

Outgrower schemes seem to offer a promising opportunity. Multinational agribusinesses and large supermarket chains are increasingly making use of outgrowers to secure their supplies. Donors are also showing interest, offering support for establishing schemes and associated farmers' organizations. But is this a suitable model to improve access to water and incomes for poor men and women farmers or is it simply an option for the better off?

Outgrower schemes provide one of the most important factors for smallholders to invest in enhancing their productivity: a guaranteed market for their produce. Many schemes go beyond that, offering participating farmers access to water, irrigation technologies, inputs, and extension. In return, the smallholder agrees to sell their produce to the company at a fixed rate, often minus a percentage to cover the cost of inputs and services provided by the company.

But there are challenges associated with this model, the biggest of which is establishing trust between smallholders and contracting companies. If the smallholder isn't market savvy and the company is unscrupulous, the smallholder can end up with a raw deal. Likewise, the company is taking a risk, particularly when it makes a significant investment, that the smallholders can and will hold up their end of the bargain.

What are outgrower schemes?

The term "outgrower scheme," also known as contract farming, covers a range of contractual partnerships between growers or landholders and companies (food processors, suppliers, retailers) for the production of commercial agricultural products. Outgrower schemes vary considerably in the extent to which inputs, costs, risks and benefits are shared between growers and companies. Partnerships may be short or long-term—covering one growing season or decades. Growers may act individually or as a group in partnership with a company, and use private or communal land.

The opportunity

Outgrower schemes offer a range of advantages to smallholders in addition to a secured market for their produce. These can include:

- Access to inputs, including water and credit;
- Access to modern technologies and innovations;
- Information on improved farming techniques and production standards;
- Risk minimization through pooling of resources and cost sharing; and
- Access to machinery or services for harvesting, land preparation, planting and pest control.

In terms of agricultural water management technologies, outgrower schemes can give farmers access to high-tech irrigation solutions, such as drip, center pivot, and pump houses, which would otherwise be unaffordable. For example, to install center pivot irrigation for sugarcane in Zambia can

Outgrower Schemes: A promising model for poor farmers?

Based on reports by Lewis Bangwe, Francis K.Y. Amevenku, Kwabena Kankam Yeboah and Emmanuel Oboubie

cost as much as \$15,000/ha. In outgrower schemes, the development costs for such technologies may be shared with the company and farmers groups.

Smallholder farmers can also benefit from economies of scale in the acquisition of inputs and provision of services. Such schemes make it possible for smallholders to participate in markets for export and organic produce, which require expensive certification and quality control measures (see Box).

Companies can benefit from an increased supply of agricultural products (particularly labor intensive crops), more control over production methods, incentives and support offered by donors, and a reputation for social responsibility in the communities where they operate, and with their customers.

The challenges

Trust: One of the biggest challenges for both company and smallholders is establishing trust, which takes time, sometimes years. Both farmers and the company should have a long-term perspective when entering into outgrower schemes. Strong (democratically elected) farmers' associations or cooperatives representing farmers' concerns help resolve potential tensions and mistrust. Companies need to insure their investments in poor smallholders, who are perceived to have a higher risk of defaulting than better-off farmers. Donors can encourage companies to contract with smallholders by mitigating the risks, and governments can institute legal frameworks to clarify privileges and responsibilities.

Information asymmetries: Smallholders often do not have good access to market information and may have limited bargaining power, which makes it difficult for them to negotiate a good deal with contracting companies. This is where donors and development agencies can help by facilitating the formation of farmers' organizations or cooperatives that can represent the smallholders' interests. For example in Ghana, L'Agence Francaise de Developpement and others provided training and financial support to establish the Organic Mango Outgrowers Association.

High transaction costs and incentives for companies to contract with smallholders: Dealing with a large number of smallholders rather than with a small number of large-scale commercial farmers means much higher transaction costs for the contracting company. In addition, the poorest smallholders are often located in relatively isolated areas, making

The Case of the Integrated Tamale Fruit Company, Ghana

The Integrated Tamale Fruit Company (ITFC) is based in Savelugu Nanton District in Northern Ghana. ITFC operates a privately owned nursery and a 160 hectare “nucleus” farm with over 38,000 mango trees where it raises seedlings and cultivates mangos. In the year 2000, ITFC started an outgrower scheme, the Organic Mango Out-growers Association (OMOA), by providing technical assistance and extending interest free loans that are paid back when the trees begin to bear fruit. ITFC provides farm inputs and water, mostly pumped from the river with central pump houses, and it harvests the mangoes (harvesting is important because of timing and quality control). At present, about 600 farmers have drip irrigation lines installed and paid for by the company. In return, farmers pay a commitment fee of one 85 kg bag of maize (currently valued at about US\$23.50) to join the association and sell their produce to ITFC, which in turn subtracts a lump sum of 30% of the revenue for all costs incurred. For ITFC, success of the model means bigger markets, more profit and a high standing in the community; for local residents, success means a higher standard of living and more prosperous and resilient communities.

Researchers examined the case of ITFC to evaluate the benefits to poor farmers and the feasibility of out-scaling contract farming systems to other industries and similar eco-agricultural regions. The study results suggest that the main benefit to ITFC is access, to an additional 2000 hectares of land, which otherwise was administratively difficult to purchase outright. This arrangement has reduced average production costs while enabling the company and its investors to capture a larger share of the European market for organically grown mangos.

From the perspective of the 1300 OMOA members, the main benefits are access to interest free loans and the relatively favorable repayment terms offered by ITFC. OMOA also acknowledged company contributions to health, education, community relations and the environment (in particular reforestation in this highly deforested region), but felt ITFC had yet to make good on its promises to increase cash income. While cash projections for individual contract farmers are positive and represent a considerable increase in income over that gained from subsistence farming, farmers are unable to repay their loans within the 15 year timeframe due lower than expected yields from the selected mango varieties, and unexpected but significant time lags between planting and fruiting. Further, farmers experience a significant delay between the collection of mangos by ITFC and full payment for the produce once ITFC has sold the mangos.

The survey concluded that with some modifications, the ITFC model holds promise for **outscaling** in Northern Ghana and possibly in other regions of the country. In Northern Ghana, the model can offer additional **livelihood options** for subsistence farmers in a region characterized by a high incidence of poverty and food insecurity but with abundant land and water resources. More generally, the **trust** ITFC has developed with the contract farmers and its commitment to broader corporate **social and environmental** responsibility initiatives are important features of this model and its success. However, it is unlikely to be a direct AWM solution for very poor farmers, given the upfront commitment fees and its focus on fruit cultivation which generally requires long-term investments. It may offer indirect benefits through the broader economic and environmental contributions it brings.

transportation and communication difficult and more expensive. Models such as Dunavant’s network of farmer-agents in Zambia and the increasing spread of and possibilities offered by mobile phones can help address these challenges. Incentives offered by donors and governments for companies to contract with smallholders can also offset disadvantages.

Conclusions

In general, outgrower schemes do increase farmer incomes and reduce their risks, but when they are examined against the set of criteria for successful solutions, (as identified by the AgWater Solutions project), the results are mixed:

Contribution to smallholders’ livelihoods: This business model is unlikely to reach the poorest farmers unless special measures are taken to ensure their participation. Schemes tend to select better-off farmers who can bear risks or pay an initial commitment fee. However, outgrower schemes may indirectly benefit poorer farmers by contributing to economic growth and job creation.

Gender and equity considerations: Although schemes tend to self-select better off male farmers, which may increase income disparity in a community, examples show that women farmers can successfully participate, particularly when they have been targeted by donors or receive support from NGOs.

Outscalability: This model depends largely on high value export crops, which means it is limited to areas with good connections to export markets. The poorest farmers are often found in remoter areas with inadequate transportation infrastructure.

Ease of implementation: Large-scale agribusinesses, such as Dunavant, the world’s largest privately owned cotton broker, are showing an increasing interest in outgrower schemes. Donors are also lending support for such schemes, enabling the costs of water infrastructure to be shared among smallholders, agribusinesses and donors. But donor investments also mean that development money is used to subsidize large-scale agribusinesses (depending on what the donor pays for).

Resource sustainability: Agricultural expansion and intensification always come with environmental risks potentially affecting water quantity, quality and soil fertility. However, some agribusinesses are trying to address existing and potential environmental issues through reforestation and the use of natural fertilizers.

Potential roles for investors

- Provide legal and institutional frameworks to enhance transparency and to clarify privileges and responsibilities.
- Support farmer organizations in outgrower schemes to ensure farmers’ voices are heard and their interests served in the long run.
- Ensure poor farmers can participate by providing affordable credit, repayment terms that coincide with farming income cycles, safety nets.
- Make sure women farmers participate by setting conditions to financial support.
- Provide incentives for companies to invest in poor smallholder farmers.

These findings and recommendations are preliminary and are reproduced here for the purposes of discussion. The AgWater Solutions Project welcomes all comments and suggestions. These should be directed to AWMSolutions@cgiar.org, please write “Outgrowers” in the subject line.

