MADE Commercial Partnerships Business Case

The case for B2B and B2F partnerships to facilitate agribusiness growth in Northern Ghana

The Market Development Programme (MADE) for Northern Ghana is a six-year DFID-funded programme promoting growth and poverty reduction in the 60 districts covered by the Northern Savannah Ecological Zone (NSEZ).

Cover photo: A farmer who supplies Ariku Farms winnowing her rice near Bazua.

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MADE is a six-year programme funded by the UK government that aims to increase the incomes and resilience of poor smallholder farmers (SHFs) and small-scale rural enterprises in the Northern Savannah Economic Zone (NSEZ). MADE works directly with agribusinesses, facilitating and supporting the adoption of commercially viable and sustainable business models designed to improve operational capacity, productivity and competitiveness.

One of the key interventions facilitated by MADE has been the promotion and facilitation of stronger, more supportive relationships between agribusinesses and value chain actors that build capacity to deliver against business plan targets and that lead to commercial benefits seen by all parties. In 2017, MADE adjusted its approach to partner selection by taking on business syndicates with 'lead' partner firms (LPF) and 'support' enterprises (SE). MADE currently supports 62 firms through this arrangement, 31 LPFs and 31 SEs. In addition to these arrangements designed to satisfy selection criteria, other entirely new business-to-business (B2B) partnerships have emerged from networking events organised by the programme. These have brought together firms that had never before considered working in partnership but that have joint interests and can see the benefits of formal or informal commercial arrangements.

The primary business activity conducted by MADE's partners is the aggregation and onward sale of cereals, legumes and tree crops such as mango, as well as the multiplication and processing of certified seed. The second most common activity is the sale of agricultural inputs such as fertilizers, pesticides and weedicides. Many input retailers have expanded into aggregation and many aggregators have moved into selling inputs. The services offered by MADE's partners to smallholder out-growers include farm enterprise advisory services; provision of mechanisation services; provision of water management and irrigation services; storage and in some cases further processing.

The rationale for encouraging B2B partnerships is to enable agribusinesses to provide a wider range of higher quality services to greater numbers of SHFs and to contribute to the delivery of MADE's 'seven SHF rights". This improved service delivery strengthens business-to-farmer (B2F) relationships, increases recoveries for aggregators, and leads to revenue growth for all value chain players.

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MADE commissioned an assessment to gain a deeper understanding of how B2B and B2F partnerships have been enacted among its partner firms. This business case summarises the benefits of and barriers to commercial B2B partnerships and the benefits and challenges of B2F partnerships. The recommendations are intended to support the sustainability and further growth of Northern Ghana's smallholder business supply chains.

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Benefits of B2B commercial partnerships

1 Access to higher quality inputs

Commercial partnerships have been central in improving the flow of seeds, fertilisers and crop protection products down the agricultural value chain. Access to a broader range of higher yielding inputs has been possible between local aggregators and input suppliers and large national wholesale inputs distributors, such as OCP and RMG. These larger companies are supporting aggregators with quality inputs on credit terms and generally require a formal contract to be in place. The input retailer and vegetable aggregator Johil, for example, was introduced to a number of seed suppliers at a programme networking event in Bolgatanga in 2018. The company did a comparative analysis and selected East West as a new seed supplier based on the quality and price of its products. The better inputs introduced by these new relationships have been made available to SHFs and are a contributory factor to the significant productivity improvements reported by MADE partners.

2 Access to finance

Access to finance is one of the most critical challenges facing agribusinesses, particularly the difficulty of finding sufficient working capital to support growth but also the inability to secure finance for new capital outlays. MADE partners reported repeated rejections when applying to local banks for loans, and those that were successful reported annual interest rates of between 35 percent and 48 percent.

MADE facilitated a number of loan arrangements between partners and lenders. For example, the programme introduced partners to Sinapi Aba, a 'non-bank' financial institution which started as an MFI and has less stringent requirements than fully commercial banks. Seyan Enterprise reported having secured a GHS 50k short term loan from Sinapi Aba following MADE's introduction.

The release of working capital enabled through B2B commercial arrangements has resulted in out-growers being offered improved credit terms for input supplies which in turn has led to more land under production. The research into these partnerships found that there was a large range of approaches to payment, including exchange of goods (bartering), cash transactions and credit arrangements, ranging from 30 days to the end of the season. New relationships have enabled aggregators to source inputs from a wider range of suppliers, benefitting from the improved cashflow where credit was available, but also buying inputs on cash terms when bulk discounts were offered.

3 Strengthening production by providing better support to SHFs

As part of its commitment to raising the resilience and productivity of SHFs, MADE required its partner firms to deliver a complete package of goods and services to its out-growers in order to be eligible for support. The partnerships formed between LPF and SEs have largely satisfied this requirement, with firms entering into arrangements with specialised seed companies, tractor service providers and irrigation equipment manufacturers, to help raise yields and ensure higher quality offtake. New partnership arrangements, alongside the use of FEAs and BDAs, have enabled firms to significantly expand their outreach. MS Bonsu, for instance, has been able to expand its smallholder out-growers from 170 to 2,000 as a result of these partnerships, including that facilitated by MADE with tractor service provider Kataumi which has helped solved the company's challenge of delivering ploughing services to its SHFs.

4 New markets and revenue streams

Firms also reported that they had been able to access new contract farmers through their new partnerships. For example, Antika is a MADE LPF with two SEs, Iddrisu Hamida Enterprise and Wini Ventures. Antika supplies these companies with inputs on credit and has been able to extend its outreach to new geographical areas bringing in greater numbers of SHFs as a result. More farmers means higher volumes of commodities for sale and increased revenues and profit.

Partnerships have also enabled firms to bid for larger contracts. Companies such as Allah is Able and Segrace have combined their offtake volumes to secure contracts from Guinness and Premier Foods. Such contracts can offer higher per unit prices and therefore increased margins.

As well as expansion of core business through partnerships, firms have been able to make better use of specialised and in some case under-utilised resources. For example, providing farm enterprise advisory services to a partner firm's SHFs or renting out warehouse storage space to business partners.

5 Knowledge and resource sharing

Commercial partnerships have been instrumental in increasing the sharing of knowledge and resources between local agribusinesses. Aggregators and input suppliers working across the same geographic area have been able to share the results of trials on model farms and demonstration plots. Ariku Farms, for example, has a close relationship with Yelsumde and the two companies informally share resources such as tractors and FEAs. These measures help reduce costs and increase efficiency.

Knowledge sharing, particularly on agronomic issues, was reported to be useful between partners. For instance, spotting production issues early or sharing information on the application of crop protection products, such as "aflasafe" to help control aflatoxin in maize, sorghum and groundnuts. Firms also benefit from sharing information on market prices and by triangulating information can achieve small increases in the unit prices on many commodities. Savana Agri-chain and Adakant, for example, have found this approach offers mutual benefits.

John Diedong, owner of Johil Farmer Solutions, and his assistant at his shop in Sandema

Barriers to development and expansion of commercial partnerships

1 Lack of effective industry associations

Many of the productive B2B partnerships have resulted from networking events organised by MADE to help agribusinesses to connect with relevant markets and service providers. In doing so the programme has been filling an apparent gap in the business enabling environment – a lack of active platforms or business associations through which agribusinesses are able to find service providers or buyers. A number of bodies, such as the Seed Producers Association of Ghana, were mentioned by firms, but for agri-partnerships to be able to flourish, such associations need to provide more active engagement opportunities for their members.

2 Limitations on credit for inputs

One of the major barriers to expansion of commercial partnerships for inputs is the lack of funding across the value chain. To grow their businesses, aggregators need to be able to work with more farmers, but in order to do that they have to bear all or part of the cost of the inputs for these farmers. Aggregators are able to procure inputs on credit terms but even where credit is extended a deposit will be needed. If more working capital could be injected into the value chain by the larger wholesalers, manufacturers and equipment suppliers, this would help spur greater investment and growth. If the burden of carrying the cost of inputs throughout the growing season was reduced for aggregators, then money would be released for investing in improved data management systems, new technologies and advisory services, all of which are threatened when finances come under pressure.

3 Lack of service providers

Services such as ploughing, shelling and combine harvesting increase productivity and reduce post-harvest losses and firms are keen to offer more of these services to their SHFs. There is, however, a shortage of serviceable tractors in the NSEZ agricultural sector and many of the mechanisation service providers are unable to provide the quality of service required by agribusinesses and demanded by farmers. At peak times, such as during land preparation, farmers can wait weeks to source a tractor – and in so doing miss the vital nitrogen flush from the early rains. In the absence of reliable service providers, Wabco made the decision to sell a van in order to buy a tractor to cope with demand. Rhinosas is one of only a few agribusinesses that has a formal service contract with a service provider. Zoomlion supplies tractor, combine harvester and sheller services to Rhinosas outgrowers on credit terms with payments made twice per year, in June for preseason land preparation work and then again in December for harvesting services.

4 Preference for informal contracts

The most common approach to B2B partnerships among firms interviewed is through informal verbal arrangements (43 out of 57 – see figure 1.). Many firms have forged long-term trusting relationships, which include provision of inputs on credit with little or no interest charged. This approach has often then been replicated with new partners and is culturally ‘the norm’. Larger firms, such as Yara Ghana and RMG, are more likely to require formal contracts. These firms have a greater capacity to manage large numbers of contracts and use agreements relating to supply volumes to support business planning. To engage effectively with larger players, MADE's partners will benefit from being able to navigate the use of formal contracts and make sure that they serve their needs.

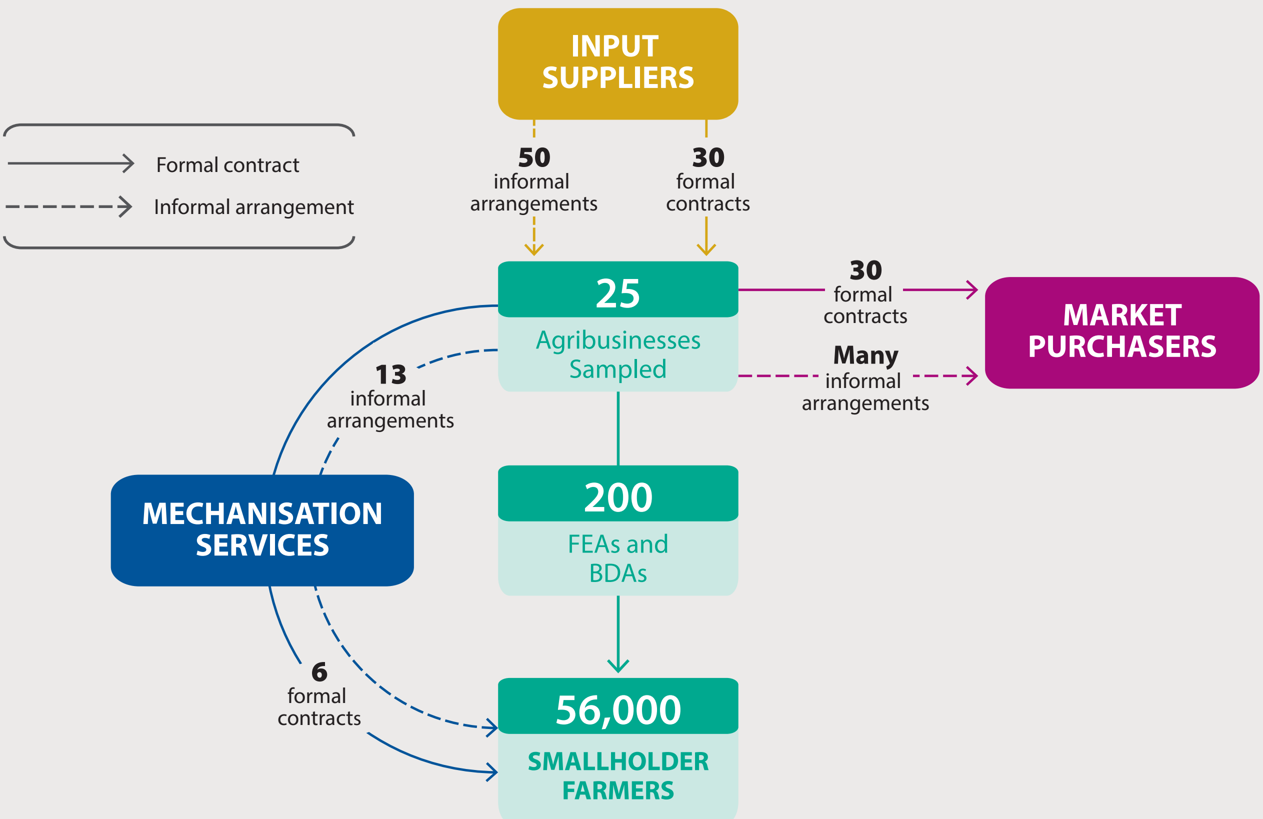
A few agribusinesses expressed reservations about entering into any formal legal contracts. This apprehension reflects a lack of familiarity of the legal system and a fear of potentially of being taken to court. In reality, contracts can be hard enforced and many companies would be unlikely to take the litigious route. Some MADE partnerships have ended due to disagreements, but there were no reports of grievances being pursued through the courts.

5 Large firms dictating terms

Small agribusinesses can be at a disadvantage when entering or developing commercial partnerships with larger firms. Some of MADE's partners have experienced significant delays in payments from big players (including the government) creating challenges with cashflow. Larger firms are able to dictate terms, and while Yara Ghana, for example, will offer some credit to input retailers, this is capped at a certain proportion of sales. Large processors, such as the rice miller Avnash, may choose not to have contracts with aggregators since they are not then tied to buying minimum volumes from a supplier. The value chain risk then sits with the aggregators and SHFs, especially where there is a monopoly situation, as they may find it hard to find an alternative market if the dominant processor fails to buy.

FIGURE 1. SUMMARY OF FORMAL AND INFORMAL B2B COMMERCIAL PARTNERSHIPS

B2B partnerships may be formalised in a contract or developed through a trusting relationship that is not documented. Some arrangements include the provision of credit, most often for the supply of agricultural inputs, and others involve the exchange of goods or services (bartering). The principle types of partnerships among the 25 MADE partners interviewed are illustrated here. Commodities are often sold on the open market or to a large number of small buyers, which is why the number of informal relationships with market purchasers could not be estimated.



A female worker at Segrace Enterprise, Kwame Danso

Benefits of B2F partnerships

1 Expansion of production

When asked about their business growth plans, aggregator firms responded with ambitious objectives which centred on expanding the number of SHFs with whom they work. Ariku Farms, for example, is struggling to find more land to expand its own farms in the local area. In Northern Ghana land consolidation is limited by small fragmented plots and underdeveloped land information systems. B2F partnerships offer aggregators the opportunity to grow their crop volumes by working with more farmers, who have access to customary land, and by helping farmers to gain access to inputs and services to increase their productive land. Aggregators typically reported threefold growth in the number of their out-growers since receiving MADE support and that there were two to three times as many farmers wishing to join their out-grower schemes than they could currently service. Many hoped to be able to engage these additional numbers of SHFs in the next few years if their cashflow allowed. This contract farming approach reduces the challenge of expanding through a firm's own commercial farms.

2 Secure markets for SHFs

Smallholder farmers are motivated to enter into contracts with aggregators to provide the security that they will have a market for their crops. These contracts may include minimum prices for an additional level of certainty. B2F relationships also provide farmers with critical information on preferred varieties and access to the right inputs and agronomic advice to produce these crops, as supplied by an aggregator's field teams.

3 Inputs on credit

The recovery for the inputs on credit from SHFs by aggregators is most often in-kind, with two or three bags of commodity typically exchanged per acre of inputs. The power of this model for aggregators is it that it helps build up a greater sense of loyalty with its farmers and gives them access to increased crop volumes. The farmers also benefit, since they need no cash up front and they have access to the right amount of inputs for their land at a higher quality than they could access themselves in the local market.

4 Spreading production risk

By diversifying crop production between its own farms and groups of SHFs, an aggregator spreads the risk of crop losses, e.g. as a result of flooding, drought, pests or diseases. Cropcare, for example, employs a strategy of sourcing from SHF groups in a wide range of geographic locations. This approach mitigates the risk of crop losses at scale as destructive events are normally localised.

5 Crop insurance

More formal B2F relationships can help mitigate risks of crop failure for both parties through the use of crop insurance. Individual farmers find crop insurance too costly, but aggregators and input retailers are seeing the benefits that this insurance offers and are seeking deals with insurance companies. By providing insurance to farmers, aggregators are assured that they get their recovery of their inputs and farmers are protected against crop failure and reduced incomes. The input distributor RMG will be including mandatory insurance in the contracts with all their aggregators from next season and in doing so will be ensuring that the farming livelihoods of tens of thousands of SHFs are protected.

B2F Partnership Challenges

1 Fragmented locations

Smallholder farmers can be difficult to access in rural areas. This presents logistical challenges for aggregators to provide services to SHFs such as delivering inputs or collecting offtake. Ploughing services are a particular challenge as typical plots or 2 or 3 acres are not conducive to the use of tractors and there are inefficiencies in serving a large number of fragmented fields.

2 Managing farmer performance

Most firms interviewed had contracts with lead farmers who represented a group but some had no knowledge of the way in which these groups were managed. Monitoring individual farmer performance can therefore be a challenge for aggregators. This performance becomes more important for crops that need to meet high quality standards. Avnash, for example, has stringent lab tests paddy rice moisture and purity. Finding better ways to collect and manage farmer data is therefore increasingly important in these value chains and aggregators are only just starting to use new data management tools such as M-Access to do so.

For farmers to ensure that they are getting the inputs and services in the quantities and qualities that they require at fair prices they need to have access to market information and the ability to negotiate with aggregators and input retailers.

3 Diversification

There are risks for SHFs in being entirely dependent on one crop or on one market. Farmers can mitigate these risks by keeping some of their land for other purposes beyond the delivery of a particular crop (or crops) for one aggregator. Agriaccess is aware that their ~3,000 SHF suppliers are currently heavily dependent on sorghum at 70 percent of their production, and so the aggregator is encouraging farmers to diversify into maize, soya and groundnuts.

4 SHF ability to negotiate

Currently all parties in B2F partnerships seem content with 'rounded up' costs – e.g. a bundle of inputs equating to one bag of a crop. For farmers to ensure that they are getting the inputs and services in the quantities and qualities that they require, support to improve their farming practices (as part of their 'seven rights') as well as fair prices, they need to have access to market information and the ability to negotiate with aggregators and input retailers.

5 Managing the coordination of input supplies

The government's PFJ programme has provided a 50% discount on seeds and fertilisers for smallholder farmers helping to reduce costs, allowing more land to be brought into production and improving productivity. Some of the agribusinesses with formal B2F relationships with these farmers have had challenges in assimilating and coordinating supply arrangements with selected distributors of the scheme, leading to farmers experiencing delays in receipt of key inputs. Registering out-growers under the scheme has also been cumbersome and added a second layer of data management and administration during the critical pre-season period.

*Ryan Bondi, GM of Sky-3 Investment Ltd, with a mango sapling**

Recommendations

1 Facilitate expansion of value chain partnerships

In systemic change terms, market actors have adopted and, in some cases, adapted the use of partnerships to strengthen and improve supply chains. The model now needs to be expanded, both by these firms themselves and also by replication by others. The use of partnerships builds on the success of the FEA/BDA concept to enable agribusinesses to expand SHF production and improve performance. These approaches should both be communicated together as extensively as possible among key stakeholders such as government, other development partners and programmes and the agricultural community, using the results reported by partner firms to incentivise others to replicate commercial partnership strategies.

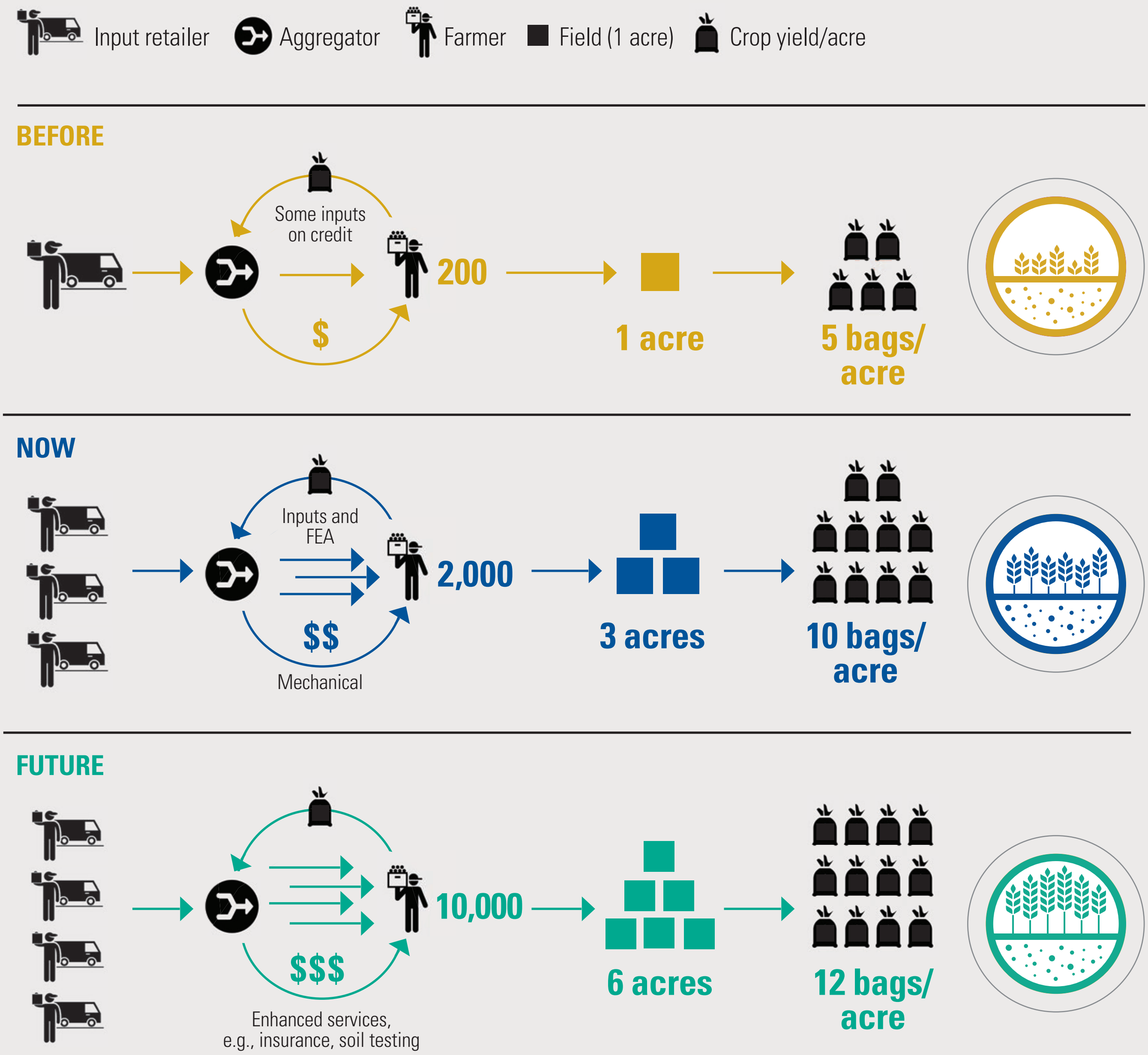
2 Build market linkages

The rapid expansion of many of MADE's partner firms and the level of ambition to continue growing means that attention must now be given to markets. For some commodities aggregators and their out-growers are at risk from reliance on single buyers. More work needs to be done to build relationships with new end markets, for example with millers, processors and wholesalers from the South of the country as well as making use of GCX. There are also opportunities to forge further partnerships with large input companies who are actively growing their networks to reach farmers in the Northern regions. These players can bring critical working capital in the form of credit for input supplies which can help unlock growth in aggregators and input retailers as well as bringing innovations that benefit farmers such as soil testing and tailored fertiliser.

Madame Jawharatu, owner of Zug Faan Enterprise, with a selection of agri-inputs at her shop in Tamale

FIGURE 2. AGRIBUSINESS GROWTH THROUGH PARTNERING

Partnerships between aggregators and both input suppliers up the value chain and service providers for SHF support provide a pathway to growth for the agribusinesses and farmers alike.



BEFORE

For a basic contract farming model an aggregator will typically only provide inputs to SHFs, sourced from limited local suppliers.

NOW

The introduction of partnerships both up and down the value chain has improved the quality and variety of inputs, as well as FEA services and some mechanisation, that aggregators can offer SHFs. This has allowed aggregators to contract greater numbers of farmers, producing on more land, as well as reaping the benefits of productivity increases through higher yields.

FUTURE

Partnering to offer more advanced services and expansion of credit for inputs will enable further symbiotic growth of agribusinesses and their out-growers. Some farmers are also likely to evolve into lead farmers as they gain experience and scale and reduce the need for extension support from the aggregator.

3 Facilitate better access to financial services

Better market linkages and partnerships can help agribusinesses to improve their cash-flow, but access to loans and investment are the biggest hurdle to significant growth. Some work has been done in this regard but new partners and mechanisms need to be found to enable firms to take their businesses to the next level by finding funds to invest in more commercial and efficient farm machinery, introducing value addition through processing and, most importantly, providing a secure and stable market for increasing numbers of SHF suppliers.

In addition, the promotion of agricultural insurance and development of innovative models to leverage scale and reduce premiums will safeguard SHFs against falling into debt when they have crop losses as well as protect B2B arrangements further up the value chain. There is already some uptake of insurance among firms, but products are relatively new to the market and are still evolving to meet needs. Agribusinesses are therefore struggling to negotiate appropriate cover and premiums for themselves and their out-growers, although many see the benefits.

4 Foster mechanisation services

A major hurdle constraint for businesses is the inability to provide or find enough ploughing or other mechanical services to offer SHFs at busy times of year. Without this equipment at the right time, production can be badly affected. This service gap, some of which is due to a lack of finance but also to the failure to date of a sufficient response to the market opportunity, needs to be addressed to facilitate the continued growth of the NSEZ agricultural sector.

Mr. Yao Kove, Executive Officer for Simple Prince Co Ltd, with his daughter who is a BDA for the business.

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