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STAPLES VALUE CHAIN NAFKA ACTIVITY

TASK ORDER NO. AID-623-I-10-00001

Alex Pavlovic – Expansion in Iringa and Mbeya, rough preliminary report

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I. Background

NAFAKA was asked in October of 2013 by the USAID Mission Office in Dar Es Salaam to expand its efforts and activities into two new regions – Mbeya and Iringa – to effectively coordinate geographical delivery of resources and services to smallholder farmers with another FtF project focused on vegetable production (TAPP). Since the project was tasked with this expansion fairly recently i.e. at the beginning of the planting season for rice and maize, it is difficult to mobilize staff and resource on short notice for the full scale expansion in these two regions. Thus, the project will focus on rolling out initial pilots activities through the network of established (or potential) partners, preparing grounds for the full scale expansion in the planting season 2013/14.

Following the facilitative value chain approach NAFKA applies to improving productivity and efficiency of rice and maize value chains with specific focus on impacting market systems in which farmers operate, the team held series of meetings and interviews with key market actors in Dar, Iringa and Mbeya, which included, but are not limited to: NAFKA team, development partners, private sector actors such as millers and traders, financial institutions (MFI, banks, SACCOS), university faculty, farmer associations and farmers, and input suppliers.

Home office staff, Alex Pavlovic, and NAFKA grant officer Pius (???) conducted the initial ground scoping mission from November 11 to November 17, 2013. This preliminary (draft) report is the outcome of that mission and provides an outline for activities to be conducted in each region, potential partners and their roles, and suggestions for quick entry points for launching pilot expansion activities this year. Report is designed for internal use only and serves as a platform for further discussion by NAFKA team.

I.1 Iringa Overview

Districts to target per USAID request: Iringa Rural and Kililo

Characteristics: Predominantly a maize production area with several pockets of rice production, mostly around irrigated areas. Planting for maize to start in late November and to last through January. Similar timeline for rice.

Potential partners/actors on the ground for getting activities quickly of the ground:

- a) Rudi is an existing partner of NAFKA with already established, strong presence on the ground in Iringa. Namely, they are currently supporting an association called Iringa High Quality Production Association with approximately 1,500 members (predominant maize production but they have rice groups as well), with SACCOs in surrounding area. They are providing traditional types of support such as training on production and collective marketing (hording essentially i.e. speculative marketing). However, their staff on the ground does have good local networks in place and capacity to implement more complex activities with marketing and financing options included. We know them well, they are an existing sub so it would makes sense to run a small pilot with them this year.
- b) One Acre Fund – they are working with 4,000 farmers in Iringa Rural, maize only. They are essentially an input supplier with embedded financing option in partnership with a

local MFI, that also provides some marketing training for farmers, mostly on good storage practices. Not yet fully sustainable and still dependent on donor support. They could be considered a second option for getting things going there quickly this year, though they are not a genuine local firm, so more of an organization to 'coordinate' activities with i.e. work in the same area with same farmers in the future.

- c) Cheetah Foundation – a small American NGO that promotes itself as 'local investment and financing' institution but is far from being sustainable and still depends on donor money... M.O. is sourcing funds at lower interest from bigger banks and then recycling them to farmers with additional fees and interest being collected (20-25% by the time it gets to the farmer). Their 'added value' is that they facilitate output sales to local millers... So really nothing a local MFI wouldn't do. Fintrac under TAPP gave them a grant. They are working with 300 farmers so scale is a serious issue here. They have also been very aggressive pursuing funding from us and other sources. We could consider them as a partner if no other local MFIs are available, but certainly no grant support under any circumstances.
- d) Tumini University – Iringa MFI Institute. This could be a very strong partner for us. University staff established a private company, supervised by the University, which is essentially an APEX for SACCOS, called Iringa Associations Limited... they have approximately 18 groups now totalling 5,000 farmers with another 40 groups they are currently assessing. Repayment rate through their SACCOS is at 90% + with 250 USD average loan... Really well managed, already received capacity building grants in the past from EU donors. They can and are willing to expand in other areas and we could potentially use them as standard barriers for SACCOS we are working with. Also, we could work on a possible link to an international financial service provider or Tanzanian Investment Bank, to get a low rate preferential loan to be distributed to SACCOS for lending, and supervised by this APEX body, effectively reducing farm level interest rates and pumping much needed liquidity in local communities. The APEX is set up as a PLC which would guarantee that shareholders (i.e. SACCOS) will have to perform in order to remain members. This is an excellent partner with technical back up from really vibrant and active university faculty. Can do some initial work on training SACCOs this year but their role should be more strategic. Came recommended through USAID Iringa staff.
- e) CRDB – a commercial bank that is not overly friendly when it comes to lending to agriculture - 25% interest on investment and working capital loans, against 160% collateral... no room for negotiation. I would suggest training on ag. financing if we are able to pull them into some of the activities but not really our target partner (only 10% of their lending portfolio goes to ag.).
- f) Tanzania Investment Bank – gov. bank with vested interest in building rural communities... def. a target partner with flexible lending options that we should engage to support SACCOS apex body, individual SACCOS, MFIs or direct lending to farmer groups. Nothing for this season though, but we should start planning early with them and other partners for the following year.
- g) Kindali Miller – one of several maize millers in town, with capacity of 15 MT/day, very interested in working directly with farmers, providing training or any other services he

could manage. Eager to work with us or anybody else that will help with expansion of his business. Mostly works by recycling his own cash as 'financing' is too expensive – a problem that was apparent for all actors in the market system. He has village collection points and is already working with association of farmers called Rumuri. We could start up activities in the region for this year through him but justification for selection process could be tricky and we would really be putting money through a partner that we are not familiar with.

Recommendation: We start up activities through Rudi b/c of our familiarity with them and look at options for amending their subcontract. It could be a long process but we can shift some of the money they already have and get them going early... contract amendment process might take some time but so would the grant awarding process to any other institution, and we'd have to wait until they get the money to launch activities. For modality of implementation, please see below – section II Models. Alternative option would be to give money to One Acre Fund or one of the millers to push activities into communities though that exposes us to several risks such as competition and handling of funds.

I.2 Mbeya Overview

Districts to target per USAID request: Mbeya Rural, Rungwe and Mbozi. Mbeya Rural is basically an extension of Mbarali, huge rice production area with lots of potential partners. We could ask USAID to extend our operations there; I don't think there would be any objections, it's essentially the same region. Mbozi has been split in two districts to add Momba in the northwest, which is rice production area – we should clarify this with USAID.

Characteristics: Predominantly a rice production area but there is also a good amount of maize production. Planting for maize to start in late November and to last through January. Similar timeline for rice.

SNV – they are basically doing the things we are proposing to do through our value chain approach, but they are much smaller and with insufficient funds to support any of the actors or invest in any VC improvements. They do have some excellent people as staff – poaching considerations? Their operations are mostly focused on Mbarali and Kyela (see the attached map) where they are working with 6 associations and 4 SACCOS in the area, mostly providing advisory services for building village level contracting schemes, linkages to input suppliers and finance, and strengthening associations. We could coordinate with them on the ground, but I would be hesitant to implement anything through them – again, reasons being: competition, timing, and the fact that they are a bit of a competitor to us.

George Metenda (Kyela Associations) – a partner that was recommended in the initial proposal, with large capacity that already works in the farming community, provides financing to high performing group and can coordinate extension with government agents on the ground. Currently works with 15,000 farmers so scale for the project has high potential. We can a) develop activities to strengthen his existing network with our interventions, b) provide financing support for further expansion in new communities and c) look at possibly bringing in equity partners to expand his operations – which was welcomed by him, at least initially. Has

issues with working capital financing. We could possibly channel activities for this year through him but we'll face the same issue as with millers/OAF in Iringa.

Mwivata – existing partner that currently works with NAFKA. Same as Rudi, we should refocus their work but this is the easiest entry point. In Mbeya, they are actually operating as an APEX of several farmer associations and have successfully lobbied the government to build an impressive trading platform with storage and mills for farmers, with support of EU funds. They are doing trainings on FAB with support from AGRA but no activities related to input orders facilitation or finance. In the same area there are two SACCOS that are operational but need capacity building (possible linkage to the APEX mentioned above in the Iringa section). Their list of association also includes and AMCO of about 120 women that is exceptionally strong. Possible activities for us would be linkages to big buyers to lift produce from the trading platform, investment in rice grading machine (sizing the grain), capacitating associations and SACCOS and injecting capital this year to run a contract farming demo as a pilot to learn for the following year's scale up.

Export Trading – large scale maize buyer (Indian) doing purchasing through their own agents in villages. Claim to be paying government rates for maize, though this is debatable – I would try to secure that in a forward purchasing agreement with our associations, though they buy product as is i.e. no standards, just white maize. If we are looking to create some value through quality differentiation, linkages to WFP and gov. grain trade unit (not sure of their actual name) should be considered – apparently, their prices were 25% higher this season. I would not envision doing anything through them this year.

Raphael Group – see George Metenda, exactly the same profile and possibilities. This guy is also in desperate need of financing for warehouse... With few smart investments with him we could get A LOT of leverage in terms of building services in the communities. Distributes input on credit to limited number of high performing farmers at 5% interest rate!

ASA – Agricultural Seed Agency, ideal partner for us, semi government institution that is engaged in promotion of private sector participation in seed multiplication, identification of new varieties and training of farmers... some of our associations could become centralised producers of high yielding varieties of rice. This needs to be explored further and tied back into 'bulk input ordering' for price reduction.

PRIDE – an MFI that does mostly urban lending but has started lending in rural areas through group based schemes... Present in both Mbeya and Iringa and eager to get engaged with the project... Phone interview, the person was on vacation and promised to get back to us this week to schedule a meeting.

Recommendation: Same as Iringa - we start up activities through Mwivata b/c of our familiarity with them and look at options for amending their subcontract. It could be a long process but we can shift some of the money they already have and get them going early... amendment process might take time but so would grant awarding process for any other institution and we'd have to wait until they are ready to go. For modality of implementation, please see below – II Models. Alternative option would be to give money to one of the millers to push activities into communities though that exposes us to several risks such as competition and handling of funds.

II. PROPOSED MODELS

1 Target clients- beneficiaries:

Smallholder farmers organized in farmers organizations (FOs) i.e. Agriculture Marketing Cooperatives, Farmers Associations, SACCOS – improved production practices, higher outputs and better marketing practices (not necessarily maximised profits, but knowledgeable marketing).

2 Implementation model/s:

Village/FOs based contract farming arrangement – promoting business to business relationship between producers and processors/buyers supported by other support services such quality inputs, extension advice, BDS with the village level government as a mediator to enforce compliance. The village/FOs based contract farming is intended to speed/motivate a process of processors/buyers and producers (farmers) to engage in producing and selling graded paddy and rice, and maize and this would include:

- a) Support for millers to structure appropriate contracts and deliver as many services as possible to farmers i.e developing the relationship between FOs and buyers/processors to address business issues facing both parties, such as markets, crop quality, agro-inputs, storage facilities, extension services, BDS and finance...
- b) Parallel support to SACCOS tied to villages/FOs that are ‘contracted’ for lending and supporting initiatives financially, for inputs mostly, using possible three way agreements (FO or buyer-SACCOS-Input Providers). Tightly manage SACCOS and their operations through an APEX body (which can be later supported through grants, capacity building from experts from home office to develop long term development strategy, and links to international or domestic sources of low interest funds to support SACCOS.
- c) Build capacity of contracted FOs to a) coordinate members’ network, select good, high-performing farmers, b) collect bulk orders of inputs to reduce prices and increase adaption rates, and c) coordinate bulking/marketing efforts if and when needed. Very specific program to be designed for Rudi and Mwivata to conduct these associations capacity building efforts (this is a lot of work, most associations are far away from being sustainable or super functional so this is the reason why I’m suggesting aggressive focus on one specific area – input order aggregation), with IFDC support on input supply chain management side and possibly starting quality seed production with specific associations.
- d) Leverage gov extension system for production training through capacity building of their agents by NAFKA (Dan’s work) and embedding financial support for their operations in grants to millers, associations etc.
- e) Overall, focus all efforts on specific geo. areas and specific groups of partners.

Alterative models:

- a) Support millers or input providers to deliver specific services/inputs to farmers and 'keep it simple', or
- b) Support input dealer networks to expand into communities and continue to deliver training to farmers and FOs

Supporting activities for any of these models:

- a) Policy advocacy through TARIPA to coordinate with gov. and collect realistic industry data on production and rice availability in country to gov. at all times. Efforts should be made to come up with models proposed by industry/TARIPA stakeholders to mitigate 'hording' practices and creation of artificial lack of supply to increase prices... Price benchmarking by the gov. is probably not an option but it's clear that this issue plays a big part in gov. decisions to import rice.
- b) Impact investment advisory services i.e. preparing processors and other agri-business enterprises to become bankable and investment ready and link with impact investors and financial institutions.
- c) Strong coordination with local gov. to support all and any of these initiatives.

Proposed areas for NAFKA investments this year (2013):

Amend contracts for Rudi (Iringa) and Mwavata (Mbeya) to run a small, contract farming pilot to get comfortable implementing these schemes (build local capacity i.e. organizations that can 'do what we do'), prove that this is doable and present it as a model for scaling up in a major way next season:

- I. Amend contract for these two organizations (or shift funds if they have excess) to do the following:
 - a. Secure a small forward purchasing contract with a local buyer/miller (we can assist with this) –
 - b. Based on the contract, work with an association to identify the group of approx. 300-500 farmers that will deliver against that contract... assess their current capacity and production practices and output, use of inputs, desire to participate in the initiative etc.
 - c. Based on this assessment, work with miller and NAFKA to identify supplier of specific inputs – at the distributor level, and place a bulk order
 - d. Through a local SACCO, extend a loan to association for this purchase... for this year, through Rudi and Mwavata, we can put in rotational grant of 10-15K to support lending by SACCOS and reduce their risk exposure (or whatever amount would be 50% of what they will actually have to lend)... we just need to make it clear that this type of a grant is only for this year, to prove that pilot is successful! Miller could assist with this process if willing... for the next year we can work through SACCO APEX to facilitate these loans in partnerships with input suppliers.
 - e. Monitor distribution of inputs, deliver capacity building trainings for associations

- f. Monitor sale and delivery of grain to miller
 - g. Produce a report on delivery rates, loan payback rates and improvements in production due to better inputs use
 - h. Each activity should cost no more than \$30K.
2. In following years we would take this to scale by extending grants to millers, SACCOS APEX body, associations, input distributor working with associations, and possibly more money for Rudy and Mwivata.
 3. Proposed FOs/Schemes and partners that NAFAKA can support for scale up, in addition to those already listed in this report:

Mbeya:

Mbozi/Momba District

- i. Namigongo Scheme – Kamsamba AMCOS
- ii. Inyendwe Scheme - Msangano SACCOS

Mbeya Rural/Mbarali District

- i. Mshewe Scheme & AMCOS
- ii. Kapunga Smallholders Scheme & AMCOS & SACCOS
- iii. Igomelo Farmers' cooperative
- iv. Lwanda Majenje Scheme & AMCOS

Rungwe/Kyela district

- i. Kasyabone-Kisegese Scheme
- ii. Ipinda AMCOS & SACCOS
- iii. Ngana Scheme & AMCOS
- iv. Ikolo AMCOS & SACCOS
- v. Makwale AMCOS

Iringa:

Iringa Rural District

- i. Idodi Farmers Association & SACCOS
- ii. Tungamalenga Scheme & AMCOS
- iii. Magozi Scheme & SACCOS
- iv. Mkombozi Scheme & AMCOS
- v. Mapogoro Scheme & AMCOS

NOTE: If the team feels we do not have sufficient capacity to support these initiatives, we can focus more on the production and expansion/replication of Morogoro activities. Also doable through Rudi and Mwivata to start things on the ground this year.