

Case Study

DEVELOPING SELF-MANAGED OUTGROWER CAPACITY IN ZAMBIA AND MOZAMBIQUE

by

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I. INTRODUCTION

Since early 1997 in Mozambique and 1998 in Zambia, the primary focus of the CLUSA Rural Group Business Programmes have been on developing/implementing a model for a *Producer self-managed outgrower scheme* - i.e. one in which producer organizations - established and managed by the members themselves - serve as the intermediary between the agribusiness buyer/end user and the individual farmer. Critical challenges encountered in this process include:

- * **responsibilization** of the producer organizations so that effective screening and monitoring of participating farmers and enforcement of contracts are performed by the POs - and not by the RGBP
- * establishing/training a **secondary structure** (Depot Committee in Zambia and Fora Committee in Mozambique) to screen, manage an operational budget, hire/supervise Depot/Fora employees, coordinate the input distribution/ crop despatch & internal extension systems, and audit all operations
- * establishing/training an **internal extension system** composed of farmers selected and compensated by their fellow members to a> provide training in new crops & new farming techniques, b> to monitor members' following crop management practices; and c> to undertake self-selected research on topics of interest
- * **integration** of individual farmer production choices into the forward contracts negotiated with CLUSA assistance, including development of a **computerized system** to link these choices to input requirements & loan values
- * organizing **credit dispersal** and **crop payments** through a third institution
- * building the foundation for **institutionalization** to transfer systems developed & initially managed by the RGBP to Zambian institutions, including the producer organizations

II. BACKGROUND

Zambia and Mozambique began its transition from a centralized, command economy to a market economy in the early 1990s. As in the case of many countries traveling this same route, the results to date have been mixed. On the one hand, a number of new opportunities have opened; on the other, it has been difficult for the majority of the population - including most small scale farmers - to benefit from these opportunities. From the small holders point of view, the transition period in the agriculture sector has been characterized by:

1. *Disappearance of state institutions for input distribution, extension, credit & marketing*
2. *Crop market uncertainties & price fluctuations*
3. *High inflation, currency devaluation, & corresponding high interest rates*
4. *Excessive profit taking by intermediaries - i.e. either unscrupulous, dishonest traders, who defraud or offer minimal prices or newly formed companies lacking the capacity and capital to offer inputs or extension & marketing services cost effectively; aggressive sidebuying results in generally low loan repayment rates*
5. *A constricting economy in which significant privatization and government downsizing*

has greatly reduced demand for agricultural products.

Yet there remains a need for small holder production by local processors (oil seeds, sorghum for stockfeed, maize) and exporters (cotton, paprika, tobacco, groundnuts) who can not meet their requirements from the commercial farmers. In spite of the need for smallholder throughput, it has been difficult to access their crops on a reliable basis. The Agribusiness Forum in Zambia and the main Cotton Companies in Mozambique identified three major obstacles to doing business with small holders:

- 1> *high transaction costs* resulting from having to distribute inputs to, collect crops from, and keep records on thousands of scattered, individual farmers;
- 2> *unacceptable levels of risk* resulting from high levels of side selling - a situation exacerbated by inadequate contract enforcement mechanisms;
- 3> *expensive extension services* as companies had to step in to complement or replace a demoralized, inadequately trained/equipped government extension service.

Partial solutions to all three problems clearly lay in forming producer organizations.

III. THE CLUSA EXPERIENCE

In Zambia at the time when the decision was taken to expand from business lending to incorporate seasonal credit for contract production, the RGBP had been active in two Districts with 22 field staff (Facilitators) with plans to extend to two contiguous Districts, adding another 20 staff. Two Districts have marginal agricultural potential (650-800 mm of rain), while the other two are prime agricultural zones (800-950mm). Production is based in a band 150-300km South, West and North West of Lusaka with relatively good access to the capital.

In Mozambique, due to the extreme isolation in which most producers operated when the program was first established and that the number one problem identified by most rural communities was marketing, the initial strategy of the program concentrated in three main elements:

1. Concentration on marketing of crops producers were already growing or have grown and for which demand existed.
2. Concentration on identifying reliable buyers and establishing linkages between buyers and producers which would result in economic gains for the later.
3. Concentration on the development of producer organizations as the essential link between individual producers and buyers.

The CLUSA program has been active in 8 districts of Nampula province located 2,000 kms North of the Mozambique capital of Maputo, and a few hundred kms from Malawi. Nampula has a population of 3,3 million people. The province is one of the most productive areas of the country. It produces nearly half of all agricultural production of the country including cashew nuts, cotton, peanuts, maize, beans and manioc.

A. The Approach

Key elements in the Approach include:

1. *Decentralization* - field staff are stationed within the communities where they work; all training/consultation/support occurs on site in the villages
2. *Participation results from member ownership and economic benefits*
3. *Participatory decision making, leader accountability & transparency are essential*
4. *Experiential Training Methodology* - the training is highly participatory, while the content focuses on practical skills needed to undertake activities selected by themselves; classroom instruction is followed by on-site coaching/support to ensure skill mastery; all book keeping forms (cash & sales books) and records (good receipt/delivery notes, stock cards) are developed together with the users in local languages rather than requiring they adopt standardized formats
5. *The ideal implementing agency is non-governmental* - in addition to being free of civil service constraints/attitudes, the implementing organization must have a strong business orientation, be capable of analyzing then evolving based on lessons learned elicited from programme experience, and be strongly values-based (participatory/consultative management style, respect for farmers, multi-directional feedback, etc)
6. *Step-by-Step* - the development of the POs is organized in a series of distinct meetings/training sessions; staff training follows these same steps

B. The Steps

Organizational Phase

In CLUSA's experience the fundamental unit must be a self-governed, self-selected group of not more than 25. In Mozambique the average number of producers in a PO is 40. Only if the elements of democratic self-management and basic skills are instilled in a PO small enough to allow peer knowledge/monitoring/accountability, real participation in discussions/decision making, and transparent communications can larger, hierarchical structures be created without losing the essential sense of ownership and or risking that benefits will be captured by a elite minority. Consequently the process begins with forming strong, viable groups. The Steps are:

1. *Contact Meeting & Follow-up Meetings* - Open meetings are held during which the programme benefits and conditions for membership are explained; role plays are used to generate discussion on farmer issues/problems to generate an awareness of the value of collective action to improve farmers' conditions and the need for groups to be significantly different from those of the past. The Follow-up Meetings are held to ensure understanding, to reach additional interested people, and to generate further discussion (through a role play) of the crucial importance of member selection; member criteria and a selection process are developed by the participants during the meeting.
2. *First Group Meeting* - Based on members' prior experience in clubs/cooperatives, duties are enumerated for each office members deem necessary, qualifications are developed and a fair, democratic selection process established.
3. *Animator Training* - Two to four members selected by the PO to serve as understudies and eventual replacements of the Facilitators are given a three day training in basic communication & facilitation skills; the session ends by preparing the Animators to assist in the next step. Animators gradually take more responsibility in trainings/meetings as

- their capacity increases - largely from OJT peer/Facilitator observation and feedback
4. *Vision Setting* - The PO spends a day envisioning the future of their group, including what business activities, assets, membership, structure it will have 5 years in the future.
 5. *Executive Training* - Officer bearers are trained in the fundamentals of their duties and in two basic techniques: action planning & problem solving
 6. *By-laws* - Through a series of questions, the group is led to develop its own by-laws to address elements such as purpose, entry/exit of members, share capital, terms of office & means of replacement, and general rules of governance; once the by-laws are adopted, the group registers with the Register of Societies, Ministry of Industry & Commerce
 7. *Self-Analysis* - Approximately 6-8 weeks after formation, the group undertakes a systematic self-examination of its officers, animators, and membership to identify strengths/weaknesses and take appropriate measures to correct any identified problems; if there is an existing Depot/Fora Committee, this meetings is a part of its application process.

In Mozambique the initial steps vary slightly due to the lack or traumatic experience which most producers had in the past with the so called “cooperatives” and forced villagization. However once the group understands the benefits and responsibilities involved in participating in the CLUSA Program, the process begins primarily with the selection and the structuring of the group around a business activity. An informal institutional and management structure is set in place by the group at the beginning to monitor and manage the business activity. Once a group goes through a business activity (after 4 to 6 months) they make a decision about setting up a more formal structure for their PO This process includes the final decision about the membership, election of a board (5 to 7 members), development of by-laws and registration. The later is a long process which last 18 to 24 months and costs several hundreds of USD.

Depot/Fora Formation Phase

The enormous challenge in moving into contract farming lay in overcoming the multitude of problems associated with seasonal credit. It was clear that - even with field staff living in the community - these problems could not be overcome **unless the producers themselves were willing to take responsibility for ensuring the integrity of the entire process.** Responsibilization - if it was to be effective - would require a secondary structure to ensure that:

- * only serious, capable, trustworthy farmers were admitted
- * contractual obligations would be respected, inputs would be used as directed and sideselling minimized
- * competent, part-time local people could be employed (to staff the operations of the depot and the in-house extension system), supervised, and compensated in the most cost-effective manner possible
- * a credible audit could be performed to ensure transparency.

Consequently, 6-8 groups within a 10to 20 km radius are asked to select 1-2 representatives to serve on the Depot/Fora Committee (DC) for its zone.

8. *Training* is provided covering all duties of the DC
9. *Screening* - the DC/FC develops screening criteria (covering RGB members and the group itself) and screening process; new groups apply for membership on the DC/FC and are screened or in the case of a new area, applicant groups screen one another¹

¹ The results of this first screening were sufficiently encouraging (over 2000 members &

Outgrower - Input Distribution Phase

10. *Preparation* - the DC/FC organizes the forthcoming input distribution exercise by listing chronologically each of the steps, determining who will do it, identifying costs, noting which step requires information be kept, and setting a deadline - using this format

Step	Who	Paid or volunteer	Associated costs	Information to be kept	Deadline
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11. *Budget & Action Plan* - based on step 10, the DC prepares an operational budget and action plan; income is derived from either a per bag (of fertilizer) fee and/or a general registration fee
12. *Training of Depot/Fora Managers* - once selected, training is provided in the specifics of how to manage their duties, including developing and learning how to fill out requisite records
13. *Extension System* - simultaneously, each RGB selects two members to act as Contact Farmers and prepares a contract, including the compensation package (cash and in-kind); from among these, a Lead Contact Farmer is selected for the Depot. Using a pyramid system² of LCF--CF then CF--members, training is conducted covering: crop management, insect/disease identification/treatment, & conservation farming (a minimum tillage farming system designed to allow early planting, intense cultivation, soil enhancement). In addition to the training provided by the RGBP itself, specialized extension advice on three new crops (paprika, guar, and marigolds) was provided by agribusiness staff. The presence of a dissemination network made it cost effective to these companies with limited means to undertake extension to the smallholder, whereas before it was considered too costly. In some cases, the Contact Farmers have also been the catalyst for a sub-group's undertaking its own research. Demonstration plots investigating effects of various fertilizer applications on hybrid/local maize varieties, lime on soya/guar production, and fertilizer on cotton yields have been established. Results will be tabulated by the groups and disseminated through a newsletter to other farmers.
14. *Farmers submit credit requests* - within certain parameters (maximum number of limas [1/4 hectare] depending on hand hoe or oxen, requirement that 25-35% of Conservation Farming limas be planted in a legume, selection of crops for which a forward contract has been established with a reliable buyer, condition that farmer pay as security 10% of total input costs) farmers select the number of limas for each crop they wish to grow; this request is first approved by the RGB and then by the Depot.
15. *Self-assessment & Audit* - following the end of the input exercise, each Depot must prepare and submit a written self-assessment that examines every facet of the operation

23 existing groups denied eligibility in the outgrower scheme) to warrant proceeding.

² Depots were encouraged to involve any of the local government extension agents they thought would be of real assistance; 14 MAFF Camp Officers subsequently are associated with the Depots, working in addition to their normal duties and receiving compensation that generally is tied to performance. NORAD is considering a proposal that would provide funds on a decreasing basis over 3-4 years to organized farmer associations to "top-up" camp officers salaries, with the expectation they would be "privatized" and taken in hand by the associations.

from screening through the actual physical distribution; additionally, a separate committee must audit both the RGB and Depot records and provide a signed written report to each group for discussion among the members.

In the case of Mozambique specific differences in the input distribution phase include:

- ◆ due to the limited access to commercial bank credit for RGBs and the limited use of inputs outside of cotton and tobacco, most input supply is done on credit by a few large companies which operate in large areas and have the monopoly to buy the output product (cotton and tobacco) from the producers in a certain area; only recently, producers who form a PO can legally go out of this system; agriculture inputs (fertilizer and seeds) for other crops are difficult to access and are only now starting to be available in the country.
- ◆ financing of FORA managers and farmer elected contact farmers are mostly done through a premium paid by agribusiness on the output product for crops such as cotton and tobacco; for maize and other crops, a small percentage is deducted from the sale of the commodity at the end of the marketing season.
- ◆ extension training is provided by large agribusiness, primarily for cotton and tobacco, and by the government and other NGOs for maize and other food crops.
- ◆ credit for inputs for cotton and tobacco inputs is provided by the agribusiness after a contract is signed with each RGB and the FC; credit for fertilizer and improved seeds was provided for maize, sesame, sunflower and beans by this year various private sector companies and NGOs; in the case of maize, inputs were guaranteed by the Sasakawa Global 2000.

Outgrower-Marketing Phase

With the approach of harvest time, formal interventions begin to assist the DC/FCs to prepare for their role in marketing the crops. This process parallels that of the input distribution phase. Again, the principle is to delegate as much as possible to the Depots/Fora/RGBs in order to minimize costs to external partners - i.e. the credit institution, buyers, and RGBP.

In Zambia the specific steps include:

16. *DC/Animator Training* - The DC has to be familiar with and the Animators capable of assisting the farmers and RGBs to conduct a series of calculations that will enable Credit Management Services (CMS), the lending institution, to in turn know what credits to deduct from which crops. With a multi-crop scheme, the calculations are somewhat complicated. In addition, farmers must have 10% of their total input costs as security in their individual savings accounts; thus crop payment deductions may be directly deposited. Also, as a strategy to reduce sideselling, while meeting farmers' cash flow requirements, advance payments on sunflower may be approved. The flow is as follows:
 - a. RGBP provides Depots: estimated total cost (principle & interest) for each lima/crop for 1998-99 and expected income from each crop based on forward contracts; so that:
 - each farmer estimates projected income for 1999 based on crop yield forecast
 - farmer decides from which crop (sunflower or paprika) credit for maize, failed crop that cannot pay for inputs, implements will be deducted
 - farmers decide amount to be deducted from which crop for deposited to their account
 - RGB decides what advance payment - if any - to give each member for sunflower
 - b. RGB informs CMS of:

- number of limas of maize/other failed crop and number of implements to be deducted from cash crops
- list by farmer to be deducted from each crop payment & deposited into his account
- total sunflower advance payments needed
- c. CMS receives payment from contracted buyers and calculates net income per crop per RGB; CMS totals the income per RGB (in case of multiple deliveries) and deducts:
 - the RGB's advance partial payment (in the case of sunflower)
 - outstanding credit balance (principle & interest) for the crop being marketed
 - credit from other crops pledged against the marketed crop
 - implement credit
 - total crop deductions for deposit in Savings Accounts
 - CMS issues check/transfers to RGB account for total net income
- d. RGB calculates for each farmer his net payment:

RGB calculates each farmer's Gross: gross income/bag (from CMS) x number of bags delivered by the farmer and subtracts:

 - advance payments received (fixed amount X number of bags)
 - credit for marketed crop
 - crop credit for other crops (e.g. maize and any failed crop)
 - credit for implements
 - crop deductions for savings

RGB distributes net income among the members.

In Mozambique the following two systems are being used in the marketing phase.

For high input products such as cotton, tobacco, and improved maize varieties:

- a. FC/RGB receives bags on credit from the agribusiness with whom they signed a future contract;
- b. FC/RGB distributes bags to its members; the number of bags advanced to each members varies according to the number of has and expected productivity;
- c. RGB members agree on date and organize a market during which each member brings his/her products to be weighed and quality controlled. Bags are closed and stored in a storage facility previously built by the RGB at the village level.
- c. In the case of cotton and tobacco, RGBs deducts member's debits for inputs and other advances from the total value of the product weighed and gives a member a voucher with the balance to be paid;
- d. RGB contacts the agribusiness to send a truck to the village to pick up the products in storage;
- e. RGB and FC managers accompany and weigh cargo in gin's or buyer's electronic scale;
- f. Agribusiness deducts inputs and other loans provided to the RGB and pays balance.
- g. RGB pays balance to each member and pays a small fee to the FC.
- h. RGB does a profit and loss statement and deposit retained earnings in bank.

For low input products such as maize (traditional varieties), cashew nuts, peanuts and other commodities:

- a. FC get together to study marketing objectives (per product) of each member RGB, set up objectives for the marketing season, prepare a budget and action plan;
- b. FC contacts potential buyers interested in purchasing RGB products;

- c. FC negotiates and sign supply contracts with interested buyers;
- d. FC receives bags and cash advances from buyers;
- e. FC signs a contract with each RGB member, distributes bags and cash advances according to the marketing objectives of each RGB;
- f. RGB distributes bags to its members; the number of bags advanced to each members varies according to the number of has and expected productivity;
- g. RGB members agree on date and organize a market during which each member brings his/her products to be weighed and quality controlled; Bags are closed and stored in a storage facility previously built by the RGB at the village level; in most cases where RGBs received a cash advance from the FC/buyer, RGB pays members an initial price at the time of product delivery;
- h. FC contacts buyer and organizes transport once products are available;
- i. FC managers accompany and weigh cargo in buyer's scale;
- j. Agribusiness deducts cash advances and other loans provided to the FC and pays balance.
- l. FC pays managers and does profit and loss statement;
- m. FC distributes earnings according to the level of transactions of each RGB; in some cases FC deposits earnings in a central FC account.

IV. INSTITUTIONALIZATION & SUSTAINABILITY

In Zambia after having failed to identify a reliable intermediary with sufficient capacity (financial and managerial), CLUSA has initially assumed this role. Thus in addition to the training/ consultative services provided for the development of the RGBs and Depots, the RGBP has been identifying/securing markets and procuring/distributing inputs. Credit is provided (using a project loan fund) by Credit Management Services, a Zambian for-profit micro-lending company that was willing to venture into agricultural credit. There have been some fortuitous benefits accruing from CLUSA's involvement or more precisely from the cumulative volume that results from centralization. Volume discounts for inputs and higher crop prices were secured, as well as the willingness of buyers to forward contract at a set **minimum price³ indexed in US dollars**. It is unlikely that any of these benefits would have been secured otherwise.

In Mozambique, CLUSA has also played an important role in identifying and qualifying input suppliers and output buyers and facilitating the negotiation of future and supply contracts between buyers/agribusiness and RGBs. Due to the long process that it takes to register a PO in Mozambique, CLUSA has had to play the role of witness in many of the contracts signed between the two RGBs and the agribusiness. While most input credit is channeled directly to the FCS/RGBs, large cash advances from agriculture commodity buyers (10 to 50,000 USD) have been mostly channeled through a central CLUSA/RGBs account to facilitate its oversight.

As is the case with any time-limited project, the RGBPs face their eventual termination (2001 with possibility of USAID extension for another 3-5 years) and hence the challenge of how to sustain any gains realized during the life of the programmes. A significant step toward sustainability was taken in March of this year in Zambia and in September of last year in Mozambique when District meetings were held with representatives from each Depot/Fora

³ Buyers pay whatever is higher - cash spot price or set minimum price - on the day of delivery.

Committee. In addition to the invaluable exchange of experiences that occurred, there was considerable discussion and input on the design of the marketing phase of the programme. In effect, these meetings fundamentally changed the nature of the relationship with the DCs transitioning from being clients to becoming full partners. In actuality, this transition began earlier with the responsabilization leading to the establishment of the Depots in the first place. This responsabilization (i.e. willingness to take hard decisions in favour of future, long term rather than immediate benefits) was due to a combination of factors:

- * *acceptance of the market economy* - many small holders are genuinely ready to put the old system of government dominated agriculture behind them, seeing the potential advantages of personal initiative and hard work
- * *desperation* - a clearly vicious cycle of no credit--no inputs-- few surpluscrops--little income was in place - hardly mitigated by undependable, late government input credit
- * *collective responsibility* - the policy that requires that each RGB member is responsible for the repaying all of the credit taken by his group and each RGB being responsible for all other groups in the depot certainly accentuated the carefulness of the screening.

In Zambia, in addition to the effective screening undertaken last year, there have been other signs of the RGBs/Depots taking ownership of the programme and what it is trying to accomplish. After discussing and realizing the advantages of increasing the number of farmers within a depot/fora, targets were set within groups (to increase their membership) and within depots (to recruit new groups). Furthermore the Lead Animators (a newly created post similar to that of the Lead Contact Farmer and financed by the Depot) have taken the lead in identifying productive zones and organizing the Contact Meetings. They in conjunction with select group Animators will be largely responsible for conducting the entire group organization phase - in effect replacing the RGBP Facilitators in this crucial activity. Facilitators have already been reduced in the two older Districts and removed entirely from one zone where the Depots operate with periodic staff visits.

A similar process is underway in Mozambique where the Fora have begun to play a key role in the contact of new groups and assisting program facilitators in the RGB development process.

The crucial sustainability question is at what level can the services being provided by the RGBPs be institutionalized - which in turn is a question of capacity building. Several options exist:

1. *Independent Depots/Fora* - In this scenario, each Depot would act independently to secure its credit, obtain/transport its inputs and secure/deliver to its markets. Although having the advantage of simplicity and lower costs, it faces the loss of benefits from volume purchases/sales; also, it would require frequent travel to Lusaka/Nampula for each activity.
2. *Association of Depots* - at whatever level effective concerted action were possible (Zone, District, Province or Region) some benefits would be gained from the volume thus generated. Representation would obviate each Depot's having to travel to Lusaka/Nampula to conduct each transaction itself. Coordination would become the major challenge.
3. *Lusaka/Nampula unit* - in whatever form, a company/NGO working on behalf of and (ideally) under the governance of the Depots or Associations would, on the one hand, both ensure the benefits of volume and ease the logistics of "doing business" in the Lusaka/Nampula; on the other hand, the issue of coordination would still be present both within Associations and between Associations and the Lusaka/Nampula units.

It is already clear that the majority of Depots/Fora - in even as little as two years time - would be capable of autonomous action; in fact many in the older Districts have already successfully sourced inputs and marketed maize independently. Whether more complex structures with greater capacity come into being remains to be seen. CLUSA is taking a very pragmatic, wait-and-see approach; in consultation with the Depots/Fora or Associations (should they form), the programme will continue to observe the capacity building process as it evolves over the next few years.

In Zambia, these same models were presented to the Depot Committee representatives during the March meetings. There was a discussion centering mostly on the advantages and disadvantages of each. Certainly no attempt was made to select any of the models. The primary benefit of the discussion seems to have been to engender a vision of possible futures which - in dialogue with CLUSA - they can begin to define and in time attempt to achieve.

In Mozambique, while the various options have been discussed with the Fora Committee representatives, a number of CLUSA staff have began the process of studying the feasibility of the formation of a local organization which would continue to provide institutional and economic development services to POs in the country.