification of an individual grower (medium / large scale). Individual grower owns the EurepGAP certificate
- **Option II** – Certification of a Produce Marketing Organization (PMO), where the grower is a member of the group. The PMO (EAGA) owns the EurepGAP certificate

N/B In Option II, any non-conformance of an individual member, affects the entire group. Small-scale outgrowers are mostly suited into Option II.

#### **Option II – The certification process**

1. The PMO registers with the Certification Body (CB)
2. CB conducts a “System Audit” – Checks the efficacy of the PMO QMS
3. CB audits a sample of growers
4. CB issues EurepGAP Certificate to PMO

#### **New methodology**

- PMO conducts annual (semi-annual) internal audit of each grower
- CB “Shadow Audits”, PMO internal inspector

**Summary:** Registration and certification are done by the CB, but, inspection and audit is devolved to the PMO Internal Auditor

**Way forward:** Capacity building of the PMO Internal Audit System

#### **Cost of certification for an individual medium-scale producer / Group of 30 persons (PMO)**

	<b><u>KShs.</u></b>	<b><u>USD</u></b>
Risk assessment	50,000	667
Admin. manuals & procedures	15,000	200
Training of growers & farm staff	50,000	667
Training of Trainers (TOT) (First Aid / sprayers)	20,000	267
Facilities development	300,000	4,000
Soil, water, plant analysis, MRL	150,000	2,000
Pre-audit / corrections	75,000	1,000
Certification	<u>100,000</u>	<u>1,334</u>
<b>TOTALS</b>	<b>760,000</b>	<b>10,135</b>

### **How do we reduce costs?**

- Option II certification is the only way. To mitigate the risk of the failure of the whole PMO in case of non-conformities, the production base can be divided into several zones (regions) using a cloned QMS.
- Groups are to be formed from one locality so that the water source, soil structure & collection centre are common. This will reduce the costs of training, risk assessment, tests and audit expenses, since the collection centre will be referenced as the point of audit.

Please note that traceability will be administered through registration and coding of smallholdings as production blocks, feeding into the central point of audit, which is the central collection point.

### **Risks of certifying outgrowers**

- Side selling
- Repayment of advances for farm inputs
- Systems leakage to competitors
- Continued maintenance of the system demands investment in time and resources

### **Proposed solutions**

#### **1. Investments in training**

a) Creation of an internal audit department comprising of two sections:

- Internal auditors – to test the efficacy of the QMS,
- Trainers – to maintain the standard at ground level on a regular basis

b) Constant group dynamics training – to teach farming as a business & all its inherent aspects like book-keeping, accountability, respect for contracts, etc.

c) Industry credit pool – tripartite

- Donors and/or buyers – Cater for certification process i.e. bring the farmers to the level of certification
- Exporter – To create the QMS and contribute to the cost of maintenance of the standard
- Growers – To actively participate in maintenance of the standard

#### **2. Handhold for at least 3 years**

Empirical experience has shown that the donors (development partners) have to hold this delicate balance especially at the maintenance stage of the standards to enable a complete adoption of the standards as common practice.

#### **3. Constant monitoring & evaluation**

This allows for the adjustment dynamics to be ingrained into the maintenance phase of the standards implementation.

## **Conclusions**

- Quantum leap in agricultural production systems, in terms of both the practice itself and the increased production
- Enhanced food safety and social aspects
- Growing partnerships are being nurtured as the implementation of the EurepGAP standards demands that donors, exporters and the growers work together to implement and maintain the standard
- Due to the drive by the industry to have certified products, exporters are actively creating a “pool” of certified farmers to ensure a constant supply of the said product = Constant market

Please note that this calls for continued investment into the whole process of agricultural production. EurepGAP provides a good vehicle for this paradigm shift, as the results are tangible, visible and immediate.

### **4.3 Matthieu Vidal (Ecom Agroindustrial Corp Ltd., Switzerland): Introducing sustainable practices in cacao producing communities in Côte d'Ivoire via certification - a case study (Development of a model cooperative for sustainable cocoa farming)**

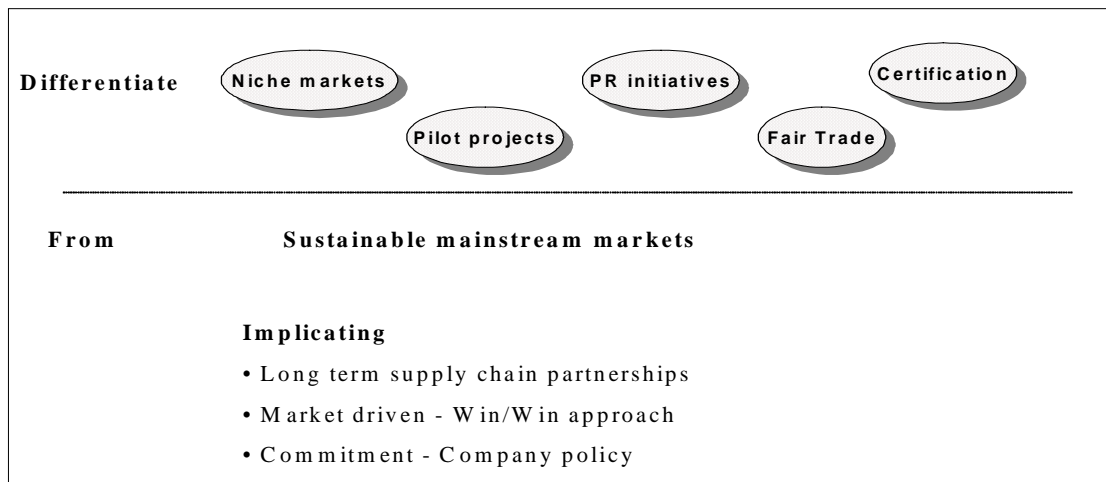
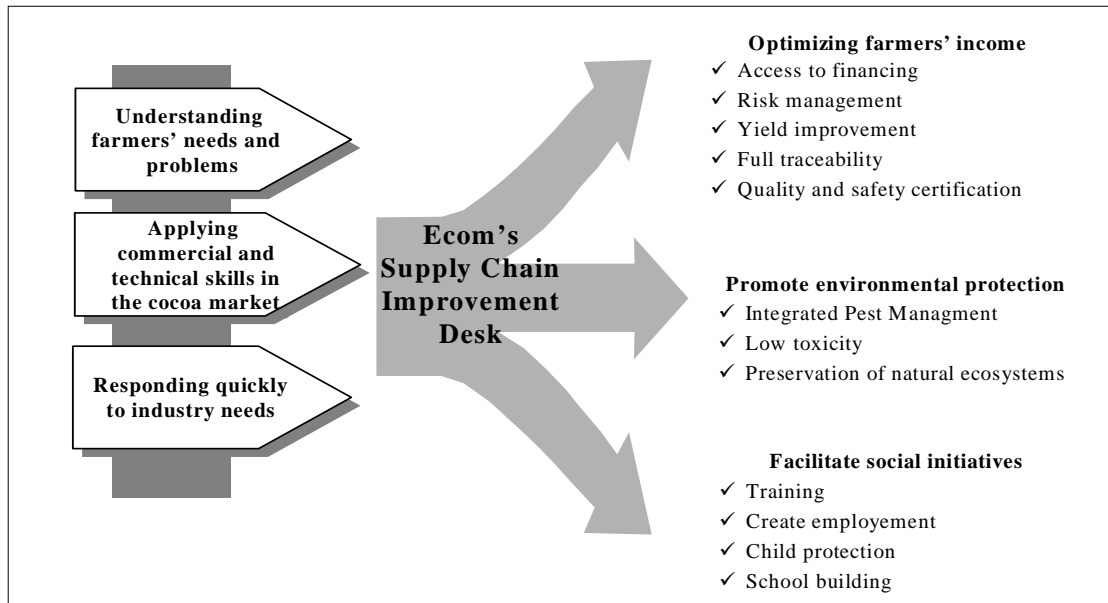
#### **Brief summary**

- Worldwide presence in cocoa, coffee and cotton producing countries
- Seventh generation family business
- Operates as a fully integrated commodity merchant and processor
- Local companies with local management
- Commodity group global 2005 turnover of US \$2 billion
- Rough numbers: 12 million bags of coffee, 2 million bales of cotton, 300 million tons of cocoa
- Ivory Coast cocoa in 2006: 100,000 mt

#### **Corporate Principles**

- Origin investment & long term relationship development
- Direct grower contact
- Supply chain accountability & responsibility
- Market driven upstream integration and innovation
- Doing good id good for business

## Supply Chain Improvement Desk



### **Project aim**

Improve living conditions of small cocoa producers in the Ivory Coast by implementing a comprehensive model of sustainable cocoa farming that is certified by Rainforest Alliance standards.

## Ecom / DEG Project Development of a model cooperative for sustainable cocoa farming



### **Beneficiaries**

- 1,500 small cocoa farmers
- Members of 4 cooperatives: CAT , ECAM, COOPAGRO and CAKD
- Bas Sassandra and Daloa region – West Ivory Coast

### **Main challenges**

- Bagging upcountry at cooperative base
- Registering all farmer data & deliveries on CERTAC
- Training of Trainers – Capacity building at farm level
- Demonstration sites
- Obtain Rainforest Alliance certification for at least 200 farmers

### **Problems / Risk factors**

- Applicability of Rainforest Alliance standards to small cocoa farmers in Africa
- Adoption by farmers of Best Management Practice (BMP) may not bring an immediate increase in revenue
- High price volatility of the cocoa market may offset possible gains in revenue obtain through increases in yield and earned premiums
- Difficulty in follow-up project implementation in plantations due to remoteness of access during the rainy season



## **5 Session II: Safety of food supply, compliance with contracts and power of negotiations**

Moderation: Christiane Rudolph

### **5.1 Douda Traore (FASO COTON, Burkina Faso): The contribution of cash-crop cotton to secure food supplies in Burkina Faso**

#### **Présentation de FASO COTON**

- Évolutions institutionnelles de la filière coton du Burkina
- Création en septembre 2004 de deux nouvelles sociétés cotonnières (SOCOMA et FASO COTON) au côté de la SOFITEX (Société des Fibres et Textiles du Burkina)
- FASO COTON, zone centre du pays
- Société privée; avec un capital de trois milliards trois cent millions (3 300 000 000) de francs CFA réparti comme suit:

PAUL REINHART: 31%; IVOIRE COTON: 29%; SOBA(Société Barro et Frères): 20%; AME-FERT (Amendement et Fertilisant): 10%; UNPCB (L'union Nationale des Producteurs de Coton du Burkina Faso): 10%

FASO COTON est administrée par un Conseil d'Administration (CA) composé de neuf administrateurs et un Comité de Direction (CODIR).

Composition du CODIR:

- un Directeur Général, un Directeur Général Adjoint, un Directeur Administratif & Financier, un Directeur de la Production Agricole, un Directeur Régional, un Chef d'usine et un Chef de service Organisation Budget et Contrôle Gestion
- Zones Cotonnières: Zorgho, Tenkodogo, Manga, Pô, Kombissiri
- Capacité d'égrenage : trente mille tonnes (30,000 t).

Objectifs:

- L'amélioration du revenu net du producteur par l'augmentation de la productivité
- L'augmentation rapide de la production par le développement de la culture attelée, la conquête de nouvelles zones de culture et un conseil agricole efficient
- L'atteinte de 45 000 tonnes de coton graine pour la campagne 2006/2007

#### **Système d'encadrement de FASO COTON**

- La zone cotonnière est une unité d'encadrement direct des Groupements de Producteurs de Coton (GPC)
- Chaque zone est sous la responsabilité d'un Chef de zone
- Chaque zone est découpée en sections (unités d'encadrement plus rapprochées des producteurs)

Des Techniciens Spécialisés appuient le Chef de zone. Il s'agit entre autres:

**Observateur Milieu Paysan (OMP):** Chargé de la mise en place des tests de recherche et développement auprès des producteurs

**Observateur Poste d'Observation:** En liaison avec la recherche, il réalise les essais inscrits dans les protocoles sur les postes d'observation

**Technicien Association Agriculture /Elevage:** Il est chargé du suivi sanitaire des bœufs de culture attelée, de la formation des paysans sur le matériel de culture attelée, de la mise en place du matériel de culture attelée

## **Les producteurs et leur organisation**

### **Fonctions principales:**

- Distribution des intrants
- Gestion des crédits court et moyen terme (octroi et récupération)
- L'organisation de la collecte et la commercialisation du coton graine de leurs membres (pesées coton et paiement, etc.)
- Et d'autres activités connexes telles que la gestion des cotisations des membres et les activités à caractère socio-économique, etc.

## **Approvisionnement en intrants et crédits**

### **Acquisition des intrants:**

Elle est assurée par FASO COTON sur la base des besoins exprimés par les producteurs.

### **Mise en place des intrants et du crédit:**

Elle est faite par FASO COTON aux producteurs à crédit par la BACB (Banque Nationale de Développement Agricole) et UCEC/Z (l'Union des Coopératives d'Épargne et de Crédit du Burkina). La récupération directe sur les recettes cotonnières.

## **Relations entre la production cotonnière et céréalière**

- Forte corrélation entre la hausse de la production cotonnière et céréalière
- La succession maïs/coton est bénéfique à la fertilité du sol
- L'engrais utilisé pour le coton permet d'améliorer la production du maïs cultivé dans les champs de coton l'année suivante
- Le coton a contribué à réduire la pauvreté
- Les engrais acquis grâce à des crédits garantis par la livraison de coton graine ont permis de produire beaucoup plus de maïs et donc d'améliorer la sécurité alimentaire
- L'influx de revenus monétaires provenant de la vente de coton graine a eu un effet d'entraînement dans l'ensemble du bassin cotonnier
- La culture du coton joue un rôle déterminant au niveau des systèmes agricoles
- Le coton a contribué à l'émergence d'une culture mixte, à savoir du mil, du sorgho et, depuis une vingtaine d'années, du maïs
- Le maïs est devenu la culture dont on sait qu'elle permet d'obtenir les meilleurs résultats si elle est associée à celle du coton

## **Expérience de FASO COTON dans la promotion de la culture du maïs**

- La culture du maïs en rotation avec le coton est très récente dans la zone FASO COTON
- Le maïs a toujours été cultivé en champ de case
- Le sorgho a longtemps été cultivé seul sans apport d'engrais (500 à 700 kg)
- Pour garantir la sécurité alimentaire, FASO COTON en collaboration avec la recherche a entrepris depuis deux campagnes la promotion de la culture du maïs
- Les rendements obtenus au cours de la campagne 2005/2006 varient de 1 600 kg à 2 300 kg
- Introduction de quatre variétés de maïs (KEB, ESPOIR, KPI, MASSONGO) en fonction des conditions agro climatiques. La durée du cycle des variétés vulgarisées est de 70 à 90 jours
- Le maïs a été retenu en vulgarisation, à cause des rendements plus élevés que le sorgho
- Pour cette campagne 2006/2007 il a été mis en place sur des parcelles expérimentales les systèmes de rotation suivante:
  - coton – maïs – sorgho
  - niébé – coton – maïs
- Le niébé est une légumineuse, a été retenu dans le système de rotation pour l'azote qu'elle produit qui est bénéfique pour le sol

## **Système de commercialisation des autres produits**

- Achat du coton graine d'abord organisé au niveau du village par les groupements de producteurs de coton.
- Le coton est ensuite évacué à l'usine; les producteurs perçoivent les recettes par le biais de FASO COTON ou les institutions bancaires après déduction du crédit.
- Pour les autres produits (maïs, sorgho, niébé, arachide), il n'existe pas de filière de commercialisation organisée. Les prix ne sont pas fixes et varient en fonction de l'offre et de la demande.

## **Les points forts et points faibles de la filière coton**

### **Les points forts**

- Bonne collaboration entre la recherche cotonnière et les sociétés cotonnières, matérialisée par le financement de celle-ci par les sociétés cotonnières et des résultats de recherche probants
- Et les institutions de financement, nationaux et internationaux qui ne cessent de renouveler chaque année leur disponibilité à financer les différentes opérations de la filière
- Les relations de confiance entre les sociétés cotonnières et leurs partenaires en particulier: Les producteurs qui se sentent suffisamment impliqués dans la gestion de la filière et se sont appropriés l'entreprise comme leur outil de travail

### **Les points faibles**

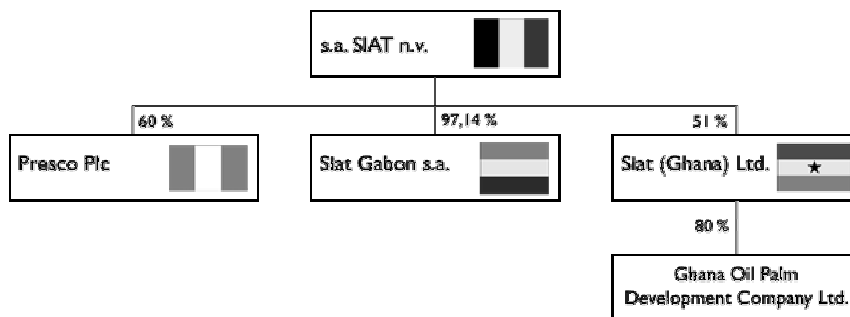
Parmi les nombreux défis à relever, on peut citer sans être exhaustif:

- L'enclavement des zones de production (état de défectuosité et insuffisance pistes rurales...) engendrant des coûts de transport élevés
- Le faible niveau d'équipement en matériel agricole qui ne permet pas aux producteurs de faire face aux difficultés d'installation de la campagne liées à la péjoration du climat, de même que le faible niveau de mécanisation des activités agricoles

- Insuffisance des infrastructures villageoises (magasins, silos, centre de formation, etc.)
- Le faible taux d’alphabétisation des producteurs et leur faible capacité opérationnelle à gérer certaines fonctions qui leur sont dévolues
- Le contrôle de plus en plus difficile de certains ravageurs par suite d’apparition de phénomène de résistance aux pyréthriinoïdes (insecticides)
- La question de la gestion de la fertilité des sols et de celle de la sécurité foncière
- A baisse prévisible des revenus des producteurs si la situation du marché mondial ne s’améliorait pas à court terme

## 5.2 Gerd Vandermissen (GOPDC Ltd., Ghana): Incentive and control – concepts to warrant compliance with contracts with 5,000 palm oil farmers in Ghana

### SIAT Group of companies



SIAT: Société d’Investissement pour l’Agriculture Tropicale

#### **Presco Plc Nigeria**

- 60 % owned by SIAT, 40 % on Lagos Stock Exchange
- 9,000 ha of industrial oil palm plantings
- Mill capacity 25 mt/hour
- Palm kernel crush of 40 mt/day
- Refinery/fractionation 75 mt/day
- First agricultural company in Nigeria

#### **SIAT Gabon**

- 97 % owned by SIAT
- Oil palm, rubber and ranching
- 8,000 ha of oil palm with mill, refinery, fractionation plant and soap factory
- 8,000 ha of rubber plantations + 2,500 ha of outgrowers
- Ranch of 100,000 ha to herd 20,000 heads

#### **GOPDC, Ghana**

- 80 % Siat Ghana, 20 % GoG (Government)
- Siat Ghana = 51% SIAT, 30% SSNIT (Social Security & National Insurance Trust), 19% ATMF (African Tiger Mutual Fund)
- 6,000 ha of National Extension Systems (NES), 14,000 ha of outgrowers
- First organic plantation in Africa
- Mill capacity 60 mt/hour
- Palm kernel crush 60 mt/day
- Refinery/fractionation 100 mt/day

## Details

- 7,000 smallholders and outgrowers occupying 14,000 ha originally funded by World Bank
- Smallholder has planted on company owned land
- Outgrower is landlord or tenant
- Scheme started in 1979 with three farmers, now with 7,000 and still more want to join

## Loan scheme

- 7 years grace period, 12 years repayment period
- GOPDC supplies high yielding seedlings
- GOPDC supplies fertilizer on credit (two years)
- GOPDC delivers know how and follow-up
- GOPDC does phytosanitary follow-up
- GOPDC pays farm gate and picks the Fresh Fruit Bunches (FFB) farm gate

## Outgrowers: luck or burden?

- When SIAT took over, it was estimated that GOPDC outgrowers (OG) only delivered 50 % of their potential, the rest was sold on the “Black Market”
- OG GOPDC: 5.6 mt of FFB per ha
- NES GOPDC : 14.6 mt of FFB per ha



**DIVERSION**

## Reasons and solutions for the problem

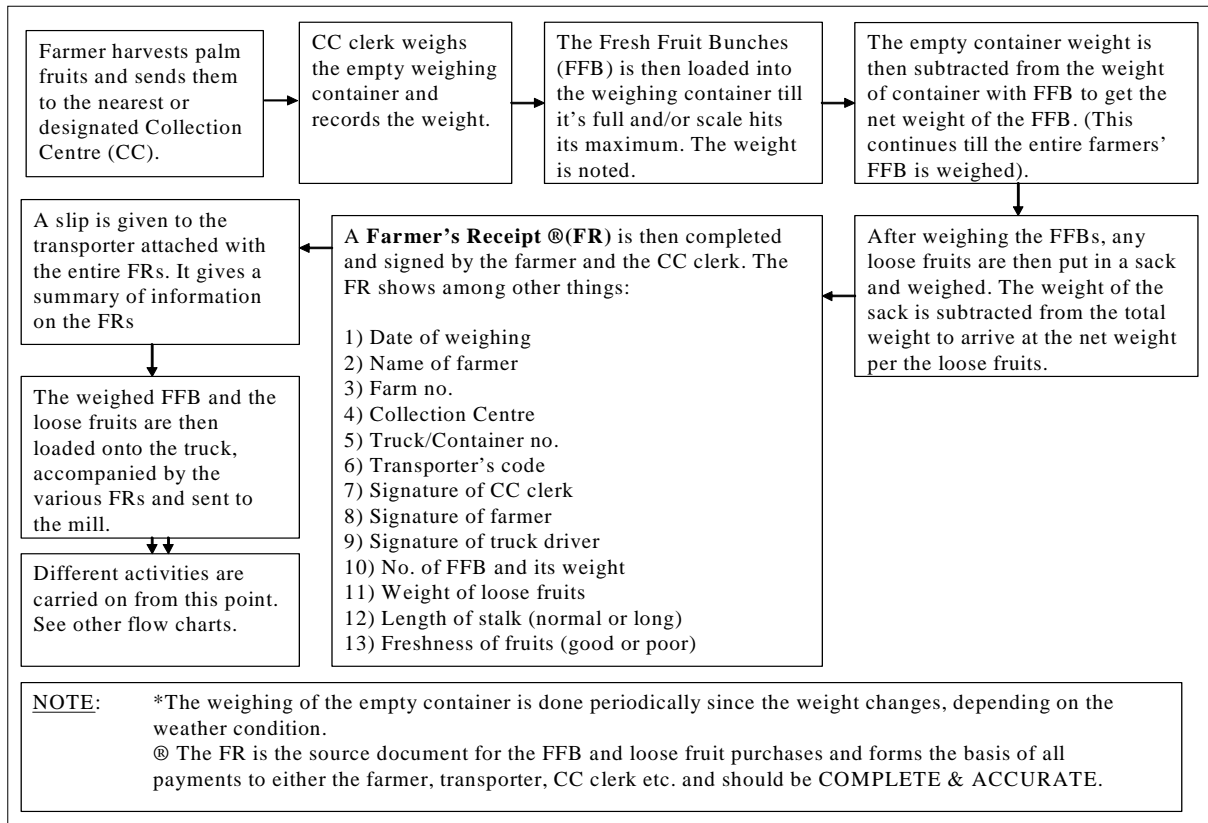
### **Reasons:**

- Delays in payment ↔ Spot cash
- Conflict landlord, tenant
- Bad follow-up GOPDC
- Low processing capacity GOPDC
- Corruption
- Bad road network
- Ghost farms

### **Solutions:**

- Self study: analyse your problems
- Mapping of all the farms: inventory
- Signing of contracts – Review loan terms
- Improve infrastructure
  - Payment
  - Road network
  - Collection system
- Improve prices
- Contract enforcement: legal department

## Self Study



## Range of activities

### Mapping of farms

**Signing of contracts:** Renewed contracts, tripartite agreements between landlord, tenant and company. Computerised administration new loan terms

### Improve infrastructure

- GOPDC payment system: 2 days
- Maintenance of 400 km of roads, culverts
- Reliable collection system

### Improve Prices

- FFB Price is the bottom line – World market price for crude palm oil (CPO) CIF Rotterdam
- Fair Trade
- Organic (National Organic Programme (NOP), EEC 2092/91, Kosher)
- Round table on sustainable palm oil
- Value addition: Refining/Fractionation
- Clear pricing formula: Backpay
- Bonus

## **Legal Department**

- Contract enforcement
- Legal officer permanently employed
- 600 OG had never delivered fruit
- Now 150
- 300 cases at court
- Warning letters, documented
- Yearly targets, close follow

## **Results**

- Estimated 65 % production of OG comes now to GOPDC
- Still diversion mainly in lean season
- The imbalance in ha status NES – OG is gradually being adjusted
- Ready market and swift payment is really appreciated by the farmer
- 650 ha planted with OG every year
- Still a long way to go ...

## **Conclusion**

- GOPDC cannot live without its farmers and the farmers cannot live without GOPDC
- Commitment to continued improvement and flexibility
- Support from government to enforce the contracts
- Combination of NES with OG is a must
- Soft long-term loans for companies committed to development

### **5.3 Dr. Michael Brüntrup (DIE, Bonn): The relations between farmers and agroindustry – chances and risks**

Ladies and gentlemen,

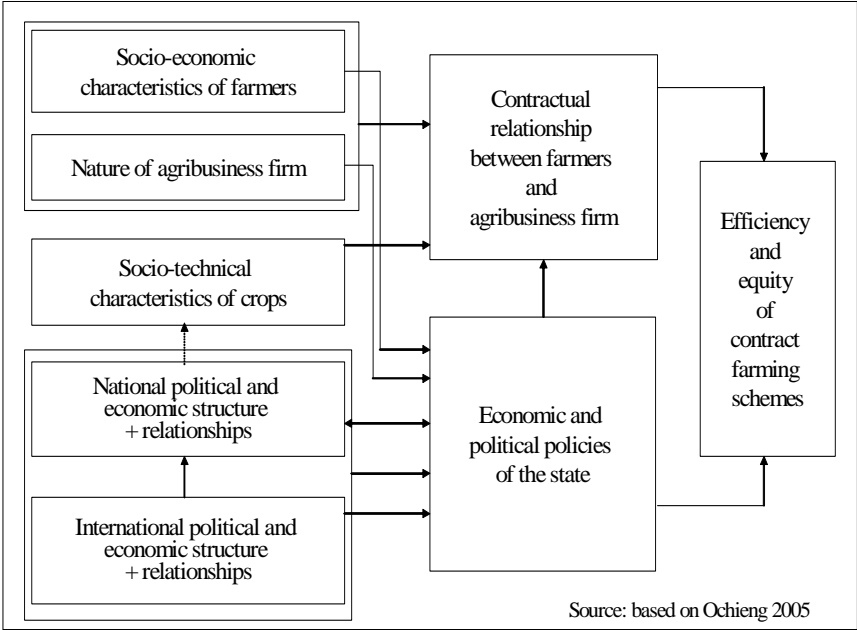
it is an honour and at the same time a real challenge for me to present in the next 15 minutes some thoughts on contract farming to this exclusive set of people who know certainly more of the operational threats - and solutions - to contract farming than I do. My personal experience with contract farming dates basically from a long time of studying cotton production and policy in Benin, and from many years as a private consultant on microfinance which repeatedly confronted me with specific situations of contract farming. In addition, I have performed a literature review on that subject in the last few weeks.

What I will present you is a kind of synopsis of chances and risks of contract farming, and what development policy could do to increase chances and reduce risks. If I would be asked what is the value added of this presentation compared to the many much more profound case studies that we hear during this workshop, I would answer that it is a view of contract farming as embedded into its economic and political environment. It is this conjunction that will allow me to draw conclusions

not only on how to improve the developmental impacts of individual contract schemes, but to ask how agricultural development policies can support these impacts.

I start with a point of view which is certainly shared by most people in this room, but maybe not by the whole development community: An existing and operational contract between an agribusiness firm and farmers is sufficient prove that the arrangement is beneficial for both – under the existing conditions. I have to admit that I cannot prove this statement, but I have some strong logical arguments to support it. It stipulates that by the contractual relation between both sides of the contract, their joint position (against other competitors on the market) is better than their individual positions – there is a win-win situation. If not, none of them would agree on it in a coercion free situation. This approach takes farmers’ decisions serious. However, this presumption does not neglect that benefit distribution could be even more in favour of farmers. To underline that, the last words «under the existing conditions» is particularly important, since it opens the eye for the fact that the conditions around a contract constitute a major determinant for what contracts a farmer agrees to accept, i.e. the distribution of advantages. Let me go a little bit deeper into this issue, it is important for my conclusions.

**The embeddedness of contract farming**



As I mentioned, I see contract farming not as the isolated result of negotiations between growers and agribusiness, probably shaped by the special characteristics of the crop in question, such as the quality spread, storage and transport characteristics and facilities that may even lead to more or less «natural» monopolies. The contractual relationship is very much depending on the economic and political

policies of the state, which in turn are shaped by the political and economic basic structures at the national and also international level. The actors of contract farming are not strange to that arena, they intervene and try to influence the policies as far as they can. Since in contract farming in SSA some of the actors are very influential, and the case studies of this workshop show that, their influence can be considerable. It is this combination of actor characteristics and policies that largely determine the contractual arrangement and thereby the efficiency and the equity - the distributional outcome – of a contract farming scheme. Of course, random factors such as external shocks make the system more complex and unpredictable.



## **The matrix of chances and risks of contract farming**

In the following, I have assembled the chances and risks of contract farming according to the main actors. I have added farmer groups as a separate category of actors since I see them as an extremely important element of contract farming, though during my literature review I have come to know that not all contract farming in SSA is done via groups, some agro-businesses seem to deal directly with individual farmers

	<b>Chances</b>	<b>Risks</b>
<b>Agribusinesses</b>		
<b>Farmers</b>		
<b>Farmer organisations</b>		

despite the large costs associated with that. But farmer organisations are more than just a vehicle for facilitating contract farming, they can serve many more services for farmers, and often the contract farming groups are multipurpose. It is a direct result of the chances that result for farmer organisations from contract farming as I will argue later, but the risks should not be overlooked.

I want to go through these risks and chances quickly since most of them are well illustrated in case studies of the workshop.

## **Chances and risks for agribusinesses through contract farming**

### **Chances:**

- Overcoming institutional problems (land rights..)
- Reducing search costs
- Getting products according to specific standards
- Getting continuous supply
- Reducing fixed costs (land, machinery, installations) and exploiting them better
- Reducing control costs (labour)
- Increasing flexibility & exit options
- Increasing political support by associating farmers
- Gaining rents (asymmetric power)

### **Risks:**

- Higher investments compared to anonymous market-based procurement (if available)
- Higher coordination/management skills needed
- Unreliability of farmers' output (amount, quality)
- Risk of input/credit/investment losses and lower capacity use

I start with the chances of agro-business firms which are the drivers of contract farming. By not producing themselves on plantations but through contract farmers, they search for one, several or all of these advantages.

The risks or disadvantages of contract farming for agro-business are, however, non negligible. Compared to anonymous market-based procurement, it is much more expensive. However, as said, it is the absence or weakness of such markets, which is the very reason for contract farming. Going into contract farming requires not only higher costs but also skills that are not necessarily «natural»

for an agro-business firm – dealing with large numbers of people with strong intercultural differences and typically low formal education, mostly not accustomed to formal contracts. The unreliability of farmer output has already been mentioned as a major problem of contract farming. This results in risk of losses due to lower produce, idle transformation capacity and loss of inputs or credit often associated with contract farming.

### **Chances for agribusinesses through contract farming with farmer groups**

- Reducing transaction costs
- Using peer group pressure for contract enforcement
- Transferring partial supply management to groups

Not working with individual farmers but with groups provides some additional advantages, the most important of which I assume is reducing transaction costs. But also the others may be important. For instance peer group pressure to enforce the fulfilment of contracts by farmers may be very valuable given the frequent non-compliance of African farmers to deliver their products, for example because they can get a better price somewhere else or to avoid repaying a credit. The reasons for that behaviour are multifaceted - I won't go into these issues here. In an environment where legal ways to enforce contracts are extremely difficult, pressure from peers may be an additional powerful mechanism to secure them, as the history of microfinance has shown which amply uses peer groups.

### **Chances and risks for farmers through contract farming**

#### **Chances:**

- Overcoming market access constraints
- Overcoming knowledge constraints
- Overcoming capital constraints (direct by input supply, by credits or by contracts as warranty)
- Overcoming input supply constraints
- Marketing and price risk reduction, stabilising income
- Continuous payments
- General infrastructure investments
- Gaining one-time by non-repayment of inputs and credit (fraud)

#### **Risks:**

- Disadvantageous conditions
- Dependency (contract market segments, specialised output channel, agribusiness firm) and vulnerability to variations
- Dependency on contract-dependent inputs & credits
- Underdevelopment of non-contract related input, capital and output markets
- Rigidities of contracts hamper other developments
- Neglect of subsistence farming while food markets and other coping mechanisms are not (yet) secure

The chances for farmers through contract farming are numerous and mostly very important, given the highly imperfect nature of the economic environment for inputs, outputs and information. The last chance is obviously not in the sense of long-term contract fulfilment, but nevertheless seems to be quite frequent. I want to highlight that positive effects occur not only in the contract crop, but frequent spill-over to other crops including subsistence crops, the whole farming system, farm-households and even village economy are observed. All in all, I think that particularly in SSA the

options provided through contract farming are very important, and outweigh by far the risks. However, there are risks and they have to be mentioned.

The most prominent risk is probably that farmers have to accept disadvantageous conditions, since they are in a weak bargaining position and have less information, knowledge and formal skills than their business partners. This inequality is not restricted to contract farming but to most operations of farmers with the larger business world. This perception is not even particular to developing countries, also in the industrialised countries the awareness of unequal positions between farmers and agro-business is a very old one and has given birth to numerous attempts to improve their position, such as support for cooperatives, legal options, extension services etc. I will come back to these measures in my recommendations. The other risks of contract farming for farmers stem from the dependencies that the contracts constitute: dependency on the contract market segments, which very often is a specialised output channel and relies on one agribusiness firm, exposes farmers to variations and vulnerability of these very specific factors. In addition, farmers remain dependent on contract-dependent inputs & credit. As they rely on those sources, there will be underdevelopment of non-contract related input, capital and output markets. Also rigidities of contracts may hamper other developments on the farm, for instance by imposing rules on farm management, interdiction of pesticide use etc.

In the 1980s, there was a large debate about the neglect of subsistence farming through cash crops including contract farming. I have indeed come across situations where this happened. But usually farmers are - correctly – reluctant to really give up subsistence in the short and medium run and to rely on cash income and food purchases for food security. We have to remember that the risk of the farmer is, in the extreme case, the existence of his family! So, in reality this risk may be overestimated due to the - prudent - risk-averse behaviour of most farmers. In many instances they are even able to increase their food production parallel to cash crops due to spill-over through higher income, skills and technology.

Structural dependency of farmers can be extended to villages and even regions and create strong adjustment handicaps in face of crises. This has to be weighted against gains of specialisation. Risks of specialisation are much more acceptable with insurance (crop insurance, natural or cash savings, credit, social network, unemployment or income insurance) and in a diversified environment (household, extended family, village, region).

### **Chances and risks for farmer groups through contract farming**

#### **Chances:**

- Lowering system transaction costs, probably capturing some of the gains
- Real and direct value added for members by offering access to contracts
- Fees/incomes strengthen group empowerment
- Professionalisation
  - gaining credibility
  - defending interests
  - developing other activities

#### **Risks:**

- Material orientation stresses internal solidarity
- Material orientation may constrain non-commercial (e.g. political) activities
- Peer control stresses internal solidarity

As said, many contract farming schemes work through farmer groups. By lowering transaction costs, farmers are often able to obtain a share of the corresponding efficiency gains, either in form of better prices or service fees for groups. Even more important, the real value added for their members, by offering access to contracts, makes such groups highly attractive compared to solidarity or political pressure groups where the outcome is often less obvious. The fees that the groups often receive for their services strengthen the groups internally and often even entire communities. And by being forced to deal with partners, contract fulfilment, logistics, statistics, money etc., they are professionalised. These skills can be used in many other fields, such as gaining credibility for other tasks, defending general interests, developing other activities.

Though the existence and perdurance of many farmer groups around cash crops and contract farming shows that the advantages are considerable, some risks are worth explicit mention: Weakening internal solidarity and neglecting activities not related to existing contracts. Since internal solidarity and non-commercial activities are important in themselves and for using farmers groups as a vehicle for empowerment, broader development and creating alternatives, these risks should be taken serious.

### **Recommendations for contract farming partners**

- Fairness pays in the long run
- Careful design of contracts (and farmer groups) according to characteristics of crops, contract, characteristics of farmer (groups) and environment
- Clear rules (prices, standards, rejection, procedures..) and transparency increase (the feeling of) fairness
- Neutral arbitration mechanisms
- Build-in adoption procedures
- A certain level of diversification as insurance for farmers is good for both contract partners

This **first set of recommendations** concerns the partners of contract farming and their design. Since most of you are professionals of contract farming I will not go further into details, rather I think I can earn additional insights from you.

### **Recommendations for policy/donors in supporting contract farming environment**

- Support contract farming as a quick punctual fix to imperfect markets and high transaction costs in developing countries
- Create various and appropriate legal forms (cooperatives, Groupement d'intérêt économique (GIE), ..) for farmer groups
- Support independent and professional advice service for farmer groups and contract farming
- Support functional education around farmer organisation operations including contract farming
- Support external and internal contract enforcement mechanisms
- Careful design of subsector policies
- Careful design of competition laws in agriculture

This **second set of recommendations** concerns the immediate environment of contract farming: The recommendation for the creation of various and appropriate legal forms stems from the fact that cooperatives, which previously were the dominant farmer organisations in SSA, are sometimes not the most appropriate organisations for contract farming. In several countries cooperatives have lost credibility when they acted as quasi-governmental monopolists. Sometimes they are too big or heavily politicized, sometimes they still enjoy inappropriate territorial or sectoral monopolies. Giving farmers more alternatives to form small, flexible entities with enough legal substance to handle credits, facilitates the creation of new operative farmer organisations. Appropriate tax treatment has to be taken care of. Several experiences show that the commercial activities are a good starting point to provide informal functional education to farmers. This serves not only better contract fulfilment but also the internal control of farmer groups, thus better and more democratic organisations.

Though many contract farming schemes provide extension, a certain independent advice structure is certainly worthwhile, particularly for strengthening internal management and bargaining skills of farmer organisations. This requires expensive, highly educated and specialised extension agents, but they could charge service fees for these commercial-oriented activities.

Contract enforcement is a major problem in most developing countries! Legal contract enforcement mechanisms can be economic laws, arbitration rules and institutions, courts, administration and police support. The stronger the regular external mechanism, the less need to use groups as enforcement vehicles. However, in practice of developing countries, particularly in SSA, low enforcement will be the standard for a long time to come. Therefore, internal (farmer group) enforcement mechanisms will have to play a major role. Some general rules to strengthen them are clear contracts (not necessarily written, as some case studies have shown), transparency, small, self-eligible groups, defined arbitration rules etc. Experience from the microfinance industry can certainly be of value. Specific experiences and case studies according to crop, partners and contract characteristics make individual fine-tuning necessary.

Careful design of subsector policies means that they should be consistent with contract farming schemes if these play a major role in the subsector. For instance, contract farming should be allowed to establish an independent price mechanism and not be forced to pay policy-determined prices or interest rates. Sector organisations such as interprofessional agencies which are entitled to impose sectoral rules should have enough power, but democratic and minority roles should be carefully defined, implemented and monitored.

In agriculture, cooperatives and sector organisations often had or still have far-going power to restrict competition. These powers, meant to enhance the position of farmers' vis-à-vis trade and industry, have to be carefully balanced against the efficiency-depressing effects of a lack of competition. Even if farmer representatives may oppose this view, competition by the private sector should not be restricted unless very good reasons plea for it.

### **Recommendations for policy/donors in supporting alternative market development for farmers**

- Support alternatives for farmers!
  - In backward markets: credit and inputs
  - In institutions: cooperatives and private firms
  - In forward markets: – alternative products and competition, with a view of risk diversion

This **third set of recommendations** concerns the longer term development which should try to fix some of the reasons why contract farming is so interesting for farmers in developing countries: the imperfection of markets. So in the longer run policy should try to develop competitive markets.




Providing farmers with alternatives means strengthening their bargaining position. It does probably also mean that some contracts will no longer be necessary since the advantages of anonymous markets allow to loosen the relation between agro-industry and farmers in their mutual interest. However, already the history of industrial countries shows that there remain market niches where contract farming will persist or even grow.

## 6 Session III: Financing permanent cultures for smallholders taking palm oil and rubber as an example / Export financing of a coffee cooperative

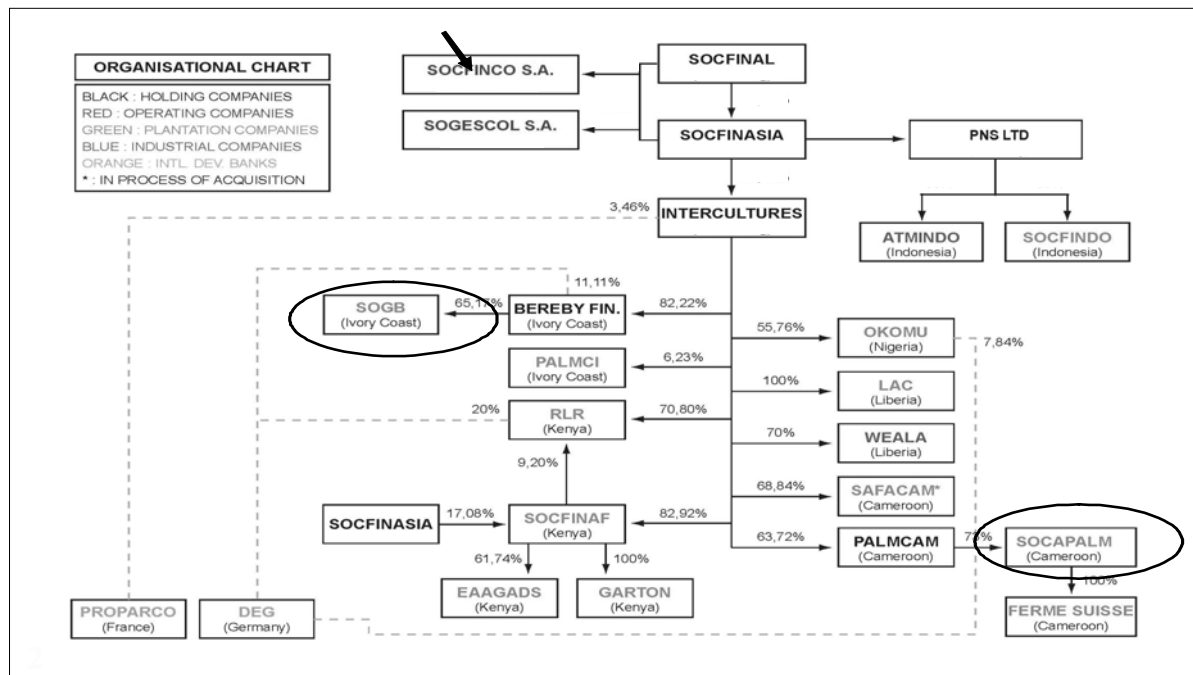
Moderation: Roger Peltzer (DEG)

### 6.1 Patrick Lemaître (Socfinco Group, Paris): Black Empowerment: The villagisation of an industrial plantation in Cameroon and the smallholder rubber programme of SOGB - Lessons learned

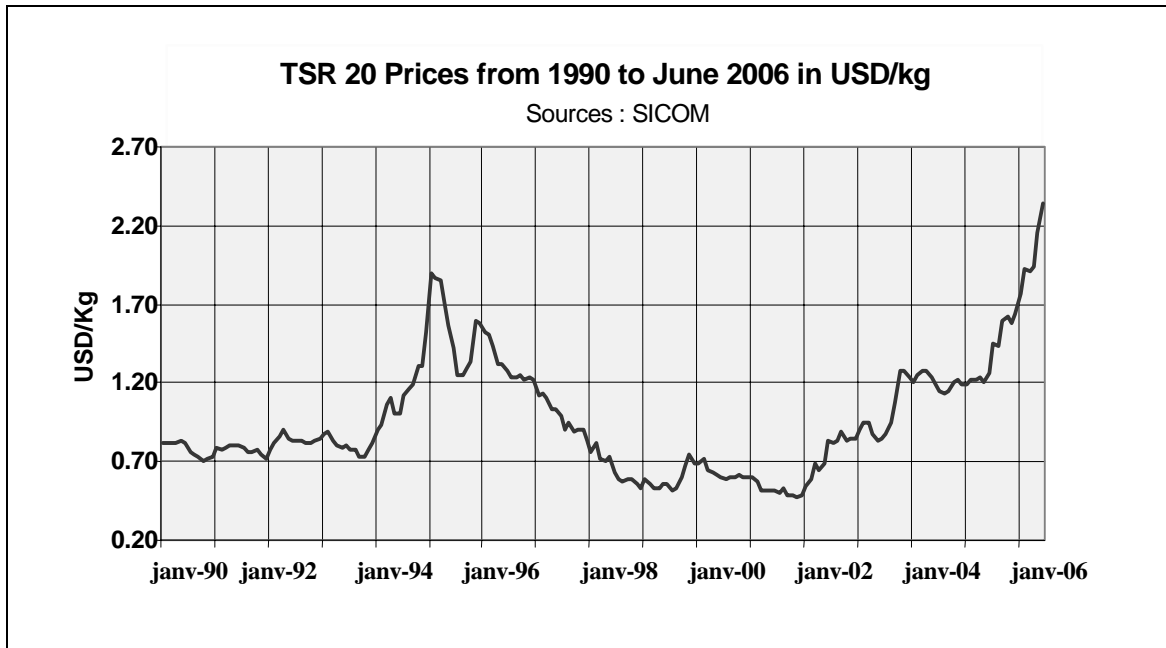
#### Intercultures & SOCFINDO

 <p>HUILE de PALME</p>	Production	: 380.000 t	<div style="border: 1px solid black; padding: 5px; text-align: center;"> <p>6 pays</p> <p>Libéria, Côte d'Ivoire, Nigeria, Cameroun, Kenya, Indonésie</p> </div>
	Superficie	: 91.000 ha	
 <p>CAOUTCHOUC</p>	Production	: 95.000 t	
	Superficie	: 48.000 ha	
 <p>CAFE</p>	Production	: 3.200 t	
	Superficie	: 2.600 ha	

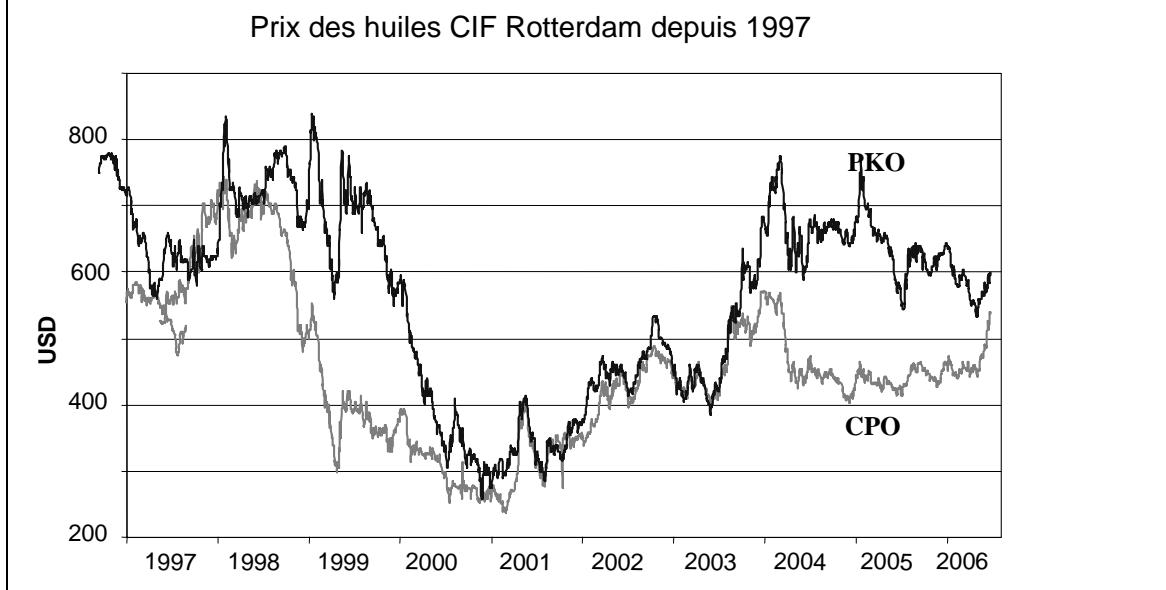
#### Diagramme organisationnel



### Evolution du prix de vente du caoutchouc



### Evolution du prix de vente de l'huile de palme

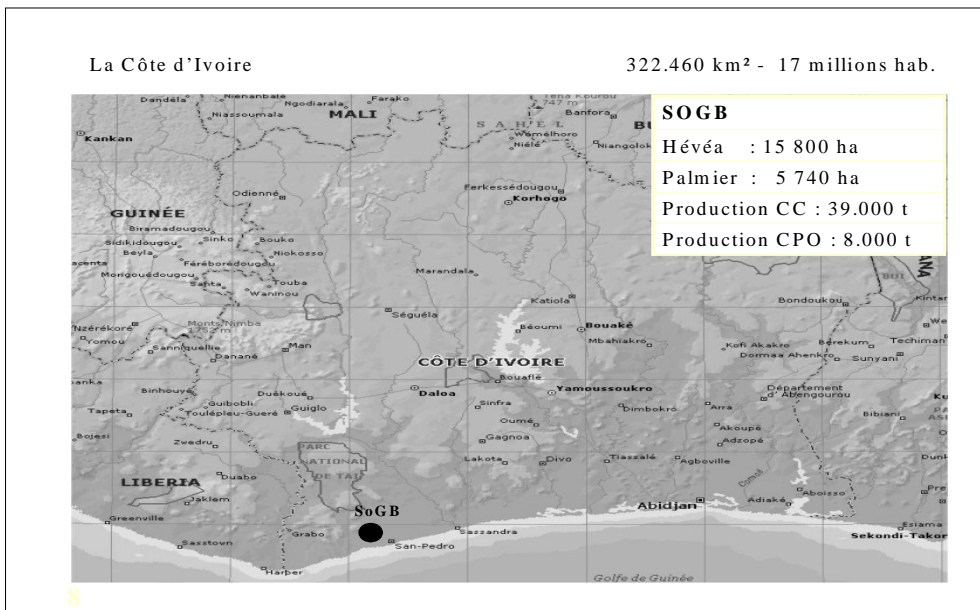


### Les projets plantations villageoises

- SOGB (Côte d'Ivoire): 2,000 ha de Plantations d'Hévéa de 1996 - 1999
- SOCAPALM : 2,600 ha de Plantations de palmier en « smallholder » en 2006 – 2007



## Projet plantations villageoises d'Hévéa de la SOGB



### **Objectifs & réalisations du projet:**

- Augmenter la production de caoutchouc de la SOGB par la création de 2,000 ha d'Hévéa villageois de 1996 à 1999 avec 00 fermiers
- Meilleure productivité des plantations villageoises grâce à l'appui technique SOGB
- Augmenter les revenus des paysans locaux

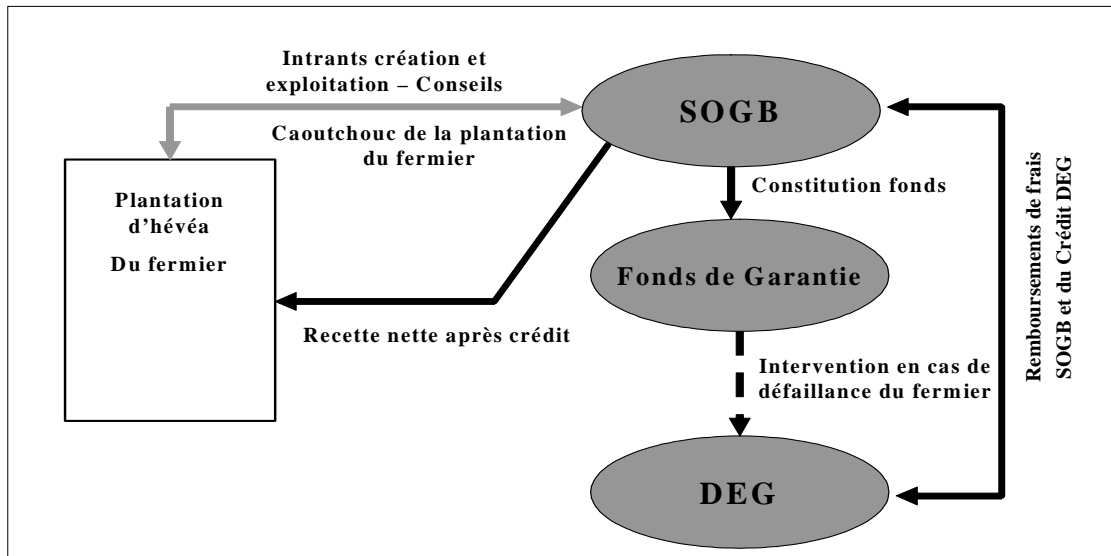
### **Montage financier:**

- Prêt DEG de 4 M €(en F.CFA) à la SOGB
  - Durée: 20 ans max
  - Taux intérêt: 4% fixe + 3.5% variable
  - Différé: 10 ans max.
- Prêt au fermier de la SOGB en F.CFA
  - Durée: 17 ans
  - Taux intérêt: 7,5% à 11%
  - Différé capital et intérêt: 7 ans
- Gestion du crédit par SOGB
- Fonds de garantie crée par la SOGB

### **Montage institutionnel:**

- Contrat de prêt DEG/SOGB
- Contrat de prêt SOGB/Fermier
- Création d'un mécanisme de constitution du fonds de garantie

### **Montage technique: Structure encadrement SOGB**



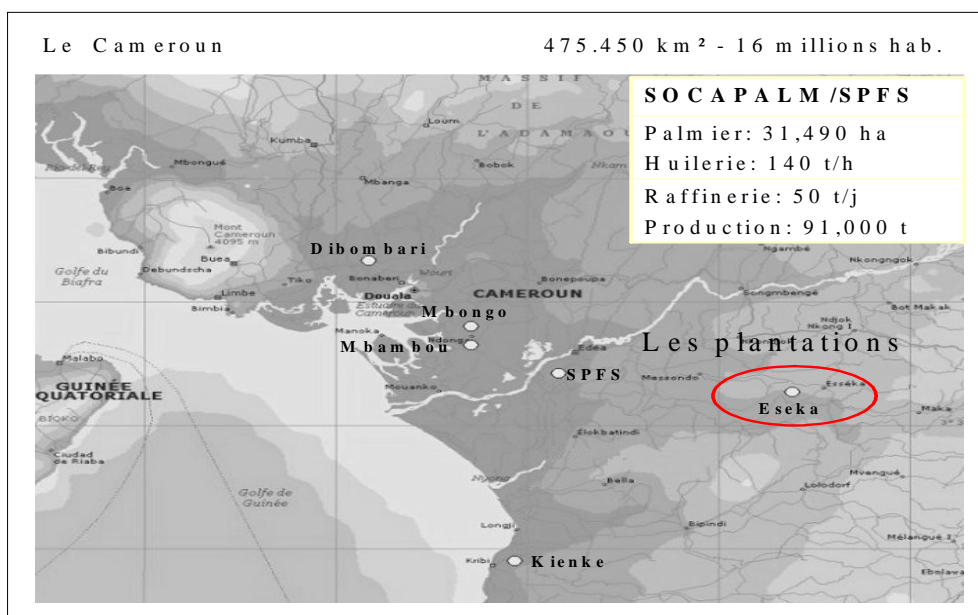
### Résultats:

- Superficies et nombre fermiers conformes aux prévisions
- Dépenses inférieures aux prévisions
- Revenus des planteurs : 900 K€ au 30/6/06
- Remboursement des prêts: 97% au 30/6/06

### Les obstacles à la réalisation du projet:

- Au départ les risques financiers ne sont pas négligeables pour le promoteur
- Le financement de l'encadrement et infrastructures
- La motivation des fermiers qui ne sont pas toujours des agriculteurs

### Projet de villagisation d'Eséka



**Objectifs-Réalisations du projet:**

- Cession d'Eséka en petits blocs de 10 ha à 250 fermiers de la région.
- Augmenter la productivité de ces fermiers avec l'appui technique de la SOCAPALM
- Permettre aux fermiers d'avoir un revenu immédiat et attrayant

**Montage financier:**

- Prêt de 1,4 M F.CFA de la Mitfund (Afriland First Bank) aux fermiers
- Garantie DEG sur 80% du Prêt
- Mise place d'un fond de garantie par SOCAPALM
- Prêt au fermier: 95% valeur acquisition
  - Durée: 8 ans max.
  - Taux intérêt: 8% Max
  - Différé: 1 ans Max

**Montage institutionnel:**

- Baux à long terme pour les fermiers
- Contrat de prêt Mitfund/Fermier
- Contrat tripartite Fermier/SOCAPALM/Mitfund
- Contrats DEG, Mitfund, Afriland First Bank, SOCAPALM
- Création d'une structure MC<sup>2</sup> par ADAF

**Montage technique:**

- Structure encadrement SOCAPALM
- Appui Mitfund pour la gestion

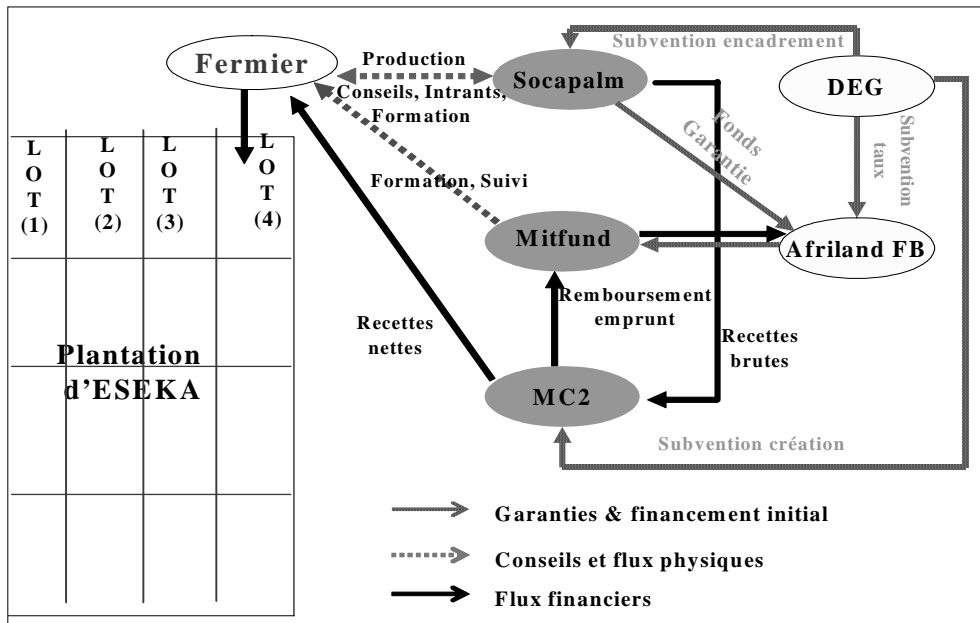
**Obligations du fermier:**

- Suivre les conseils SOCAPALM et Mitfund
- Vendre sa production à l'usine d'Eséka

**Obligations de la SOCAPALM:**

- Conserver l'usine d'Eséka
- Acheter les régimes de la plantation du fermier au prix fixé par la profession
- Encadrer, former les fermiers et fournir les intrants

**Obligations de la Mitfund:** Former les fermiers



### Résultats prévisionnels:

- Le fermier devient « propriétaire »
- Le fermier est conseillé
- Le fermier perçoit un revenu net d'environ
  - 80,000 F.CFA/mois (125 €) au début
  - puis de 300,000 F.CFA (460 €) en période de croisière
- Taux de rentabilité: 25% (régime à 35 F.CFA/kg)

### Points forts:

- Exemple unique en Afrique
- Le fermier aura un revenu immédiatement
- Une banque privée locale s'implique
- La DEG et la SOCAPALM garantissent les prêts des fermiers sur une longue période

### Point faible:

- Complexité du montage institutionnel

### Autres projets villageois de palmier et d'Hévéa

#### Côte d'Ivoire

- SAPH (Société Africaine de Plantation d'Hévéas) : 18,000 ha d'hévéa villageois de 1978 à 1992
- SOGB (Société des Caoutchoucs du Grand Bereby): 3,700 ha d'hévéa villageois

#### Ghana

- GREL (Ghana Rubber Estate Limited): 9,000 ha d'hévéas villageois
- BOPP & TOPP (Benso & Twifo Oil Palm Plantation): 4,600 ha de palmier en smallholder

### **Points communs**

- Crédit adapté à la culture : 14 à 17 ans avec différé de 4 à 7 ans et taux d'intérêts bas
- Intervention d'une garantie totale ou partielle des prêts aux fermiers: banque, fonds, autres organismes (Etat)

### **Pérennité et impacts**

**Technique:** Encadrement du projet permanent

**Institutionnelle:** Pérennité de l'opérateur - différence avec projet étatique

**Financière:** L'Opérateur est obligé d'acheter la production du fermier à un prix juste et transparent

### **Sociaux**

- Habitat et infrastructures sociales améliorées
- Scolarisation des enfants
- Soins médicaux améliorés

### **Economique**

- Fermier: Niveau de vie augmente
- Promoteur: augmente sa production à un risque moindre

### **Conditions de réussite**

**Avant 1990** et encore pour certains projets

- Projets réalisés par l'état, des sociétés étatiques ou privées avec des fonds de l'état
- Pas ou peu de risques pour le promoteur

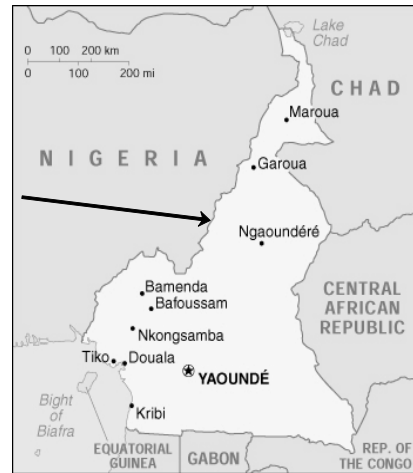
**Maintenant:** Projets réalisés par des sociétés privées

- Subvention partielle du crédit et encadrement pour diminuer le risque du fermier
- Diminution du risque financier du promoteur
- Crédit adapté: durée, différé et taux

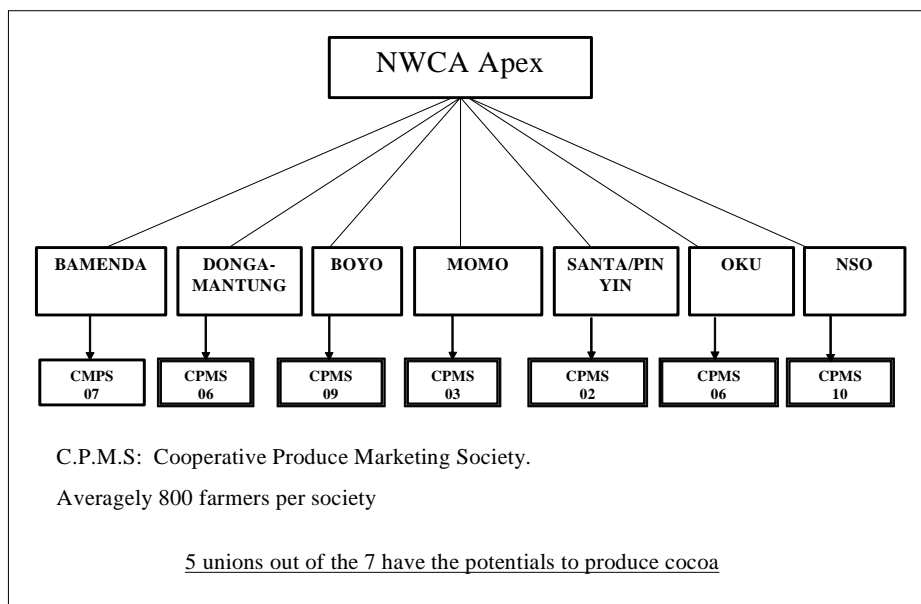
## 6.2 Mongwe Christopher Mbah (NWCA Ltd., Cameroon): Organizing 35,000 coffee growers in a cooperative – Lessons learned

### Introduction

- North-West Province with capital Bamenda and a population of about 2,000,000 inhabitants. The livelihood of 10% of this population depends on coffee
- Over 35,000 smallholder farmers grouped since 1950 under NWCA. Each with an average family size of 7
- Altitude from 600 - 2200m
- High potential for agricultural production
- Low productivity and quality
- Most farmer families living in poverty



### Organizational chart of NWCA



### The NWCA Apex

- Principal function is marketing of members' produce at the best possible prices
- Sources funds to finance NWCA head office entire cooperative structure
- Provides:
  - engineering services
  - internal audit services
  - education and training

- extension services to the entire cooperative structure
- Does bulk procurement of agricultural inputs for sale to the entire structure.
- Acts as the mouthpiece of the produce marketing cooperatives of the North West Province in Cameroon.

### **How can cooperatives make farmers produce high quality coffee in a liberalized market**

#### **Before liberalization:**

- Government fixed prices
- Monopoly of coffee collection by NWCA
- Government subsidized a lot of coop activities
- Government (NPMB: National Produce Marketing Board ) responsible for marketing of coffee

#### **After liberalization:**

- No state dictated prices
- Private competitors came into the sector
- NWCA lost fair share of business volume
- Cooperatives loan funds from commercial banks for operations
- Quality and volume were most affected negatively
- Cooperatives could no longer run extension services

### **Strengths & Weaknesses of a big cooperative (NWCA Ltd.)**

#### **Strengths:**

- Structured network from individual farmers to NWCA
- Processing facilities available
- Available office and storage infrastructure at all levels
- Cooperatives are a sure forum for development as they are converging point for most farmers
- NWCA Ltd. is a major employer – employing seasonal and permanent staff

#### **Weaknesses:**

- High administration costs and excess capacity of mills and warehouses due to decentralized union-structure
- No homogeneous coffee due to decentralized milling
- In the past inability to pay farmers cash loss of market share
- Financial difficulties resulting from decrease of turnover
- Management and corporate governance problems
- Negative effect for farmers and quality of coffee!
- No one taking care of extension

### **NWCA/ICP/GTZ Project**

**Project beneficiaries:** Smallholder farmers of the NWCA

**Project objectives:** Strengthening of the NWCA as an efficient service provider for the smallholder farmers focusing on:

- Management and business capacity
- Promotion of sustainable coffee production
- Improvement of coffee quality

- Diversification

### **Components of the project**

- Reduction overheads of the cooperatives (societies, unions, Apex)
- Strengthening coffee production: Introduction of good farming practices e.g., pruning, mulching
- Quality management system
- Reactivation of the extension service initiated by NWCA
- Support in marketing: experts from tropical farm management Kenya and the Coffee Corps
- Encouragement of women groups
- Encouragement of diversification

### **Lessons learned**

- Cooperatives must learn to live and survive in an liberalized environment
- Cooperative management and local banks must adapt modern technique of hedging purchases and sales in order to be competitive with private coffee traders and to offer farmers attractive prices
- Extensions services must be maintained and improved, but they have to result in premiums coming from the speciality market
- Cooperative structure is an excellent basis to qualify and enable certification according 4c, Rainforest Alliance or Starbucks
- Financing lines must be managed properly

### **What to do**

1. Extension services must be made available from production to primary processing
2. Provide basic farm inputs at affordable prices/ microfinance institutions have to come in
3. Competitive prices must be paid to farmers as incentives to produce high-quality coffee
4. To pay competitive prices, marketing of high quality coffee must be properly done to obtain premium prices hence need to improve marketing & management expertise
5. Ways and means must be sought to add value to their product so that farmers have additional earnings
6. Rebuilding of confidence with commercial banks for track finance lines

### **Conclusion**

- NWCA Ltd. is strategically well placed to handle smallholder services to meet the demands of the consumer
- The farmers are willing to strengthen and support the association
- Provided relevant services are at their disposal and transparently managed



### **6.3 Pierre Tchomobe (ADAF AMC, Cameroon): The role of microbanks in the implementation of outgrower concepts**

Mesdames et Messieurs, Bonjour.

Le sous-thème que nous vous présentons ce jour porte sur « Le rôle des microbanques dans les relations paysans/agro-industries dans une agriculture contractuelle en Afrique: Le cas des MC2 au Cameroun»

- Population du Cameroun: près de 16 millions d'habitants dont environ 13,6 millions de ruraux représentant les 85% de la population totale.
- Importantes agro-industries travaillant avec des planteurs sous contrats: plantations du Haut Penja (PHP) qui exporte les ananas et la banane, la Cameroun Development Company (CDC) qui exporte la banane, l'hévéa, la Socapalm qui s'est investi dans la production de l'huile de palme, l'HEVECAM spécialisée dans la production et l'exportation de l'hévéa etc...
- Dans le contexte de cette économie camerounaise en mutation, comment se présente ADAF et les microbanques rurales MC2? Quel rôle jouent ces MC2 tant auprès des planteurs que des agro-industries partenaires ? Quelles difficultés et succès ont-elles enregistrés à ce jour?

#### **Présentation de l'ADAF et des microbanques de développement dénommées MC2**

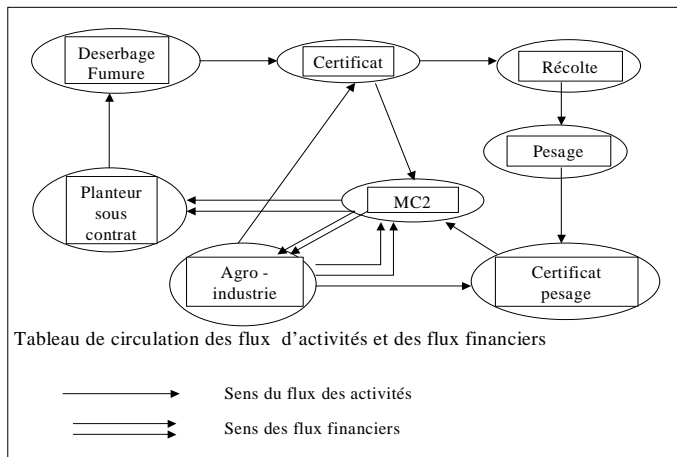
- ADAF est une ONG camerounaise créée en 1992 dont l'activité principale est l'encadrement des Mutuelles Communautaires de Croissance (MC2) en zones rurales et les Mutuelles Financières des Femmes Africaines (MUFFA) en zone urbaine au Cameroun.
- A ce jour ADAF encadre 63 MC2 réparties sur tout l'ensemble du territoire camerounais. Le réseau des MC2 compte aujourd'hui au 30.06.2006 64,500 membres, ont distribué des crédits cumulés pour FCFA 18,4 millions (28 millions d'euros).
- Le modèle MC2 est unique en Afrique et repose sur trois grandes composantes dont:
  - a) une banque commerciale (Afriland First Bank) qui parraine le réseau et permet aux microbanques MC2 la connexion avec le système financier international
  - b) une ONG, l'ADAF qui assure essentiellement l'encadrement technique à travers le développement des capacités institutionnelles, la formation des agents et la centralisation de la comptabilité des MC2
  - c) les populations bénéficiaires des services financiers des MC2 qui s'organisent pour la gestion par elles-mêmes de leurs différentes institutions

#### **Le rôle des microbanques MC2 auprès des paysans sous contrat avec les agro-industries**

Deux rôles essentiels sont joués par la MC2, celui de banquier/conseiller:

- Rôle de banquier: Chaque planteur mutualiste participe en tant que client propriétaire aux activités de la MC2. Client parce qu'il détient auprès de la MC2 un compte lui permettant de faire ses opérations. Propriétaire parce qu'il contribue au capital de la MC2 en versant à son adhésion un minimum de F. CFA 10,000 (15,22 euros) et bénéficie du partage des bénéfices. L'argent est sécurisé par la MC 2 et le planteur peut solliciter aussi un prêt.

- Rôle de conseiller: Le planteur sollicite l'expertise des agents de la MC2 dans la planification efficace de ses activités sur le terrain. Ce schéma l'explique mieux le cheminement du processus allant de la signature du contrat à la livraison du produit dans le cas de HEVE-CAM (Hévéa du Cameroun).



Le rôle de conseiller que joue la MC2 est capital dans le succès de l'opération. La MC2 en fournissant le prêt au planteur devient à la fois banquier et son conseiller de fait et lui permet d'éliminer plusieurs risques :

- Le risque d'exécuter tardivement les travaux par manque d'argent, ce qui induirait des détournements d'objectif et par conséquent des encaissements amoindris.
- Le risque de perte d'argent si le montant était mis en une seule fois à la disposition du planteur.
- Le risque lié au non suivi des travaux par une tierce personne autre que le planteur lui-même.
- Le risque de recourir à des usuriers qui lui ferait payer des taux allant jusqu'à 100% par an, ce qui annihilerait les efforts du planteur sur le plan du gain.

### **Comment les microbanques MC2, jouent –elles le rôle de banquier pour les agro-industries?**

Les MC2 jouent actuellement dans plusieurs régions le rôle de banquier pour les agro-industries qui y existent. C'est le cas des MC2 de Njombe dans la zone de la PHP et de la MC2 de NIETE dans le cas de HEVECAM . En externalisant une partie de la fonction paie à travers la MC2 (en moyenne FCFA 80 millions par mois pour la PHP, 55 millions par mois pour HEVECAM), 120 millions pour la CDC, ces trois entreprises réalisent des gains importants en frais et en temps dans la gestion de l'argent qui, autrement sans la MC2 créerait des difficultés sérieuses comme par le passé (risque de vol, déplacements fréquents pour s'approvisionner en argent liquide, manque de professionnalisme). Un guichet peut même être installé dans l'enceinte de l'agro-industrie pour plus d'efficacité comme le cas HEVECAM où les employés et l'agro-industrie en tirent le meilleur parti, l'effet de la proximité aidant.

## **Les difficultés et les succès rencontrés**

### **Les difficultés rencontrées à ce jour sont de plusieurs ordres:**

- La compréhension parfois tardive de certains planteurs pouvant bénéficier des avantages de l'agriculture sous contrat
- Les désaffections des certains planteurs qui disparaissent avec leurs récoltes
- Les vols de récoltes aux champs
- La lenteur de l'appareil juridique dans la prise rapide des décisions en cas de défaillance

### **Les succès sont pourtant nombreux malgré quelques zones d'ombre:**

- les planteurs dans l'agriculture contractuelle ont amélioré leurs revenus au Cameroun et ont développé des capacités d'épargne les poussant à investir dans des petits projets.
- le service financier des agro-industries a réduit son personnel et économisé de l'argent en minimisant ses risques de pertes de fonds, car la fonction paie a été transférée à la structure de micro finance. Le double intérêt repose dans la sécurité des fonds autant pour le planteur que pour l'agro-industrie qui sont désormais à l'abri des hold up des voleurs
- les usuriers ont perdu du poil avec l'encadrement des planteurs par la MC2
- les retards de paiements par l'agro-industrie n'ont pas affecté les travaux des planteurs sous contrat
- les agro-industries ont reçu les récoltes à temps leur permettant de fonctionner sans à coups.
- les MC2 ont développé une nouvelle clientèle et étendu le champ d'action de leurs financements tout en innovant dans la microfinance

## **Conclusion**

L'agriculture contractuelle est une voie importante vers laquelle de nombreux pays africains peuvent s'orienter si leurs dirigeants prennent conscience de sa particularité et croient au développement du secteur agricole qui y reste le premier pourvoyeur d'emplois. Cette voie permet ainsi la réduction de la pauvreté car il se crée rapidement un système « WIN WIN » où le planteur trouve son compte, l'agro-industrie le sien et enfin la structure de microfinance en sort solidifiée en élargissant le socle de sa clientèle. Le rôle facilitateur de la structure de microfinance dans cet ensemble reste indéniable. L'environnement se sécurise et les possibilités d'investir s'accroissent par l'apprentissage du principe de l'épargne préalable.

Il apparaît clair qu'une agriculture contractuelle durable ne peut se fonder que sur un système où les acteurs dépendent les uns des autres, chacun trouvant son compte dans une approche de gagnant - gagnant. C'est une voie à renforcer pour sortir la majeure partie des agriculteurs africains de la misère ambiante.



# Appendix



## Workshop programme

### Outgrowers – a key to the development of rural areas in Sub-Saharan Africa and to poverty reduction

18th August 2006

German Development Institute, Bonn

08:30-09:15 hrs. **Key Notes**

*Dr Winfried Polte*, DEG, Cologne: “Introduction and comments on the questions to be discussed“

*Dr Andreas Foerster*, BMZ, Bonn: “German development policy in Sub-Saharan Africa and the role of agribusiness”

*Prof John Humphrey*, University of Sussex, Brighton: “Inter-national value-added chains taking the agricultural industry as an example”

5-minute break

09:20-11:00 hrs. **Session I: The organisation of smallholders: a condition for productivity and quality increases (certification)** - Moderator: Karl Weinfurter

*Ben Sekamate*, Dunavant Zambia Ltd., Zambia: “Pilot Plots – a concept aimed at productivity increase for 100,000 cotton farmers”

*George Solomon*, East African Growers Ltd., Kenya: “The certification of vegetable farmers according to EurepGAP”

*Matthieu Vidal*, Suisse: “Introducing sustainable practices in cacao producing communities in Côte d'Ivoire via certification - a case study”

11:00-11:15 hrs. **Coffee break**

11:15-13:00 hrs. **Session II: Safety of food supply, compliance with contracts and power of negotiations** – Moderator: Christiane Rudolph

*Daouda Traore*, FASO COTON (Aga Kahn Group), Burkina Faso: “The contribution of cash-crop cotton to securing food supplies in Burkina Faso”

*Gert Vandersmissen*, GOPDC Ltd, Ghana: “Incentive and control - concepts to warrant compliance with contracts with 5,000 palm oil farmers in Ghana”

*Dr Michael Brüntrup*, DIE, Bonn: “The relations between farmers and agroindustry - chances and risks”

13:00-14:00 hrs. **Snack**

14:00-15:30 hrs. **Session III: Financing permanent cultures for smallholders taking palm oil and rubber as an example / Export financing of a coffee cooperative**

Moderator: Roger Peltzer

*Patrick Lemaître*, Socfinco Group, Paris: “Black Empowerment: The villagisation of an industrial plantation in Cameroon and the smallholder rubber programme of SOGB” - Lessons learned

*Mongwe Christopher Mbah*, NWCA Ltd., Cameroon: “Organizing 35,000 coffee growers in a cooperative” - Lessons learned

*Pierre Tchomobe*, ADAF MC<sup>2</sup>, Cameroon: “The role of microbanks in the implementation of outgrower concepts”

15:30-16:00 hrs. **Conclusions/Lessons learned** – Dr. Christopher Kohlmeyer, BMZ, Bonn



## List of participants

1. Fabrice Agbogli Talion Structured Finances, Development of Structured Finance Solutions for Companies in Africa
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28. Dr. Christoph Kolmeyer BMZ, Head of Section 314 (Rural Development, Global Food Security)
29. Claudia Kraemer BMZ, Section 314 (Rural Development, Global Food Security)
30. Frans Kragten Rabobank International, Director Multilateral Development Banks & Government Relations

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| 32. Patrick Lemaître        | Socfinco Group, Consultant of Tropical Agribusiness                                                    |
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| 35. Marie Mallinckrodt      | Kölner Stadtanzeiger, Journalist                                                                       |
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| 37. Christopher Mongwe Mbah | North West Cooperative Association Ltd., General Manager                                               |
| 38. Konrad Melchers         | Eins-Entwicklungspolitik, Chief Editor                                                                 |
| 39. Dr. Kristian Möller     | EurepGAP, Managing Director FoodPLUS GmbH                                                              |
| 40. Winfried Nau            | DEG, Head of 'New Business Africa'                                                                     |
| 41. Roger Peltzer           | DEG, Senior Investment Manager 'Agribusiness, Forestry and Food'                                       |
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| 45. Dr. Hans-Joachim Preuß  | Deutsche Welthungerhilfe e.V., Secretary General                                                       |
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| 56. Dr. Karl-Heinz Stecher  | Deutscher Bundestag, Member of Bundestag                                                               |
| 57. Abdullah Tanko Bala     | Deutsche Welle, Journalist                                                                             |
| 58. Pierre Tchombe          | ADAF MC, Ingeneure-Economiste                                                                          |
| 59. Daouda Traore           | FASO COTON, Director of Agricultural Production                                                        |
| 60. Gert Vandermissen       | GOPDC, Director of Operation                                                                           |
| 61. Matthieu Vidal          | Ecom Agroindustrial Corp Ltd.                                                                          |
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