TRIP REPORT -- *MARKET LINKAGE OPPORTUNITIES*

7th June 2013

This publication was produced for review by the United States Agency for International Development. It was prepared by ACDI/VOCA for NAFAKA

TRIP REPORT - *MARKET LINKAGES OPPORTUNITIES*

CONTENTS

TRIP REPORT OVERVIEW

One page maximum including: Objective of Assignment and Scope of Work

OBJECTIVE

- Determine the most strategic grain buyers with whom to cultivate prospective buyer relationships for the groups with which NAFAKA works.
- Develop strategic plans for developing NAFAKA relationships with the identified prospective buyers
- Establish most suitable market linkage activities for NAFAKA's primary beneficiaries - smallholder farmers

SCOPE OF WORK

Consultant: Sophie Walker

Dates of Consultancy: 27th May – 8th June 2013

Report to: Deputy Chief of Party

Specific Tasks:

- Determine the most strategic grain buyers with whom to cultivate prospective buyer relationships for the groups with which NAFAKA works.
- Visit these buyers and determine which are the most strategic buyer relationships to pursue.
- Develop strategic plans for developing NAFAKA relationships with the identified prospective buyers.
- Assist in identification and development of simplified buyer contracts for farmer associations.
- Development of GRN's and simplified warehouse receipts to prepare farmers towards formal warehouse receipt systems.
- Train selected association leaders in arbitrage using model developed by East Africa Grain Council.
- Value chain mapping – present existing marketing chains and identification of prospective clusters such as the following:
    - Input suppliers as output off-takers – assist with development of a strategy to engage the agro-dealer network we have developed as aggregators.
    - Strategies for aggregators as an alternative source of finance to farmers with paddy as collateral – recommend how to formalize with associations.
    - Strengthening of trade associations, e.g. TAMAGRASAI traders – sensitization and capacity building through buyer roundtables.
- Help structure buyer round table sessions with the possibility of forming a consortium of buyers to support our initiative.

Deliverables:

- Training workshop on arbitrage for association leaders.
- Draft report of the completed tasks identified above.

- Final report as approved by the DCOP.

DELIVERABLES ASSOCIATED WITH TRIP

- Trip Report
- Identify key market linkage activities for NAFAKA to concentrate over the next year

SPECIFIC ACTIVITIES

The SOW was discussed with DCOP and revised to concentrate on the following three main activities

ACTIVITY 1

- **Review NAFAKA's market linkage related indicators**
  NAFAKA has a number of indicators which cover market linkage activities the majority of them come from the Feed the Future indicators and then two additional project orientated indicators.
- Gross margin per unit of land
  - Value of sales
  - Quantity of sales
- Value of incremental sales
- Number of private enterprises, producer organizations etc with new management techniques
- Number and value of buyer agreements (Project indicator)
- MT sold maize, rice and paddy sold by producer associations (Project)
- Total increase of installed storage capacity
- Value of agricultural and rural loans
- Number of MSMEs, including farmers, receiving USG assistance to access loans
- Number of MSMEs, including farmers, receiving business development services from USG assisted sources
  In terms of value of sales the project has yet to sufficiently determine when the sale price will be established. Farmers sell on a month by month basis to address their cash needs. The value of the commodity changes from month to month - however it is impossible for the project to monitoring thousands of farmers monthly sales. Probably the best way to measure an increase from one year to the next is to fix a point in time - for example one month after harvest - and determine the farm gate price/ ex store price then, and use that to determine the value of the commodity the farmers have available for sale that season based on whether its sold farm gate or ex store.

  The indicator measuring increased storage capacity refers to both on farm and off farm storage and refurbished or new storage. Therefore the project should count both the refurbishment of off farm storage sites where equipment to improve storage handling as been added, as well as refurbishing on farm storage (such as adding rat guards, repairing roofs, doors, walls, floors, platforms to store on etc) and building cribs or small stores.

  However none of NAFAKA's indicators really demonstrate the impact of improved marketing - which is the change in sales price achieved due to better marketing - this compares the old method of selling with the new method of selling (less any additional costs incurred) and measures the increased income generated (it does not compare last year's price with this year's price which is a product of supply and demand and not change in marketing practices).

  The NAFAKA team discussed some possible alternative indicators listed below but recognize the need to take this further with a M&E expert
- Change in price difference (at harvest and 6 months later) between trader price in closest trading/milling center and farm gate price (as markets get more competitive this price difference should shrink – however need to have widespread impact to make a noticeable difference to the market)
- Change in knowledge of marketing options

- Number of farmers making informed marketing decisions (marketing plan, price discovery, assessment market options directing a sale)
- Number of farmers who report improved satisfaction with the way they sell their commodity

ACTIVITY II

- **Review NAFAKA's market linkage efforts so far**

  Up until now NAFAKA has concentrated on increasing farmers productivity and building their linkages to farmer groups. Until smallholder farmers have reliable volumes of commodity to sell - and see that the project has been responsible for increasing that surplus to sell - they are reluctant to trust the project's suggestions on how to handle their 'income'. NAFAKA has worked with farmers within the Kilombero Plantations Scheme to support their understanding of the marketing opportunity Kilombero offers.

  Linking smallholder farmers to new markets is not always the right option when these new markets are at the other end of such access routes that NAFAKA farmers endure in the picture to the left.

  ACDI/VOCA's work through the Kenya Maize Development Programme demonstrated that farmers who received training on marketing skills increased their income by 9.9% compared to farmers who did not receive such training. MSU research shows that there is significant variation in a village between the lowest and highest prices different smallholder farmers got on anyone day – and that this difference was based on market knowledge and market plans.

  While the initial scope of this consultancy was to look at ways of linking NAFAKA smallholder farmer groups with large commercial buyers after assessing the current capacity of the farmer groups to even estimate the volumes they might have to sell it is clear that they are unready for more sophisticated market linkages and the initial focus should be on improving the way they currently engage with the market and some limited additional activities talked about below.

ACTIVITY III

- Assess opportunities and advise NAFAKA on best market linkages activities to concentrate over the next 12 months

  NAKAKA needs to train farmers and farmer groups to develop their marketing skills so instead of passively accepting what the market is on the day they decide to sell, they start working on marketing strategies.

When to sell	Strategy based on anticipated cash needs and market awareness
Who or where to sell	Knowledge of where the markets are, who is buying in those markets, and who is buying from outside the markets
What to sell	What does the buyer want – what premium are they willing to offer based on a different product (cleaner, dryer, bulked, milled, variety etc)

Just as farmers are trained to work out their cost of production – they should work out their cost of marketing through different channels and options and when they need to market for their cash flow needs. Most farmers' main cash flow needs center around their agricultural agendas and their children's school fees. They store their grain as other people would place their salary in a bank account - and when they need cash they swap the grain for cash - rather than actively market their commodities. Based on these cash intensive activities it is possible to develop written down marketing plans and start recording prices received and market price changes.

- Maize cash calendar (indicative)

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
School Fert				School	Harvest			School	Land prep Seed	Land prep Seed	Christ mas Fert

- Rice cash calendar Kilombero (indicative)

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
School Fert	Pest		Fert	School	Harvest	Ha rve st		School	Land prep	Land prep	Christ mas Land prep

- Rice cash calendar Mvobero (indicative)

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
School Land prep	See d	Fert		School	Pest		Har vest	School			Christ mas

NAFAKA will carry three main activities to support marketing and market linkages. On the most basic level and through tools such as Sell More For More - farmers and farmer groups will be trained on the core basics of marketing.

In developing SILC groups - NAFAKA has been following a model where the person training the SILC group graduates their training into paid for services to the group and becoming a service agent. NAFAKA intends to work with these service agents, and the VBAAs to train them to offer marketing services to their clients - offering a more transparent service than currently provided by the dalalis (field gate agents/traders).

Finally there are some unique opportunities to build specific linkages between the more ambitious commercial off taker and the farmers. These commercial off takers will be handpicked (and limited in number), have regular customers requiring supplies throughout the year – this ensures that the operator needs commodity every day/week/ month and will therefore be interested in buying from the farmers repeatedly over time. Also depending on competition at times the operator might be able to give slightly more favorable terms to farmers s/he works with to attract their commodity so s/he can secure his supply. The aim is to develop the relationship between the commercial offtaker and the farmer. The farmer will start using the commercial offtaker's store as their storage point, on any day the commercial offtaker will have a buying price - if the farmer wants to sell he can check the commercial offtakers price - if attractive he can simply sell to him, if it is not attractive he can pay a storage and handling fee (negotiated when the commodity is deposited) and remove the commodity to sell to someone else. The benefits for the commercial offtaker are that s/he can fill the unused space of his store with grain he does not actually have to finance, because s/he has a regular need for commodity throughout the year when the farmer comes to sell - he can buy and process, while the storage charges are agreed up front - the commercial offtaker can offer slightly more favorable terms to those that sell to him rather than remove from the store. Finally since the commercial offtaker has stored the grain - they know the quality of the grain and how it has been stored. The farmer benefits from storing the grain more effectively, and being able to market more simply to someone further along the supply chain than they can normally access through the farm gate agents/traders.

Summary of the meeting with Kibaigwa Flour Suppliers and the potential next steps

- Situated in Kibaigwa close to the market Kibaigwa Flour Suppliers owned and run by Mr. Sebastian Msola has a 25mt maize mill and access to storage (same business man also runs a sunflower processing plant, a large scale farm and a diesel garage)
- Tuboreshe Chakula has provided a grant to upgrade the mill to 70mt on a new site
- NAFAKA granted Sebastian two rippers which have been incredibly successful, so much so that Sebastian has had the local roadside artisans to make additional rippers and farmers have been demanding their services.
- While the rippers were greatly in demand – many farmers were not able to pay and promised to pay Sebastian at harvest, Sebastian also provided inputs (seed and fertilizer) to around 506 farmers on similar terms (6 large scale farmers 50 – 70 acres paid between 70 – 100% on input costs, 300 small holder farmers on 200 acres paid ~50%, 200 farmers paid little bits and pay off the balance laboring on Sebastian's farm). Sebastian provides a similar scheme to his sunflower farmers
- Sebastian has tied up nearly all his cash flow in loans to the farmers, he has been unable to buy up stocks of maize to put through his maize mill and has had to resort to adhoc milling when he can find grain at the right price in the market.
- Sebastian has also been pulled away from his business by training needs of the farmers

- The more Sebastian mills, the more efficient his mill is and the lower his processing costs are
- A number of large scale farmers and traders might want to mill their maize at Sebastian's mill, have it bagged into his branded bags, and then market it themselves
- Sebastian will charge for the milling service, along with packing in the Kibaigwa bags; this will allow Sebastian to firstly more fully utilize his new mill's extra capacity and secondly extend recognition of his brand to larger markets
- This will allow depositors at his warehouse to either sell the maize to Sebastian who will mill it and market it – or to process the grain and market it themselves

NAFAKA's next steps;

- Work with Sebastian to map out the cash flow needs of his different businesses ultimately to establish what he can lend out the farmers realistically
- Using the SILC methodology bring farmers into savings groups, work with the farmers to plan to put aside money for input needs, work to register these groups with support from the local government departments
- Work with Sebastian and input suppliers to see if there is another model to supply inputs to the farmers without tying up Sebastian's cash flow
- Work with Sebastian to develop two new support services to his maize (and sunflower) business;
- 1. Warehousing services (farmers deposit at harvest and sell later most likely to KFS)
- 2. Branded toll milling

RECOMMENDATIONS

- Develop an intelligent custom indicator which will reflect marketing improvements at farmer and producer group level (Who; M&E and DCOP)
- Explore the possibility to train all NAFAKA (including subs) staff involved in marketing through the AELA marketing training course (DCOP) if feasible enroll trainers, monitor progress (Marketing Manager)
- Train farmers, producer groups and SILC groups on how to market – assist with identifying current market channels and costs (trainers monitored by Marketing Manager)
- Have a number of farmer trader events prior to and during the marketing season where 3-4 traders operating close to producer groups, meet with leaders of these groups to talk about the market, expectations and constraints for both sides (Marketing Manager)
- Explore ways for traders to disseminate market prices to producer groups (Marketing Manager)
- Work with 2 – 3 commercial operators willing to integrate smallholder farmers into their operations over time (DCOP) (e.g. Kibaigwa Flour Suppliers)

CONCLUSIONS

- All NAFAKA producer groups are still in the very early stages of development, none are able to estimate potential volumes in the coming season and therefore are not at the moment viable partners to link with the large scale traders
- Most of the really large scale operators want to purchase paddy/maize at harvest, store and speculate that price will go up
- NAFAKA needs to build marketing skills both at the farmer and the producer level and develop local market linkages first before trying more ambitious strategies and therefore should aim at a wider approach of better knowledge of how to market than individually trying to foster business deals
- Trade at the farm level is dominated by dalalis appointed/approved by the elders, changing this system to increase price transparency will be difficult - probably the best strategy is to work with government extension officers about changes in behavior, wider benefits of better marketing, and introduction of weighing scale (introduction of the weighing scales at farmer/dalali level might be an opportunity to bring about wider change)
- There are opportunities to work with visionary businessmen to try different models - in particular around commercially operated storage services linked directly to commercial off take (eg miller runs a warehouse where farmers can store their grain, when they want to sell they sell to the miller since that is the simplest sales outlet - however the miller offers a fair price because the depositors can remove their commodity and paying just the storage fee if they do not like his price.

FINDINGS

- Medium sized traders operate through dalalis in the rural areas
- Dalalis are normally 'sanctioned' by the elders – traders come to the elders to ask who they should work with – it is likely that the dalalis pay the elders some 'fees'
- For the most part the traders advance cash to the recommended dalalis who then go out and buy the grain, the dalalis are paid a commission per bag, but they also have opportunities to make money on purchases from the farmers, transport etc – sometimes the trader will pay the farmers direct
- Most traders have aggregation points which the dalalis deliver the grain to, however if there is sufficient volumes at the farmer level and the roads are accessible traders will take their hired trucks out and collect bags (more for maize than paddy) (need a number of farmers with bags, plus aggregation centers so truck can be filled quickly)
- Trucks take ~100 bags – generally it takes 5 – 6 dalalis to fill it
- Prices remain the same over wide distances – i.e. transport distances do not differentiate prices – farmers closer and further out get the same price

- All traders talked to would like to buy using proper weighing scales – the dalalis and farmers want to use debes. 7 full debes makes between 100 – 105 kg in a bag
- Traders would be willing to come to the field and meet with representatives from producer groups, talk about how and what they procure, and start building up relationships with our producer groups
- Producer groups collective marketing should replace dalalis – bulking the grain and delivering it to either the traders aggregation point, or having it collected from them if the total aggregate volumes get to about 100 bags within the area the trader is operating
- Dalalis and their relationship with the elders and the community is embedded
- Changes to this balance will be resisted and some of NAFAKA's progressive farmers have been threatened to ensure they keep using the dalalis.
- Changing this behavior needs to start at the elder level; BCC should work to support this activity
- Sales at the farm gate are based on volume, not weight
- Dalalis and traders routinely demand over filled bags – often 105 – 110 kg
- Sales further along the supply chain are properly weighed and payments are based on 100 kg bags
- Therefore the price can seem the same at the farm gate and a further market (less transport) unless you adjust for weight
- This is hard for farmers to understand since they do not think in KGs but bags, and understanding the issues requires numeracy skills

U.S. Agency for International Development
1300 Pennsylvania Avenue, NW
Washington, DC 20523
Tel: (202) 712-0000
Fax: (202) 216-3524
www.usaid.gov