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CONCEPT PAPER

COMMERCIAL AGRICULTURAL PRODUCTION AND MARKETING PROJECT

Contract No. 645-0229-C-00-9019

Prepared in association with:

United States Agency for International Development

and

The Ministries of Agriculture and Cooperatives;
Commerce, Industry and Tourism;
Education; and Finance
Mbabane, Swaziland

Prepared by:

Mike Boyd-Clark
Mark Wood
Bart Sensenig

Chemonics International Consulting Division
2000 M. Street, NW, Suite 200
Washington, D.C. 20035

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SECTION I
CONCEPT COMPONENTS

A. Background

Originating from work of the Commercial Agricultural Production and Marketing (CAPM) Project, the concept for a redesign and extension of the project has evolved toward an action-oriented means of encouraging more rapid development of private-sector marketing. The activities necessary to achieve this goal would facilitate the production and sale of horticultural produce by small-scale farmers in Swaziland. In this paper, the implications of the concept are analysed, and the ideas emerging from it are elaborated. The key components of the redirected concept are the need for:

- An emphasis on small-scale farmers
- A private-sector orientation
- Action-oriented objectives
- The development of horticultural products and markets
- Visible, quantifiable results in the short-term

It is within the boundaries dictated by these components that the concept has been expanded below.

The need for the development of commercial horticultural production in the small-scale farming sector is recognised by the Government of Swaziland (GOS). The Prime Minister of Swaziland, Mr. Obed Dlamini, addressing a group of small-scale farmers, as reported in the Times of Swaziland, is quoted as saying: "...there is a need for the Swazi nation to adopt new methods and new strategies in their approach to farming...Swaziland is endowed with wonderful climatic conditions. With better organisation and motivation, we can produce food, such as vegetables, all the year round..."

B. Horticultural Marketing

The central idea shaping the redirection of the project is that the most effective means for stimulating a profitable and growing horticultural industry is orienting Swazi production to meet the requirements of regional and overseas markets. Developments in Zimbabwe, Kenya, Lesotho and other countries have demonstrated that an export orientation is a powerful stimulus for the development of a horticulture industry and small-scale farmers. Horticultural industry that depends entirely on local marketing is hampered by seasonality of supply; glut alternating with deficit, and non-competitive quality of product and presentation. Moreover, the relatively small and constrained character of the local market inhibits the development of a horticultural marketing chain.

- Need info on project costs
S. Gov. of GOS industries

Conversely, penetration of export markets with produce which a country can grow and offer at a competitive advantage, can lead to rapid development of the horticultural industry. Larger markets have overcome the periodic gluts, while exacting international standards have resulted in significant improvement in the quality of the product and its presentation. This, together with the introduction of new varieties, frequently leads to an increase in the demand for horticultural products on the local market. A strategy to penetrate new and bigger markets carries with it a motivation and vitality that is not found in the defensive strategies of import substitution and local market protection.

C. Potential

not attached

The Technical Analysis (Section II) and the Sociological Analysis (Section III) have shown that Swaziland has strong potential for competitive advantage in regional and overseas horticultural export markets. Varied topography, plenty of water for irrigation, suitable soils and climates suggest that the country can produce a wide range of fruits and vegetables. A potentially hard-working and profit-motivated community of small-scale Swazi irrigators indicates that Swaziland could supply produce at competitive prices. The fact that small-scale producers will be operating in an irrigation environment where there is relatively less capital cost, and that the opportunity cost of their labour is lower than that in the larger commercial sector, ensures that small-scale farmers will be able to produce some products more competitively than their larger-scale counterparts. This in turn, ensures that the proposed marketing operations will continue to find the small-scale irrigators an attractive source of supply.

The Technical Analysis has demonstrated that much is known about the productive capabilities of a wide range of crops that can be grown in Swaziland. In recent years a significant amount of horticultural research has been done which shows that while the country can provide marketing and, to a lesser extent, technical advice to farmers, these remain production-limiting factors.

A Financial Analysis (Section IV) shows that there is scope for commercial marketing operations that would link the needs of the various regional and overseas markets with the productive capacity of the Swazi irrigators.

D. Development of Horticultural Marketing in Swaziland

Two major question the CAPM redirection and extension concept is designed to respond to is: "Why hasn't Swaziland's business community responded to opportunities presented by horticultural marketing on the export markets?," and "Why hasn't there been the spontaneous development of one or more horticultural export marketing companies in the country?."

While Swaziland has a great deal of information on the kinds of horticultural crops that can be produced, there is a dearth of expertise and literature for regional and overseas horticultural marketing. There are no skilled horticultural export marketing personnel operating in Swaziland at present. While entrepreneurs do take risks, the risks to a business exporting fresh vegetables and fruit from Swaziland would probably appear too great to the ordinary Swazi businessperson. The prospects of a campaign in unknown markets with products of dubious quality and irregular supply, must daunt the potential investor.

In the past, attempts to stimulate the development of the horticultural industry in Swaziland have focussed, in most cases, on improving the country's productive capacity. While marketing has been recognised as a constraint, little has been done to rectify the situation. The motivation, until now, has been "to sell what is produced" rather than adhere to the marketing approach of "producing what the target market needs." Several strategies have been tried; each with its own shortcomings. The establishment of a horticultural wholesale warehouse by NAMBoard has not overcome the marketing constraint. But the adoption of a marketing approach, where the productive potential of the country will be engaged in producing "what the markets want when they want it," will herald the development of ~~the~~ a sophisticated horticultural industry in Swaziland.

F. Intervention

While the horticultural industry in Swaziland may, in time, develop spontaneously, an intervention introduced now could speed up the process and substantially benefit the small-scale farmer in Swaziland, the business community in the country, and the final consumer of horticultural produce. Such an intervention should aim to:

- Link the producer with the market.
- Contribute expertise in all facets of export horticultural marketing.
- Provide small-scale irrigators with a solid productive base in relation to the markets needs.

It will be important that the benefits of an investment which support the Swaziland small-scale horticultural producer are sustained and perpetuated past the end of the project. Private sector business mechanisms are believed to be the most appropriate way to secure this outcome.

F. Proposal for CAPM Involvement

It is envisaged, therefore, that an amendment to redirect and extend USAID's Commercial Agricultural Production and Marketing Project in Swaziland will enable it to focus attention on stimulating and encouraging the development of an export horticultural marketing industry in Swaziland. This will be achieved by assisting a number of existing Swaziland companies gain skills and expertise in the marketing of vegetables and fruit for domestic, regional and overseas markets.

Assistance will be directed to ensure that links are forged between the Swaziland marketing companies and the small-scale irrigators. At the same time, technical assistance will be provided to the small-scale irrigators to enable them to respond to the needs of the markets. In addition, the project will continue to act to ensure that the environment of Swaziland's small-scale horticultural production and marketing sector remains conducive to development.

G. Competition

It is proposed that CAPM provide assistance to at least two existing Swazi companies to develop their capacity to compete in the export horticulture markets. Competition in the industry is healthy and will be of benefit to all concerned in the long run; but in the early stages of the concept's implementation, competition in the same markets may, for some, be an intense period. A focus on different market niches is therefore desirable and suggested.

The Technical Analysis (Section II) distinguishes the existence of two potential export markets. One, the domestic and regional markets, which need supplies of traditional and bulk horticultural produce. Swaziland production will enter this market at the same time as other regional producers, but the analysis show that the volumes to be produced in Swaziland will not adversely effect the market, and that Swaziland can produce at a competitive price advantage. Secondly, there exists the overseas (mainly European) market, for which Swaziland could produce specialty, off-season and high-margin fresh produce.

It is thus proposed that CAPM would first select a company(s) that will target its efforts to penetrating the regional markets, primarily South Africa and Mozambique. Thereafter, it will assist a Swaziland company(s) to develop skills in marketing to the overseas markets. As time progresses, other Swaziland operations may wish to enter the business; competition will be encouraged.

H. Commercial Orientation

It won't be easy for the Swaziland companies to enter the horticultural marketing business. Financial, technical and competitive risks will all be high. In order to succeed, the company(s) must be able to respond freely and rapidly to any eventuality. The high levels of risk combined with the expected need for exceptional levels of effort make it imperative that the Company(s) are able to make sufficient profit. For these reasons, it is believed that the company(s) should be true commercial operations, free to operate commercially. The company(s) will need to be highly profit-motivated and able to act in legal ways to ensure their own survival.

I. CAPM's Focus

It is the CAPM project's objective to support the small-scale farmer and it will be incumbent on CAPM to direct the company(s) attention to the benefits of dealing with the small-

scale irrigators. At the same time, it will be necessary for CAPM to assist in the development of the small-scale horticultural producers so that they remain attractive to the marketing company(s).

J. Company(s) Operational Focus

It is expected that the company(s) involved in the project's redirected activities will encourage small-scale horticultural producers by offering a range of benefits that will, to a large extent, overcome the constraints that the farmers presently experience. The company(s) will offer programmes for production in accordance with the needs of the market; in this way the farmers will benefit from less risk.

The company(s) will offer assured minimum prices for programmed production, and will, in many cases, be in a position to market surplus production. The company(s) will have available, and on time, the necessary crop inputs for initiating production programmes, and will likewise supply the farmers with the necessary packing materials.

The company(s) will purchase produce, for cash at the "farm gate"; giving the farmer an on-the-spot return for his efforts, and doing away with his need to arrange transport to market. The company(s) will offer technical assistance to the farmers, and will assist where possible, in ensuring the efficient operation of their irrigation activities.

It will probably not be commercially advisable for the company(s) to offer credit for crop inputs, but they could, perhaps, facilitate the provision of credit to the farmers from a third party.

For selected market niche production, the marketing operations will be able to offer consistent supply, consistent quality of produce and packing, regular, scheduled delivery, and information on Swaziland's production capabilities, in terms of varieties, quantities and competitive advantages.

K. Company Resources

In order to meet the needs of both the market and the producers, and to achieve their profit objectives, the company(s) will need to initially invest in transport and communication facilities. Later, as the business develops, there will be a need for investment in packing sheds and warehousing space, and cold chain facilities for specialised exporting.

L. Company Personnel

It is envisaged that in the first couple years, the general managers of the company(s) will perform the marketing function. He or she, will be assisted by an operations manager who will be responsible for all activities related to input supply, production programming, produce collection,

packing, and dispatch. He will be aided by production facilitators, who will assist farmers in implementing production programmes in the field, and will maintain contact between the farmers and the company.

The sustained viability of the small-scale farmers will be essential for the success of the company(s). For this reason, it will be in the company(s) interest to provide the farmers with technical assistance on a continuous and sustained basis. The company(s) will be expected to employ technically competent irrigation and horticulture specialists to fulfill this role.

M. Company Structure

Central to the reasoning regarding the character of the company(s) that will be targeted, is that they should, inter-alia:

- Be-owner operated
- Have sufficient financial resources
- Have some involvement in horticultural marketing
- Have the necessary enthusiasm, drive and commitment
- Be an existing Swaziland enterprise

There are not many organisations in Swaziland that match the required criteria. However, they do exist. Two potential entrepreneurial clients have been interviewed, and both have expressed considerable interest. Others prospects are yet to be examined.

N. Financing

There will, undoubtedly be the need for the company(s) involve^{new} to raise financing for equipment and working capital. There are several prospective financiers; four were interviewed. All who were interviewed expressed considerable interest in the concept, provided it's viability can be demonstrated. Potential investors include:

- The Africa Enterprise Fund (IFC)
- Swedfund
- SIDC
- Tibiyo Taka Ngwane
- Swaziland Development and Saving Bank*
- Swaziland Commercial Banks*
- Commonwealth Development Components (CDC)

* Not yet interviewed

O. CAPM's Proposed Intervention Direction

It is proposed that CAPM orient and structure itself to provide technical assistance at all levels in the hierarchy of the fledgling horticultural industry in Swaziland. Activities will be directed at the market, at the development of the marketing company(s), and at the small-scale producers.

Activities will focus on strengthening Swaziland's capacity to compete in horticultural marketing in the regional and overseas markets.

Expertise in agribusiness administration, marketing, post-harvest handling, transporting, horticultural production, variety selection, agronomy, pest and disease control, and irrigation will be needed. A key objective will be the transfer of knowledge, skills and experience; on the assumption that the business and technical skills training will help keep that information alive and in the industry after the termination of the project.

The project will be redesigned and extended in order to work to create conditions conducive to the development of the horticultural industry as it relates to the small-scale producer on Swazi Nation Land.

It is expected that to achieve its objectives, the CAPM team will need to include specialists in agribusiness management, horticultural marketing, horticultural production and irrigation. It is proposed that CAPM employ several Swazi professionals to work with the expatriate specialists. In this way, direct and indirect training relating to the intricacies of horticultural production and marketing is possible; and at the completion of the project, the trained Swazi personnel can transfer their skills and knowledge to others in Swaziland's horticultural industry.

It is envisaged that one Swazi professional will be assigned to work with an expatriate marketing facilitator, and another will work with both the irrigation and horticultural specialists. It is proposed that a third Swazi professional be assigned to work in conjunction with the agribusiness specialist (and CAPM Chief of Party). Together, the COP and Swazi project co-ordinator will be responsible for liaising with all levels in the horticultural hierarchy; with Government and with the traditional leadership to create and maintain conditions in the project environment conducive to success. It is the intention of the project personnel that, at the end of its term, the Swazi professionals will be absorbed into private-sector horticultural endeavors in Swaziland.

P. Farmer Benefits and Expansion Potential

It is estimated that the individual participating farmer family will benefit with a net income of up to E 14,000 per annum, assuming production levels as indicated in the Technical Analysis (see Section II). The Financial Analysis (see Section III) assumes peak production of 270 ha. This represents less than 25 percent of the land available for small-scale irrigation, hence the project has extensive expansion capabilities.

P. Outline for the Implementation Timetable

Seek company(s) and financing agencies	Immediate
Constitution of new CAPM team	Aug 1991
First summer crop production	Sep 1991
First winter crop	May 1992
Second summer crop	Sep 1992
Second winter crop	May 1993
Third summer crop	Sep 1993
Project ends	Feb 1994

Possible milestone events :

- Expatriate Team formed
- Swazi CAPM team formed
- Regional marketing company begins operation
- Overseas marketing company begins operation
- First regional sales mediated
- First overseas sales mediated
- Cargo flights reinstated from Matsapha
- Direct supermarket sales of prepackaged product for local supermarkets
- Direct supermarket sales of prepackaged product for regional supermarkets

Annual production targets :

- Number of participating farmers
- Tonnes of production sold
- New crop introductions

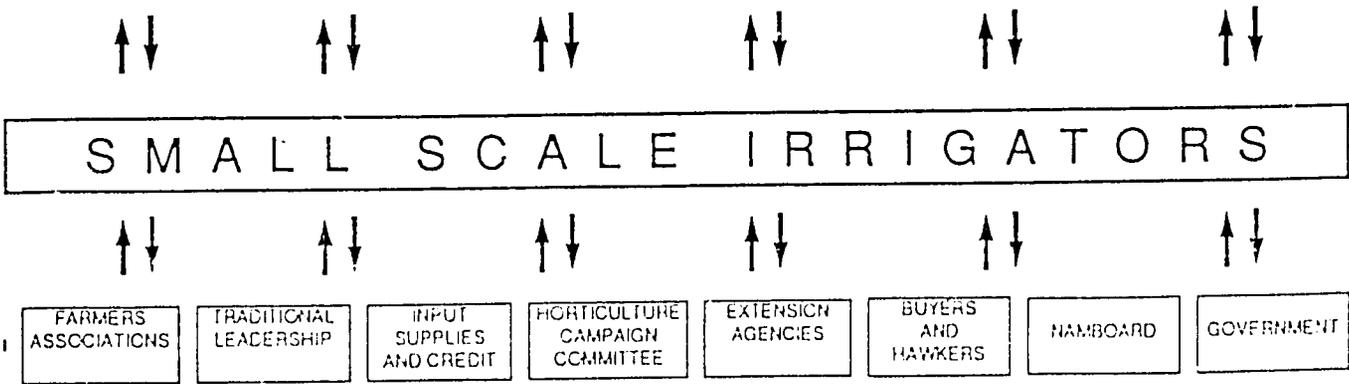
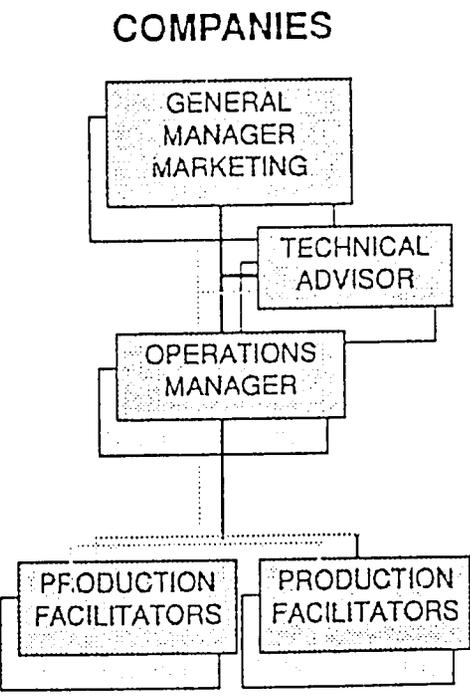
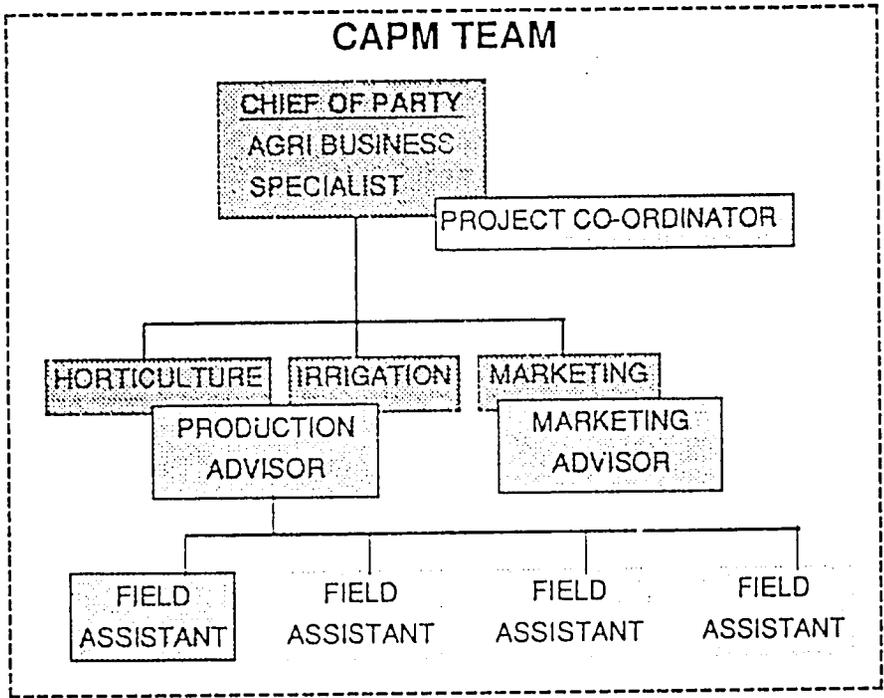
POLICY AND DIRECTION

ORGANISATION CHART during Project Phase

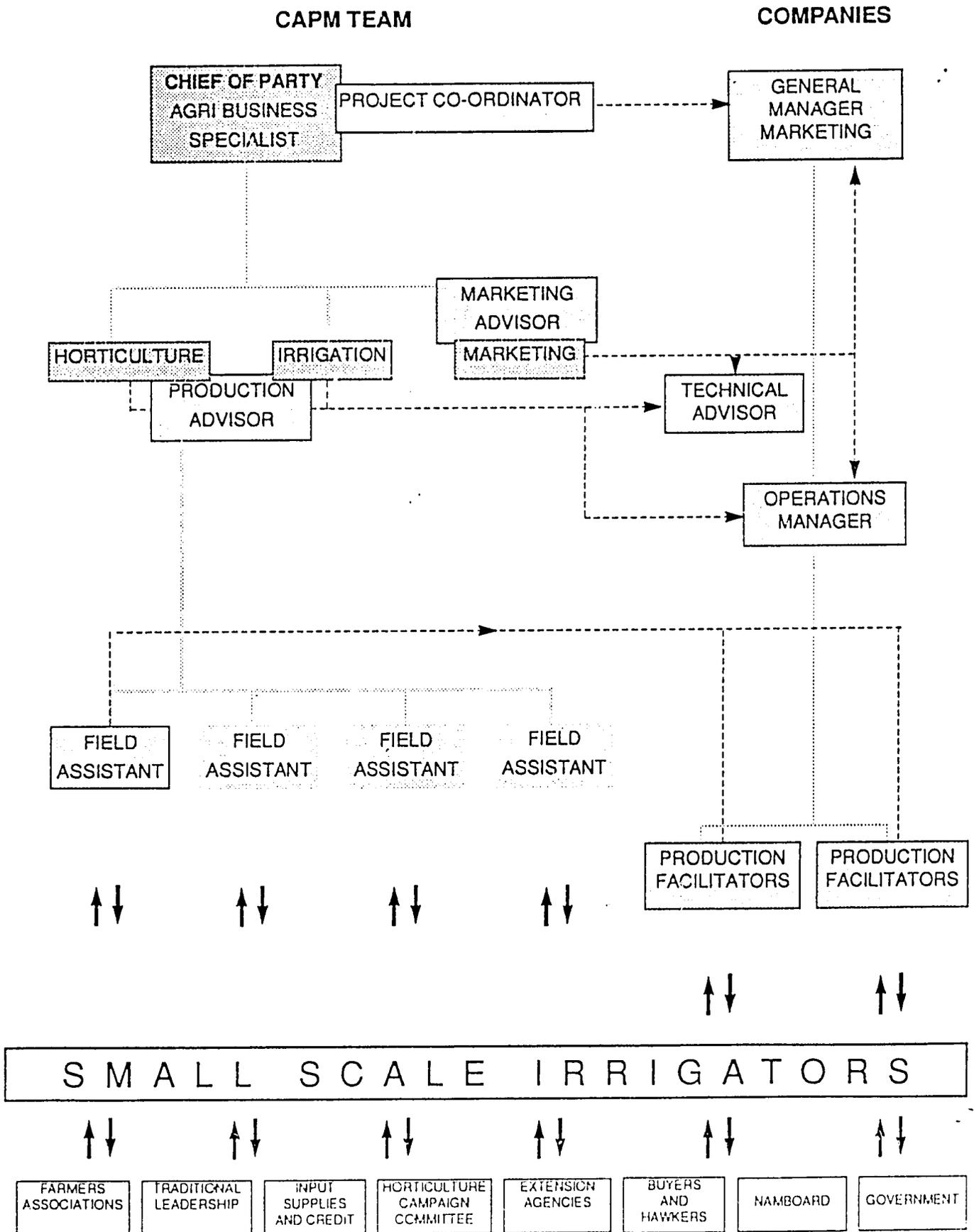
STEERING COMMITTEE
PERMANENT SECRETARIES
USAID

WORKING COMMITTEE
NOMINEES, MOAC, MCIT, USAID
GENERAL MANAGERS
FARMERS REPRESENTATIVE
PRIVATE SECTOR REPRESENTATIVE

EXECUTIVE

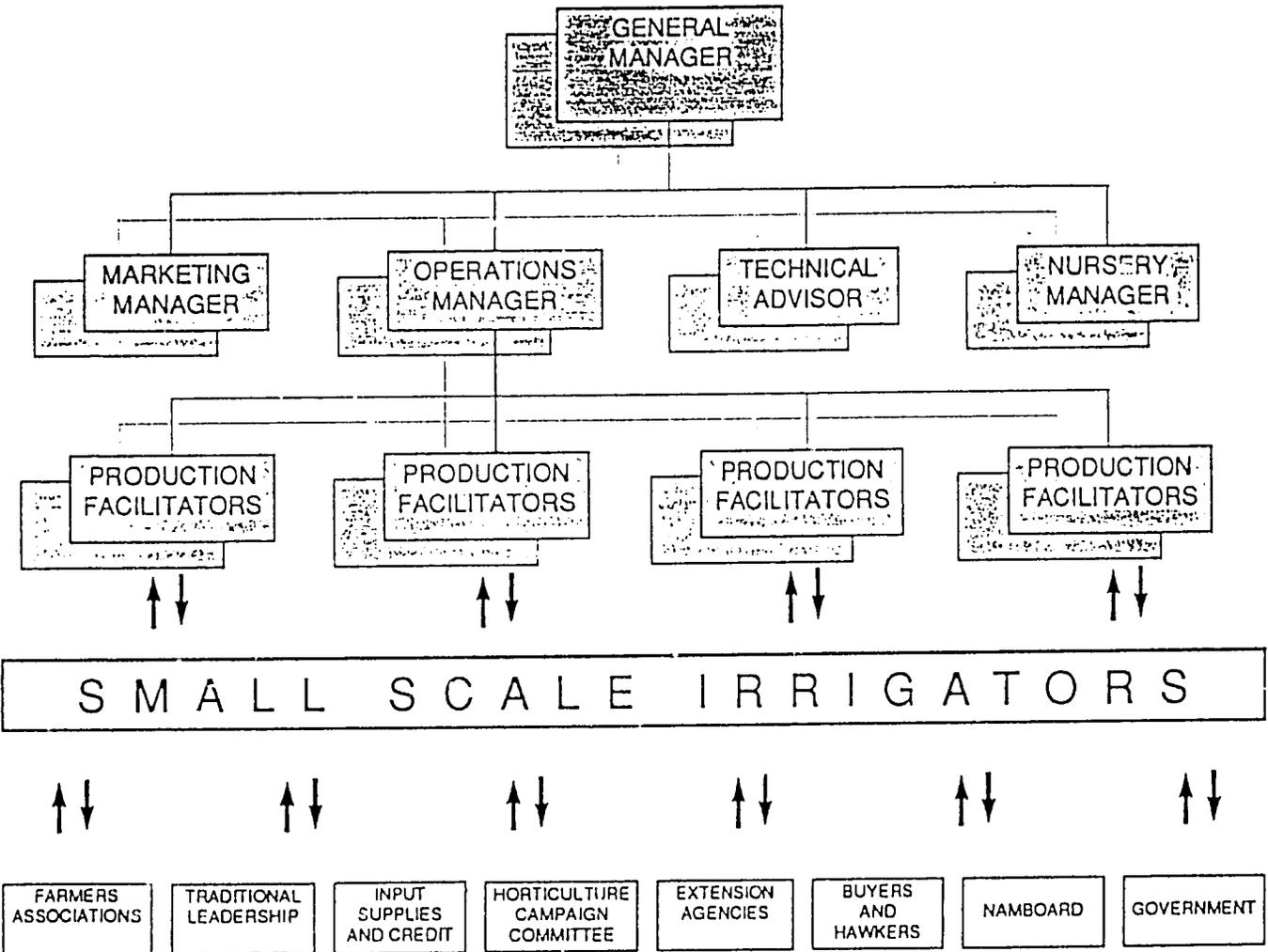


FUNCTIONAL RELATIONSHIPS



ORGANISATION CHART
after CAPM completed

EXECUTIVE



Contractor Scope of Work

- 2 -

A. Objective:

The objective of this contract is to obtain the personal services of Mr. Robert D. Benton (Contractor) to perform duties as a Project Manager in the office of Project Development/Private Enterprise (PD/PE), USAID/Swaziland.

B. Specific Duties

The Contractor will be responsible to the Agricultural Development Officer in the Office Project Development/Private Enterprise.

The Cropping System Research and Extension Training Project (CSRET) has in the past two years shifted much of its thrust to accelerating the commercialization of agriculture. The follow on project, Commercial Agriculture and Marketing (CAPM), has expanded that focus and will in Phase II move toward a fully private sector approach. The new Small Business Development project, although focused on Swazi Business Development in general, will encompass agri-business. The need of close coordination of all three activities is apparent.

the contractor, as Project Manager, will report to the Agricultural Development Officer (ADO) in the Office of Project Development and Private Enterprise (PD/PE) in USAID. This PSC position is being created to increase the ability of USAID Swaziland to effectively develop, monitor and implement activities within its commercial agriculture and private sector portfolios. The contractor will work in a series of areas, including identification of crops for regional markets, introduction of the state of the art technology in commercial production, processing, and marketing fresh produce, strengthening farmer associations, and resolving production, quality, credit and other constraints to small farmers' crop commercialization in Swaziland. Assigned projects would include, CAPM I and CAPM II (shortly under development).

DUTIES AND RESPONSIBILITIES

1. Assume all project management responsibilities of CAPM Phase I project;
2. Take a leadership role in the design and development of CAPM Phase II and assist in the preparation of Project Identification Document (PID) and Project Paper (PP);
3. Become knowledgeable about the Swaziland Small farm commercial agriculture and agribusiness sector, maintaining relationships with a wide spectrum of persons and organizations related to the commercialization of agriculture in Swaziland;

4. Keep the ADO and the Office Chief fully apprised of the status of implementation of assigned projects;
5. Maintain close and continuous liaison with Grantee management, briefing and assisting such management as necessary on AID procurement policies and requirements; calling attention to project implementation issues, problems, and/or requirements in a timely manner; and monitoring the substantive and technical actions being taken to manage the project;
6. Be fully qualified to provide advice to Grantee organizations about the provision of credit for small farmers and agribusinesses in all its aspects;
7. Plan for project evaluations of assigned projects;
8. Work with Grantee counterparts to develop procedures for gathering, collating, and reporting of basic data on project implementation and impact for the purpose of project evaluation;
9. Systematically visit project sites related to assigned projects.
10. Coordinate with Grantee officials, USAID/Swaziland offices and where appropriate with persons outside these institutions, activities/projects which are being implemented under the assigned projects;
11. Draft or assist in the preparation of project documents such as Project Implementation Letters (PILs), Project Implementation Orders (PIOs), waivers, semi-annual project implementation reports and other project related documents;
12. Prepare specific studies and recommendations, as assigned, evaluating current problems and possible interventions in projects under the Project Development/Private Sector Office;
13. Assist the ADO and the Chief of the Project Development/Private Sector Office in the analysis of social, economic, financial and technical feasibility;
14. Monitor project finances;
15. Coordinate with Grantee counterparts to assure the development of comprehensive yearly implementation plans and budgets for assigned projects;
16. Undertake other USAID/Swaziland duties as assigned. These are primarily expected to be related to the Project Development/Private Sector Office activities; and
17. *Assure that all relevant project documents and correspondence are maintained in official Mission files.*