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# STAPLES VALUE CHAIN NAFKA ACTIVITY

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

**Consultant Report – Public-Private Partnerships and Expansion into Iringa and Mbeya Districts**

**ACDI/VOCA**

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# I. Executive Summary

The NAFKA Staples Value Chain Activity is a five-year task order issued by USAID under the Tanzania Feed the Future (FtF) initiative and administered by ACIDI/VOCA. NAFKA integrates agricultural, gender, environment and nutritional development efforts to improve smallholder farmer productivity and profitability within the rice and maize value chains in Morogoro (Kilombero and Mvomero Districts), Dodoma (Kongwa district) and Manyara (Kiteto District). NAFKA's goal is to sustainably reduce poverty and food insecurity by increasing incomes for smallholder farmers, including men, women and youth.

With second year of the project and some of the pilot models proven successful on the ground, NAFKA has tasked consultant to complete the following:

1. Revisit initial sustainability assumptions and models, and assess opportunities for higher private sector involvement in project activities
2. Identify specific interventions areas for engagement and preliminary partners (or partner profile) for building public private partnerships (PPPs)
3. Brief rapid assessment of expansion opportunities in Iringa and Mbeya

Consultant focused on assessing opportunities under three key objective areas of NAFKA – production, marketing and finance, with attention given to cross cutting interventions, such as gender and youth and active engagement of the local government.

The assignment lasted just under 6 weeks, from November 5 until December 18, 2013.

## II. Specific Activities of the Consultancy

### Strategic Context:

In the past two years, NAFKA has been operating in a setting that has presented several obstacles, but also opportunities for engaging smallholder farmers and building better service provider networks in order to sustainably improve farmer livelihoods.

Specifically, from the production side, where the majority of NAFKA activities have focused so far, the major impediment to learning on adoption of new technologies has been the fact that farmers are cash-strapped particularly for early farm prep activities, farm maintenance and pre-harvest stages. NAFKA has done a lot of promotional interventions on the ground focused on GAP and introduction/awareness rising about quality inputs and adoption rates have been substantial, but localized access to higher quality inputs and sustainable GAP information sources still remain a problem in some areas. The government extension department has limited resources and capacity for outreach, and GAP capacity at the service provider level (like input suppliers) is also predominant. NAFKA has been actively working to address all of these issues through building intensive outreach schemes through the VBAA model, capacity building of the local input retail sector and active engagement of the government extension office.

From the finance side, production activities are mostly impacted by farmers' need and 'easy access' to money, which compels farmers to access informal cash credit facilities, i.e. borrow money from bigger farmers and local entrepreneurs. These transactions are usually performed with very high interest rates because payments are mostly done in produce in-kind, based on informal loan agreements, with no transparent, official track record of exchange. The finance institutions working on providing agricultural financing near the farm gate are few and with very limited outreach, insufficient liquidity and burdensome administrative procedures – which effectively reduces their capacity to lend to smallholder farmers sustainably. Donor-driven and government-sponsored credit programs target mostly specific beneficiaries and agricultural commodities, are small in scale and their subsidized interest rates usually lead to primarily large farmers served and non-farm financial needs not addressed. More importantly, financial institutions not operating sustainably in that setting and the overall incentives for entering

agricultural arena are limited. Lending sectors are not being developed. Overall, the financial system in the country lacks liquidity; the focus on agriculture is limited and government policies often impact lending structures.

The marketing sector is mostly dominated by traders with available cash on hand, and hoarding practices are prevalent at every level of transaction. Near the farm gate, millers dominate the 'first level' marketing option for farmers. Overall, the limited storage and processing capacity near the farm gate, as well as very low utilization or availability of financing options, further impacts ability of farmers to take full advantage of marketing opportunities. On a policy level, import/export bans result in temporary supply and pricing shocks.

### Productivity:

NAFAKA has been engaged in rapid outreach in partnerships with various input companies, government extension and research institutes. The primary mechanism for facilitating this outreach and delivering services in the community has been the VBAA model, along with association building and lead farmer network development.

The VBAA model has shown high promise so far to reach smallholder farmers who would otherwise not have access to GAP sources and quality inputs. Going forward, NAFAKA will focus on strengthening the network of VBAAAs, in partnership with leading wholesaler and input companies, to turn them into a network of sales agents and service providers on the ground. This model will also provide opportunities for creating opportunities for youth on the ground to be engaged in spraying services provision, as well as stronger partnerships with governmental extension departments to train and certify VBAAAs and thus add to their knowledge pool and reputation in the communities. This also serves as PPPs between input companies and government extension departments.

The activity plan below outlines steps for engaging wholesalers and input companies and building permanent links between them and the VBAAAs, turned VBASA (village level agricultural sales agent). A potential partner in this activity has been already identified in Dodoma (AgroTech) and others will be brought in based on:

- a) Private sector companies already working with the project
- b) List of available companies produced by earlier NAFAKA consultant reports

Annex I. Proposed Implementation Plan For Farm-Gate Input Delivery System (FGIDS) -- Wholesale/Village Distribution network Partnership	2013	2014												2015											
	Project Month																								
Activity	d	j	f	m	a	m	j	j	a	s	o	n	d	j	F	m	a	m	j	j	a	s	o	n	d
Preliminary RFA released to 4-7 wholesalers for simplified concept note.																									
Four wholesalers identified and approached to discuss SOW																									
Hold an internal meeting with IFDC, FIPS, Finance lead and Sr. management to discuss steps forward																									
MOU signed with wholesalers willing to participate in the activity																									
SOW for the consultant to assess wholesalers developed																									
Organize an assessment/training by the external Wholesaler Network specialist/consultant for the wholesalers																									
Finalize 4 grant proposals																									
Ensure laws, regulations, and supporting legal items support lien taking and perfection to enable WHR																									



market. Thus, informal finance dominates the sector. Donor-driven and government-sponsored credit programs target mostly specific beneficiaries and agricultural commodities, are small in scale and their subsidized interest rates usually lead to primarily large farmers served and non-farm financial needs not addressed. More importantly, financial institutions are not operating sustainably in that setting.

NAFAKA has already tested several models for addressing issues of lending in rural setting, with value chain finance activity with KPL and YOSEFO being the best example of that work.

Going forward, the team has developed plans to target two critical sectors under financial component:

- I. Localize formal financial service options through a) support for the SACCOs and b) promotion of a 'regional banking' model. SACCOs have been underperforming notoriously in the country, though there are several successful models, mostly those in irrigated areas and working around commercial crop production zone. Government influence in SACCO affairs (SACCOs are registered under the cooperative act, supervised heavily by government) and insufficient incentives for supervision in growth are the main reasons for some of the issues in the SACCO sector. NAFAKA will address these issues by focusing on supporting formation of SACCOs and SACCO independent apex/regulatory bodies, and build on commercial incentives (Iringa Hope Joint SACCOs Ltd as an example). APEX bodies will be built as commercial entities that will have strict compliance producers in place, treat SACCOs and shareholders and provide benefits in the form easier access to finance and training. MVIWATA has been identified as the partner for this activity in current zone of operations and Iringa Hope Joint SACCOs Ltd in expansion areas. The other model will be focused on 'regional banking' model i.e. expansion of small, vibrant, low cost banking options/facilities in rural areas/towns where these facilities currently don't exist (YOSEFO identified as a partner). Through these models, options such as farmer credit cards where multi-year line of credit is issued (reduces admin burden, builds trust) for specific products (quality control) in partnership with input dealers, for example, will also be explored.

2. The second area for targeting will be the continuous support for value chain financing, i.e., building models that allow farmers to receive products/services through existing commercial exchanges from service providers. To a certain extent, this model of financing is now predominant in rural areas but based on informal lending practices, which NAFKA will look to make more transparent and concrete. The models that have been discussed and that will be targeted in the following year include inventory financing with millers/WH operators, contract collateral (KPL model) and input credit models once the input wholesaler – VBASA model is fully developed.

## Marketing:

NAFKA marketing initiatives has been so far mostly focused on farmer organization development and capacity building at that level to store produce and sell outside of harvest and immediate post harvest periods when prices are traditionally low due to temporary farmer gluts. This type of marketing is very limited in Tanzania and NAFKA made inroads into organized group selling through pilot models with WFP, NFRA and KPL. These efforts are now being scaled up by developing strategic partnerships with these organizations:

- KPL strategic support document currently being processed.
- Gap year for WFP to assess P4P impact so no formal partnership is expected until 2014/2015 season.
- NFRA to be engaged prior to budgeting year in January of 2014 so they can budget NAFKA needs in timely manner. This will allow them to make payments to farmers at the time of purchase.

In addition, additional buyers such as Tandale Traders (TT) have been engaged and strategic partnership will be finalized in the upcoming months to develop forward purchasing arrangements between NAFKA associations and TT.

*It should be noted that NAFKA is engaged in creation of associations in current project areas where they have not existed before, which requires time for developing the capacity needed to engage organized buyers. For the expansion phase, it is recommended that the project engage only existing associations/AMCOS, considering timing constraints.*

However, it's important to note that great majority of the grain is traded through the much more developed millers sector. NAFKA will focus in the upcoming years on engaging this sector in a more structured way by doing the following:

1. Improving relations between millers and farmers through training and awareness rising.
2. Increasing millers capacity to store higher volumes and grade produce more efficiently.
3. Building inventory credit systems with selected group of interested millers who have shown high performance and engagement with farmers:
  - a. This approach will have to ensure that speculative behavior is controlled.
  - b. Farmers are not exposed to market downfalls or negatively-impacted by government regulations.
  - c. Proper linkages and understanding by millers, farmers and financial institutions are built.
  - d. Profitability aspect is enticing for all actors participating in the activity.

Discussions have already been held with two major millers in Mbeya and one in Iringa for the expansion phase to test the inventory financing models and millers currently working with NAFKA farmers in Morogoro to be targeted as well. The following is the immediate activity plan for the follow up in the 2013/2014 season:

Annex 1. Proposed Implementation Plan For Marketing - WR systems		2013											
Activity	2014												
	Project Month												
	d	j	f	m	a	m	j	j	a	s	o	n	d
Develop a list of WH owners on the ground currently working with our associations/Farmers; assess their WH	●		<input type="checkbox"/>										
Organize a meeting with WH owners; distribute a simplified RFA to solicit interest in partnering with NAFKA		●	<input type="checkbox"/>										
Those interested - trained on licensing requirements and assisted with proposal development; develop grant proposals for upgrading to meet requirements of TWLB; develop business plans for WH owners as the part of grant development process		●	<input type="checkbox"/>										
Registration WH owner with Business Regulatory and Licensing Authority with MOT		<input type="checkbox"/>	●	<input type="checkbox"/>									
Grants issued for upgrading		<input type="checkbox"/>	<input type="checkbox"/>	●	<input type="checkbox"/>								
Approach TWLB for inspection		<input type="checkbox"/>	<input type="checkbox"/>	●	●	●	<input type="checkbox"/>						
Approach financial institutions to link them and develop WHR system		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	●	●	●	<input type="checkbox"/>					
Sensitize associations on availability of the WHR system		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	●	●	●	●	●	●	●	●	●

## Expansion:

For this season, (2013/2014): The project is currently under expansion in Morogoro and our team is mostly preoccupied with this process. We are also initiating expansion into Mbeya and Iringa districts. Like any project of this size, financial management and administrative systems struggle to accommodate rapid expansion into new regions, so such expansion should be as simple as possible. Also, planting is almost finished so we cannot initiate implementation in Mbeya and Iringa districts in time for any production-oriented work. However, PHH and marketing activities are still doable, while we prepare to fully expand with our primary VBASA model.

As mentioned above, MVIWATA is present in both Mbeya and Iringa districts, and should be targeted for selecting one or two existing associations in each region they are already controlling; conduct an M4; develop their training/capacity building program based on the findings; and deliver PHH and marketing training.

This is also a good opportunity to start with collective marketing efforts immediately. The selected millers should be engaged for assessment with TWLB, engage in warehouse certification, and link to financial institutions. Millers can also be supported with grants to upgrade their facilities and train farmers on collective marketing and WR model – this is also an opportunity for building commercial storage in strategically sound locations.

## Target clients/beneficiaries:

Only established Agricultural Marketing Cooperatives, Farmers Associations, SACCOs will be targeted. It is probably too late to engage in any association creation at this stage of the project.

## Implementation model/s:

As discussed above, MVIWATA could be tasked with expansion through associations they are already controlling there. Below is the draft SOW for both.

- a) Work with NAFKA staff to identify one or two associations in each region to support in 2013/14 season.

- b) Conduct M4 assessment immediately and engage in qualitative assessment to focus specifically on their previous marketing performance, available storage and locally available millers (their capacity, willingness to work with farmers, etc.).
- c) Design specific training and capacity building effort against M4 scores and engage NAFKA staff in timely fashion to coordinate training delivery schedule as needed.
- d) Engage TWLB to certify association WHs or millers' WHs based on M4 assessment.
- e) Establish a link with a local financial institution to support inventory financing model for the upcoming marketing season.
- f) Awareness training in farmer community on the available inventory financing model (with millers if partnership is developed).

MVIWATA should submit early recommendation for warehouse upgrading grants for associations or millers. If this is done for the millers, training for farmers should be embedded in the grant document.

Expansion for the next two years:

From productivity side, the VBASA model is delivering the strongest results on the ground. As per the currently designed sustainability track, this model should be expanded through existing private sector partners and work on this should start as early as Feb/March 2014. Current VBAA networks in these two regions will be expanded and our capacity to develop new VBAA networks there on short notice needs to be further developed.

NAFAKA should then select at least two input wholesalers in each region and provide capacity building and grants to engage these VBAA networks and turn them into permanent sales agents on the ground. IFDC should be engaged to provide necessary capacity building for the wholesalers, and possibly VBAs (if they decide to go into quality declared seed production for example).

The target should be another 100 agents on the ground in each region for the next two years. This work should be done in close coordination with local governments and extension services to effectively create PPPs between wholesalers and government (something that FIPS is already doing well elsewhere) so VBAs turned sales agents

are ‘recognized’ in the communities. The NAFKA productivity lead should be in charge of driving this activity and meeting deadlines.

From the marketing side, millers that were mentioned in the report as well as those selected by MVIWATA could be supported through grants to a) develop inventory credit capacity and b) train farmers on collective marketing. At least two millers in each region should be supported – Raphael group and George Mtenda are excellent candidates in Mbeya.

From the finance side, engage with Iringa MFI institute to:

- a) Strengthen their existing network capacity, especially SACCOS in our intervention areas.
- b) Include or build new SACCOS into their network, overlapping with our intervention areas.
- c) Train SACCOS that are unwilling to join their networks and prefer to continue to operate on their own

This should be done through a grant as well (a limited RFA can be issued to financial institutions for this, though the Iringa MFI seems to be the only institution implementing the PLC apex model for SACCOS).

FIPS initiatives and linkages to the millers and the Iringa MFI institute could target the following associations/partners/geo regions (as recommended by several millers and stakeholders on the ground):

#### 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 Rural District

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

### Recommendations:

In order to support the increased level of effort required for marketing and finance activities, a strong Marketing Lead with established background in the milling sector and financial management capacity will be needed. Also, two mid-level financial professionals with experience in a) SACCOS and b) inventory financing/WRS will be needed.

Recruitment for expansion work in Mbeya and Iringa should focus on marketing personal, finance staff and one input industry expert with established history in wholesaling and retailing of inputs.

MOUs and grants with critical partners for marketing, finance and productivity activities should be fast tracked and completed in the first quarter of 2014.

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