

**OUTGROWER BEST PRACTICES,  
FIELD REPORTING,  
APPRAISAL AND MONITORING,  
AND  
NOTES ON COMMERCIAL AND SOCIAL DIMENSIONS  
OF OUTGROWER ARRANGEMENTS**

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# Table of Contents

1	Outgrower Best Practices	1
1.1	Introduction	
1.2	Selection of Outgrowers	2
1.2.1	Land Availability, Location and Conditions	2
1.2.2	Agricultural Knowledge and Experience	3
1.2.3	Basic Business-Awareness	3
1.2.4	Motivation to Participate	3
1.2.5	Farmers' Commitment	4
1.3	Registration of Outgrowers and Management Information	4
1.3.1	Basic Data Capturing	4
1.3.2	Monitoring	5
1.4	Contracts or Production Agreements	6
1.5	Input Supply and Loan Recovery	6
1.6	Extension Services	7
1.7	Marketing Arrangements	8
1.8	Pricing Mechanisms and Payment Modalities	8
1.9	Group Development Facilitation	9
2	Field Reporting	10
2.1	Mobilisation and Contracting of Farmers	10
2.2	Input Distribution	11
2.3	Crop Establishment	12
2.4	Yield Data	13
2.5	Farmer Training	13
3	Appraisal and Monitoring of Outgrower Arrangements - Questions to be Asked	15
3.1	Outgrower Model	15
3.2	Participating Partners	15
3.3	Projections and Realities	16
3.4	Performance Indicators	17
3.5	Contract and Liabilities	17
3.6	Implementation and Monitoring	17
4	Notes of Commercial and Social Dimensions of Outgrower Arrangements	19
4.1	Profit - Commercial Dimension	19
4.2	People - Social Dimension	20

# 1 Outgrower Best Practices

## 1.1 Introduction

Important elements that need to be incorporated into any outgrower model are:

- Criteria for grower selection
- Registration of growers and maintenance of records
- Contracts / Production agreements
- Input supply and loan recovery
- Extension services
- Marketing arrangements
- Pricing mechanisms and payment modalities
- Group development facilitation

Each of these elements is discussed in greater detail in the sections that follow.

However, even if all of these elements are adequately addressed outgrower arrangements may still fail if the issue of side-selling and defaulting by smallholder farmers is not being addressed adequately. Often it is not realized that side-selling only occurs because there are companies or individuals that are involved in side-buying, thus providing an opportunity to farmers to side-sell.

Rather than trying to address the problem by improving mechanisms to follow-up on defaulting farmers through legal recourse or punishing farmers by excluding them from continued participation in outgrower arrangements, it should be tried to address the problem from the other side, that is, by making it much more difficult for companies or individuals involved in side-buying to continue operating.

In the end, the number of companies and/or individuals involved in side-buying is much smaller than the number of smallholder farmers potentially involved in side-selling, and it should not be too difficult to identify such companies and/or individuals. As far as companies are concerned, incorporation of the issue of side-selling and side-buying into a Code of Conduct could be a first step towards addressing this problem.

Whenever reports are being received from field or extension officers on the malpractice of side-buying or attempts thereto by individuals or representatives of other companies or organisations, a follow-up should be made with the companies or organisations concerned. It is thereto important that the field or extension officer tries to be as accurate as possible regarding the date and location where the incident occurred, which of the contracted farmers were approached, any specifics of the offer made, and at least the name of the person(s) concerned who tried to tempt the contracted farmers to side-sell their produce.

## 1.2 Selection of Outgrowers

If an outgrower scheme is to succeed and eventually become a self-sustaining, income generating supply chain, focus has to be placed on ensuring that the right calibre producers are contracted, and there is a need for developing selection criteria to ensure that potential participants in outgrower schemes meet minimum standards.

Farmers repeatedly failing to meet management or production standards should be removed from the scheme to increase its sustainability. Whereas this is likely to happen to some extent especially for seasonal crops through 'natural' selection of farmers (the ones that are not successful are unlikely to grow the crop again in the following season, especially if poor results are due to insufficient commitment to proper management of the crop), this issue will have to be approached much more pro-actively with perennial crops, where the outgrower company is likely to have to provide continued support over several seasons before the crop starts producing and the producer will be in a position to start delivering, and the company can start to recover any credits (including the cost of technical support provided).

Developing selection criteria in relation to production standards will also assist in assessing what level of support is required to facilitate further development.

### 1.2.1 Land Availability, Location and Conditions

The kinds of questions to ask are:

- How much land does the farmer have?
- What is the form of land tenure? How secure is the farmer?
- What other crops is the farmer growing?
- Would the crop to be grown under the outgrower arrangement fit in with the existing crops? Or would it imply that the producer would have to reduce the area under any of the other crops? Would the farmer as a result of the inclusion of the new crop become less food secure?
- Does the farmer have the resources to include the new crop, e.g. family labour or the financial resources to hire labour when needed?
- Where is the land to be allocated to the outgrower crop located? Right there where the other crops are grown, and therefore easy to reach? Or in a complete different area, possibly resulting in the farmer less frequently visiting and looking after the outgrower crop? Or will it result in the farmer not being able to properly guard the crop at the time of harvesting, with a risk of losing at least part of the harvest through theft.

Only when the answers are such that it fits with the minimum requirements of the crop to be included in the range of activities that a producer is already undertaking, the producer should be considered for inclusion in the outgrower scheme. It is therefore imperative that the minimum requirements are known and clearly formulated.

For perennial crops such as jatropha or mangoes it may, for example, be considered important that individual farmers find or are allocated an area by the local chief where the jatropha can be grown 'jointly', i.e. 5 farmers each growing 0.5 ha of jatropha doing so on a continuous area of 2.5 ha, rather than the individual farmers having their areas under jatropha in different locations, isolated from each other. Having the individual plots in one and the same location

will not only encourage exchange of information and experience between farmers, thus learning from each other, but will also facilitate training of farmers and monitoring of the crop for adherence to cultural practices, safeguarding of the crop at the time of harvesting, and collection of the harvest from the farmers.

Especially for perennial crops it is important to know what assurances there are that the farmer will continue to enjoy the benefits of the crop after having put in the efforts to bring the crop to production. For example, how secure is the prevailing form of land tenure?

### **1.2.2 Agricultural Knowledge and Experience**

The kinds of questions to ask are:

- What are the production levels of the crops already being grown by the farmer? Are these below average, average, or above average? In other words, one would wish to know what crop history the farmer has.
- Do other members of the community consider the farmer a ‘good’ farmer or ‘bad’ farmer?
- Are minimum acceptable management and production standards relating to yield and quality applied to the crops the farmer is already growing?
- Is there a willingness to learn? Have yields of the crops already being grown by the farmer improved over the years? Has the farmer adopted new technologies in recent years, e.g. conservation farming?

The answer to such questions will give an indication of the likelihood of the farmer succeeding with the new crop. It is always useful to pay a visit to the farmer’s fields during the production season and assess how well the crops are being looked after.

### **1.2.3 Basic Business-Awareness**

The kinds of questions to ask are:

- Is the farmer the crops that are already being grown producing for home consumption only, or are one or more of the crops also marketed?
- Is there a consistent surplus production of such crops, or is this incidental only, i.e. rather by chance because it just so happened that the rainy season has been favourable?

The answer to such questions will give an indication whether the farmer is just farming as ‘a way of living’, or more of an entrepreneur who makes conscious decisions on the crops he is growing and for what purpose.

### **1.2.4 Motivation to Participate**

The kinds of questions to ask are:

- Why is the farmer interested to join the outgrower scheme?

- Is this because of the promise of inputs, including financial support, being provided on credit?
- Or is it because the farmer genuinely recognises that participation in the outgrower scheme will improve his livelihood?

To make an assessment of the farmers' motivations as to why they wish to participate it is important to make it very clear from the onset what will be required from them to successfully grow the outgrower crop and what kind of support is to be expected from the company. It should be made equally clear what support will **not** be provided by the company, i.e. what will be the farmer's own responsibility.

### 1.2.5 Farmers' Commitment

It should at all times be made clear to the farmer that there are no give-aways, i.e. that inputs, tools and/or equipment, extension support, and/or financial assistance all come at a cost, and eventually are to be repaid by the farmer (even in less transparent situations this is the case anyway, with all the support provided by the outgrower company eventually being reflected in the price paid to the farmer for his produce). And, last but not least, that the farmer will have to commit himself to deliver **the entire crop** produced to the company supporting him, and not just enough for him to repay any credits or loans.

Only when all such information is provided the farmer will be able to make a conscious decision on whether or not he should get himself/herself involved in the production of the outgrower crop. It is important that the farmer realises that he/she likely will have to make sacrifices, or will have to make choices e.g. for the allocation of resources, and that it cannot be expected that the company steps in and provides additional support whenever such choices are being faced.

To make the farmers realise that it will be likely that sacrifices will have to be made, it could even be considered to impose a kind of entry fee (in cash or kind) for a farmer to be accepted into the outgrower scheme. An example of such an entry fee is that of Ghana where farmers had to contribute a bag of maize before being accepted into a mango outgrower scheme (an example of a perennial crop), with the bag of maize being non-refundable if the farmer was to step out of the scheme at some later stage.

## 1.3 Registration of Outgrowers and Management Information

To ensure good and transparent management practices it is imperative that clear, detailed information is recorded for each individual farmer.

### 1.3.1 Basic Data Capturing

Basic data to be collected should as a minimum include the following:

- Personal details (First name(s), Family name, Date of Birth/Age, Male/Female)
- National Registration Card number or other unique identification
- Date of registration
- Location (Village, Chief, Zone, District)

- Credit provided (Inputs, Tools, Extension Support, Financial Assistance)
- Area under cultivation of the outgrower crop
- Mobile telephone numbers!

With mobile telephone technology often having become the most important means of communication in rural areas, it is often useful that a conscious effort is being made to collect telephone numbers from farmers or at least one farmer in the case of farmer groups, or from another local and reliable contact in the village or area. It is equally important that field officers give out their contact details to as many as possible of the outgrowers for which they are responsible.

For perennial crops, where there is a long (financial) relationship between the farmer and the company, it is also relevant to capture data on marital status and next of kin in case the contracted farmer passes away, and responsibilities and obligations of the farmer should be passed on to the next of kin.

The above management information could be linked to GIS aerial mapping systems in more developed outgrower schemes.

### **1.3.2 Monitoring**

Computer programmes should be designed to facilitate monitoring the performance of individual smallholder farmers, providing a basis for e.g. assessing the eligibility of farmers for higher or follow-up/next-step input packages through tracking their performances.

Monitoring criteria could include:

- Contracted area
- Distribution of inputs
- Nursery management (if applicable)
- Land preparation
- Time of planting / transplanting (if applicable)
- Crop emergence / survival rate of seedlings/trees (if applicable)
- Spacing, and plant/tree density
- Timely weeding and adherence to other agronomic practices
- Establishment of fire breaks/guards (if applicable)
- Implementation of pest and disease control practices
- Crop establishment / status of the crop at various intervals throughout the season
- Timely harvesting, harvesting techniques, and post-harvest technology
- Production data
- Formulation of a group constitution (by-laws)
- Group record keeping

Reporting formats to be used by individual farmers, farmer groups and/or field officers should be developed that capture the required data in a consistent manner, and allow for easy processing (see also Section 2).

Whereas all of the monitoring criteria mentioned above relate directly to the individual farmer or the group he belongs to, it is equally important that the activities of any field or

extension officers are properly monitored from farmer mobilisation and contracting to the efficient delivery of extension messages.

The amount of administrative work involved in operating an outgrower scheme is often underestimated, and it is imperative that this aspect of outgrower management is given due consideration from the very beginning.

## **1.4 Contracts or Production Agreements**

Contracts or production agreements between companies and farmers should be transparent and comprehensive. Farmers should understand the contract or production agreement, and how these affect them. This may require translation of the contract or production agreement into the local language. If necessary, the company or a third party must provide a degree of training and capacity building amongst the farmers to ensure that they understand and accept the terms of the contract. There is need for a balanced contract design with risks, incentives and enforcements modalities being fairly applied to all parties. Copies of the contract or production agreement must be made available to the farmer. The company should keep a record of all contracts or production agreements, if only for monitoring purposes.

Contracts or production agreements should capture much of the information detailed before (see Section 3.1), incorporating as a minimum personal details of the individual farmer, identification and registration number, area contracted, and the period of agreement.

In addition, contracts or production agreements should stipulate:

- Quality requirements
- Grades and their descriptions
- Details on all inputs, tools and/or equipment to be provided by the company and their costs, and the conditions under which these are to be provided (credit, cash, part-payment)
- Details of any loans to be provided by the company (if applicable)
- Provision of extension (type and frequency) and its cost
- Loan recovery / repayment modalities (interest, grace period, instalments and payment period)
- Pricing mechanisms/formulas for the produce (if feasible)
- Payment modalities for the produce
- Obligations and responsibilities of the two parties to the contract or agreement
- Enforcement mechanisms

Apart from stipulating which inputs and services are to be provided by the company, farmers' contributions should also be prescribed in detail.

## **1.5 Input Supply and Loan Recovery**

Conditions that apply to the provision of inputs and other services, the range of inputs and extension services made available, their cost, any interest charged and repayment modalities must be clearly stipulated.



Not all inputs and other services are necessarily to be provided fully on credit: possible farmer contributions towards the value of inputs and other services are to be considered at all times, thus ensuring a higher degree of commitment from the farmers.

Management information systems must enable companies to record all inputs supplied on credit against the producers' number, as well as deductions made against crop delivery.

Timely delivery of inputs and other services needs to be properly planned and must respond to farmers' needs, creating incentives for farmers to honour contracts. The better and wider the range of services offered, the closer the relationship between farmers and the outgrower company, and the more the farmer will lose by breaking the relationship.

## **1.6 Extension Services**

There may be a need for companies to perform a full training and extension needs analysis to establish a base line to enable them to plan the implementation or expansion of extension services to their outgrower farmers, who should be involved in the process to ensure that their needs are being addressed where feasible.

The costs of extension services are usually reflected in the prices paid for the produce, without this necessarily being clearly understood by the farmers, who often believe that the extension services received are free of charge. It would be better if farmers are charged for any extension services in a clear and transparent way, e.g. a fixed amount per season whereby it is stipulated what type of extension and/or training is to be delivered including the frequency of such extension and/or training activities. By clearly describing the extension and/or training activities that can be expected, farmers can monitor the services delivered and receive value for money.

Provision of extension services should ideally be linked closely to distinct periods that can be distinguished in the crop cycle, for example (1) mobilization and registration/contracting of farmers including input distribution, (2) nursery preparation and establishment (if applicable), (3) field preparation and crop establishment / transplanting (if applicable), (4) field management including control of pests and diseases, (5) pre-harvest preparations, harvesting and post-harvest handling including storage hygiene, and (6) marketing arrangements.

Just as is true for input supply, the delivery of extension services should be properly planned to ensure timely delivery.

For perennial crops the requirement for provision of extension services may gradually decrease in subsequent years, e.g. mobilisation and registration of farmers will only have to be done once, as are nursery preparation and establishment and field preparation and transplanting. Thus, from Year 2 onwards extension services will be limited to field management, harvest and post-harvest activities, and marketing. These extension services are then to primarily reinforce the important messages for each of these cycles.

In effect this implies that for perennial crops the number of extension officers needed in subsequent years can effectively be reduced without compromising the quality of extension delivery. The number of extension officers required will be dictated by, among others, the geographical spread of the farmers or farmer groups, and the effective coverage a single extension officer can provide. Extension services are often a major expenditure in any

outgrower scheme, and ultimately the cost of the extension services should be commensurate with the volumes and value of the commodity in question: bottom line is that the cost per kg of produce is acceptable and sustainable.

## **1.7 Marketing Arrangements**

In outgrower schemes which involve thousands or tens of thousands smallholder farmers, it may be necessary to establish a network of depots and buying centres during the marketing period to facilitate delivery of the produce by farmers, whether throughout the marketing period or at designated times. It is important that staff positioned at these depots is well trained in grading procedures, and closely monitored to ensure adherence to such grading procedures.

Grading standards should be clear and transparent to the farmers. When possible, visual grading aids should be made available. Farmers themselves need to be well trained in grading of the produce, or, in the case of jatropha seeds where grading is possibly less relevant, be instructed what post-harvest processing should be carried out prior to delivery to the company (i.e. cleaned and de-hulled jatropha seed). When there is a differentiation in prices paid at the factory gate or at the depots/buying centres (farm-gate price), farmers should have a free choice in where to deliver their produce.

To encourage group formation processes the outgrower company could consider to pay a premium to farmer groups which bulk their produce.

## **1.8 Pricing Mechanisms and Payment Modalities**

Farmers often expect a minimum pre-planting price for the crop they wish to grow. Absence of pre-planting prices, coupled with limited or no understanding of why and how international market prices fluctuate and how companies derive the price they pay for the produce, and limited access to information, particularly in a format that can be understood by the farmers, leads to uncertainty and a feeling of exploitation. Development of transparent pricing systems could alleviate some of these constraints.

However, in view of uncertainties with regard to developments on the international markets or macro-economic policies of governments, it is often difficult and it certainly entails a degree of risk for the outgrower companies to set a pre-planting price. As a minimum it should therefore be tried to arrive at some form of pricing mechanism which is acceptable to the outgrower company and to the farmers or their representatives, and more often than not also to the governments of the countries in which the outgrower companies are operating to avoid political interference.

Payment to farmers should be as prompt as possible. This may be when the produce changes hands, but at least no more than one month after the transfer of produce has taken place. Any transaction should be properly recorded, indicating grades, corresponding weights and prices, total value of the delivery, and any deductions for inputs or, if applicable, other services provided.

## **1.9 Group Development Facilitation**

It would simply not be economical for outgrower companies to service each and every farmer individually. Group approaches to farmer organization means reaching economies of scale and thus reducing transaction costs, which is beneficial for both farmers and companies. By working through farmer groups or clubs, companies can reduce their cost on delivery of services, whereas farmers can reduce transport costs to bring their produce to the company buying their crop, or negotiate better prices when delivering in bulk. Groups are the vehicle for distribution of inputs, dissemination of technical advice, and procurement of the crop.

Farmer groups or clubs are usually mere interest groups, with a common interest in growing a certain crop. Members of the groups are rarely formally linked to each other through an association or cooperative. Groups usually have on average 20-25 farmers, although the size may actually vary from 5-50 members or more. Group or club leaders, sometimes also referred to as farmer facilitators or lead/contact farmers, are the link with the companies. Selection of a group leader is mostly an interactive process between the company and the group. Group leaders must be approved by the company (they must be literate and be able to keep a minimum of administration), but at the same time the group leader must be accepted and trusted by the farmers.

Group size is often determined by the nature of the commodity. Larger groups are the norm for annual crops, but for perennial crops where longer-term partnerships are at the core of the relationship, with a relatively high level of investment by the supporting company, smaller groups of 5-10 farmers are more effective. If the number of farmers in each group is rather small, it could be considered to appoint a farmer-coordinator for several of the groups who then becomes the direct link between the company and the various farmer groups.

Good communication and close monitoring remain particularly critical issues, especially with export products involving European and Northern American markets, where there is a need to ensure quality and traceability of produce. When communication between companies and farmers is weak, group members can still monitor each other. More generally, good communications to foster good company-farmer relationships and a sense of trust have a positive effect by reducing strategic farmer default. Peer pressure mechanisms with groups can further contribute to a reduction of farmer default by eliminating potential defaulters.

## **2 Field Reporting**

In the process of establishing an outgrower scheme different stages can be distinguished from farmer mobilisation and contracting of farmers or farmer groups, to the distribution of inputs, crop establishment, and production.

Each of these stages and the corresponding training to be provided by Field or Extension Officers to the farmers has to be properly monitored, ensuring that essential management information is captured in a manner that allows for easy processing. For this purpose a series of forms may need to be developed to assist the company in knowing at any stage the progress being made towards achieving its objectives.

Field Officers are usually also responsible for reporting back to the company on crop establishment and status of the crop as such information is essential for the company to properly plan for the marketing season, e.g. in relation to the establishment of depots or buying centres, staffing requirements for buying the crop, transport and other logistical arrangements, and financial requirements for the season.

It is to be realised that there may be a tendency among field staff to provide higher than realistic estimates of crop production, if only to 'please' management. It follows that companies should always make an effort to independently make cross-checks, rather than only depending on the reports from its field staff.

### **2.1 Mobilisation and Contracting of Farmers**

At the stage of farmer mobilisation farmers are sensitised on how the company intends to work with the farmers. For this, the company may have to develop various materials to assist the Field Officers in presenting the company's profile and objectives to the farmers. In particular, the farmers could be presented with:

1. Background information on the company and what the company will be offering in terms of inputs and other support such as extension services including the conditions that apply;
2. Information on the company policy of working with individual farmers or farmer groups and the need for farmers within a group to agree and designate the various functions that selected individuals will have within the group (constitution or by-laws of the group);
3. An explanation on what the responsibilities of the individual farmers and/or groups will be towards the company;
4. An explanation on how groups are expected to maintain a minimum of group record keeping, monitoring the progress towards the establishment of the crop by the farmers within the group.

The mobilisation process should culminate in farmers or farmer groups expressing their interest to join the outgrower scheme. After screening of the potential outgrower farmers or farmer groups - a process which usually is to be more rigorous for perennial crops as compared to annual crops - and ensuring that the farmers or groups meet the company criteria (see also Section 1.2), these should be contracted. whereby the details to be captured of

individuals within a group are in essence the same as for individually contracted farmers (see also Section 1.3.1).

As explained in more detail in Section 1.3.1 it is important that the contract or production agreement captures relevant personal details of the farmers, whether as individuals or as members of a group. As explained in Section 1.4 all relevant aspects of the relationship between the outgrower company and the farmer or farmer group is to be covered by the contract or production agreement.

Details of individually contracted farmers or individuals within farmer groups are to form the basis of the database to be created by the outgrower company.

## **2.2 Input Distribution**

Once the contract/production agreement has been signed the individual farmers or farmer groups can be provided with the inputs to be made available by the company, either at the same time when the contract is signed, or at some later stage. The list of inputs provided should correspond with the inputs listed in the contract/production agreement.

Often only seed inputs are provided at the time of signing the contracts, especially for annual crops, in which case the quantity can be recorded directly on the contract or production agreement, together with any information on the value and the amount provided on credit, to be recovered from the farmer or group at the time of marketing.

Chemical and/or other inputs are more likely to be issued once it has been confirmed that the crop has been established, and separate forms will be required to capture the distribution of such inputs.

The provision of chemical and/or other inputs should be corresponding with the actual area on which the crop has been properly established (see also Section 2.3) to not overburden the farmer with unnecessary costs which he will find difficult to repay (and which may result in an increased risk of default).

The value of inputs provided (seed, chemicals, and other inputs) may vary from year to year, depending on the costs that the company has incurred in procuring the various inputs. The value of inputs could be set at the actual cost price, to which a mark-up is added to cover the cost of transport and other overhead costs the company is incurring. How the value is arrived at should be stipulated in the contract/production agreement between the company and the farmer group.

Input distribution forms should capture relevant information of the recipients, be signed by the individual farmers or representatives of farmer groups, and the responsible Field Officer.

The value of the inputs provided (whether at the time of contracting or at a later stage) is to be recorded in separate columns in the database created on the basis of the contracted farmers or farmer groups.

## 2.3 Crop Establishment

It should be realised that for a variety of reasons the actual area under the crop may be smaller than could be expected on the basis of the amount of seed supplied. Especially if there is no charge for seed inputs, and even if seed inputs are provided fully on credit which is often perceived by farmers as 'for free', there is little or no guarantee that the farmer has actually planted the crop. Farmers may also abandon part or the entire initially planted crop for reasons of constraints on available resources, usually labour because of competition with other crops, especially food crops, or farmers having to look for off-farm income when household food supplies are dwindling. The crop may also have been destroyed partially or entirely as a result of droughts or floods.

Any changes to the initially estimated area under the crop should be recorded and reported by the Field Officers to the management of the outgrower company to adjust estimates of the expected production volumes. This then should be done at the same time and on the same form that is being used for the registration of chemical and/or other inputs being distributed (See Section 2.2), whereby the quantities of inputs issued should correspond with the area under the actually established crop.

Again, the adjusted areas under the crop are to be recorded in a separate column in the database for each of the contracted farmers or farmer groups.

The level of management of the crop, i.e. the adherence to recommended basic principles of crop management (e.g. timing of land preparation and planting, plant population, timely weeding, pest and disease control), can have a significant impact on the realisation of the yield potential of a crop, and every effort should be made to capture such information to arrive at more realistic estimates of the expected production volumes.

Such information is usually to be collected at the later stages during the crop production cycle, and will entail an exercise separate from the distribution of chemicals and/or other inputs and is complementary to the updated information on the area under production, and will require the development of another form to facilitate the capturing of the required data.

In the case of contracted farmer groups, the groups could be made responsible for recording the required information, but this information should at all times be verified by the responsible Field Officers, if only through random checks.

Information thus collected is once again to be entered into the database under a separate column, preferably for each of the contracted farmers or farmer groups. This exercise may however be difficult to implement or very laborious to process (especially if it involves multiple data such as plant population, number and size/weight of fruits), and alternatively the company may have to settle for a more random assessment of the general condition of the crop, and arrive at a more generalised correction of expected production volumes to be applied to all of the contracted farmers or farmer groups.

For perennial crops the stages at which the progress of the crop is to be monitored may span over several years, and may involve the recording of specific agronomic management practices, e.g. the pruning of fruit trees and the establishment of fire guards.

Whereas the collection of all this information (whether for annual or perennial crops) may appear to be 'too much', it is to be realised that it will provide the outgrower company not

only with essential management information, but also provides an opportunity to monitor whether contracted farmers or farmer groups are adhering to their obligations under the contract or production agreement, and in particular whether or not the farmers or farmer groups are delivering all of the produced crop to the outgrower company that has been supporting them, or are possibly involved in side-selling of the crop.

## **2.4 Yield Data**

The last step in the collection of data is the recording of the actual yield figures. In reality it often will only be feasible to record what is actually being delivered by the contracted farmers or farmer groups, whereby it is still possible that some farmers will deliver part of their produce through other farmers in an effort to avoid repayment of credits, claiming that their crop has failed, while others may only deliver sufficient of their harvested produce to repay the loans, selling the ‘surplus’ production to other buyers, i.e. reverting to side-selling.

The more accurate the recording of crop establishment and performance is, the bigger the chance that such practices (i.e. over-supply or under-supply) are being noticed and can be addressed.

Every effort should be made to ensure that yield data from e.g. demonstration plots used for training farmers in appropriate management practices are properly captured to be able to demonstrate the potential of such practices in achieving higher yields. Harvesting of the crop from demonstration or other forms of trial plots will therefore have to be done under direct supervision of the outgrower company.

## **2.5 Farmer Training**

Whereas it is important that information is being captured on the number of contracted farmers, input distribution, crop establishment, crop performance, and crop deliveries, it is equally important that accurate records are being kept of the various activities of the Field Officers. This applies to the process of mobilising and contracting of farmers or farmer groups and the distribution of inputs, but even more so to all the training that will have to be provided throughout the various stages of the production cycle, i.e. land preparation, planting, field management, harvesting and post-harvest handling, and marketing.

When planning the training to farmers care should be taken that the number of farmers at any given training is not too large, e.g. having 100 or more farmers at the same time attending a training session at a demonstration plot will result in an ineffective delivery of the extension messages, and it will be unlikely that many of the attending farmers will adopt the demonstrated technologies.

Ideally the number of farmers attending any training session should not exceed 25-30 farmers, although it is realised that there are circumstances that will force a company to include a larger number of farmers. An example is taken from the cotton sector, whereby it may be affordable for a company to train farmers in groups of 25 when each farmer grows 1 ha of cotton, but that the cost to the company would become too high if each farmer grows only 1 acre of cotton: ultimately the average cost of training provided per individual farmer is to be measured against the average production volume per individual, which will be smaller when the area under the crop is smaller.

As a very minimum the date, the village/area or farmer group, the number of farmers attending, and the subject of the particular training activity should be recorded. Records must include the names and other required details (e.g. unique identification number) of the farmers that attended the training, with the farmers signing off on the record sheets, verifying that the training has been provided.

The data thus captured should be added to the company's database in order to track the progress made in providing the required training to the contracted farmers or farmer groups.



## 3 Appraisal and Monitoring of Outgrower Arrangements

There are many questions to be asked when making an appraisal/assessment of any proposals for financial support to an outgrower arrangement. The list may seem exhaustive, but the cost of taking the time to have these questions answered will be negligible compared to the financial cost of support to a failed outgrower arrangement which had little chance of succeeding in the first place.

### 3.1 Outgrower Model

- What is the nature of the private sector - smallholder linkage? What outgrower model applies?
  - Centralized outgrower scheme
  - Nucleus estate
  - Market provider
- Who are the beneficiaries? How many intended beneficiaries are there?
- What is the nature of the agro-ecological conditions that apply to the outgrower arrangement, e.g. rain fed vs. irrigated in combination with an annual vs. perennial crop - what is the lead time until first production?
- What type of crop/commodity is under consideration and what are the particular quality requirements for this crop/commodity?
  - Fruits, vegetables, milk – direct human consumption
  - Paprika, safflower – indirect human consumption
  - Cotton – not for human consumption
- What level of investment is required, e.g. capital investment (processing facilities, vehicles, motorcycles, equipment) but also the level of direct investment in production (e.g. a perennial crop requiring irrigation vs. a rain fed annual crop) ?
- Will the project or programme build on an existing outgrower arrangement (for which there should be a track record) or is it a new initiative?

### 3.2 Participating Parties

- Who are the partners/stakeholders
- Who is in the driving seat – who is the initiator
  - Entrepreneur vs. BDS/NGO
  - Proximity – local vs. distant/external
  - Dependency on smallholder production
- Is it a new enterprise or existing one – track record of initiators
- Who takes on which roles and responsibilities in the partnership? What is their background? Are the respective partners equipped for the assigned roles and responsibilities? Are the linkages between the various partners clear?
  - Financial
  - Technical
  - Administrative
- Who are the immediate beneficiaries within the partnership of any financing?
  - Loan component
  - Grant component
- Who is responsible for the reporting (narrative and financial)

- Who is responsible for providing technical assistance?
- Who is responsible for input provision?
- Who is responsible for production planning and processing?
- Who provides the market?
- Are there any producer organisations involved in the arrangements? What particular role do these play?

### 3.3 Projections and Realities

- Has the ‘homework’ been done – trends, markets?
- Is the information provided consistent?
- Are projections (financial, market developments) realistic? What are the costs/benefits?
  - Assumptions, what if ..... ? Can the project or programme adjust to changing market conditions?
  - Have different scenarios been worked out – worst case scenario?
- Are (external) threats to a successful implementation recognised? How can these be mitigated?
- What expertise is there to recognise changing conditions and new realities to adequately revert to alternative scenarios?
- Are any additional assessments required?
  - Internal (company)?
  - External (e.g. the financing organisation)?
  - Who will pay for it?
- What are the end markets? Are there any alternatives (e.g. international, regional and/or domestic)?
- What are the complementary financial contributions by the respective partners – are they prepared to take a risk (commitment)?
- To what extent are the loan and/or grant components contributing to the overall investment that is required?
- And to which steps/links in the value chain are the loan/grant components contributing in particular?
  - Capital investment (processing, production - e.g. tractors, harvesting equipment)
  - Input supply (crop finance – production)
  - Technical advice (production)
  - Trade finance (marketing)
  - Capacity building – usually farmers (‘Farming as a Business’) and/or their associations; but possibly also service providers
- Is a detailed breakdown of loan and grant utilization provided? What control mechanisms are in place?
- How are the smallholder farmers benefiting from the project/programme/partnership?
  - Are financial contributions commensurate with the number of beneficiaries
  - Is the contract between company and farmers transparent?
  - Have expected farmers’ incomes been worked out (crop or partial budgets)?
  - How are farm gate prices arrived at - % of FOB price (volatile) or ‘fixed but fair’ (is there a mechanism for providing price stability; compare with macro-economic stability)?
  - Is there a transparent mechanism relating to the charging-out of overhead costs (including e.g. TA)

### **3.4 Performance Indicators**

- Are objectively verifiable indicators and clear targets in place? Are these consistent and realistic?
- How to effectively monitor activities, outputs, objectives (targets)?
  - Company level
  - Farmer level
  - TA and Capacity Building (Company/BDS/NGO)
- Reporting: do expectations and interests of the supporting organisation and the implementing company or other partners match, and if not, how to match with each other? This is to be made clear from the onset (financial and narrative reporting)
- What should be the frequency of reporting?
  - Seasonality/crop cycle
  - Purchase and sales

### **3.5 Contract and Liabilities**

- Who is responsible for the utilisation and administration of the grant or loan?
- Who has final responsibility for repayment of a loan component and/or accounting for a grant component?
- Have any securities been provided?
- On what will the phasing of disbursements be based?
  - Activities implemented
  - No. of farmers recruited
  - Production volumes
  - Performance based
  - Matching Grant (Sliding scale, e.g. 80-65-50-35-20%)
- Ownership of assets: will these remain with the implementing company or other partners, or will these be transferred to the beneficiaries – and would this be what farmers really want or need?

### **3.6 Implementation and Monitoring = Sum of 3.1-3.5**

- Have the grant and loan components been used for the intended purposes and according to the agreed schedules – have any variations been approved?
- Have the complementary investments and/or financial contributions by the participating partners been made?
- Is the project or programme on schedule, and have activities/outputs/objectives (targets) been achieved – is the reporting in accordance with agreed indicators?
- Have any adjustments been necessary and made to the baseline scenario because of new realities? Was there flexibility and alertness in responding to such new realities? Have necessary adjustments been effective?
- Have new challenges been faced adequately? Are problems acknowledged or ignored?
- What is the impact at company and farmer level of any changes? Change is no reason for panic!

Table 1 provides an example comparing various outgrower arrangements and their implementation, addressing some of the key questions listed above.

**Table 1 Comparison of Examples of Outgrower Arrangements and their Implementation**

	<b>KSIIIP – Hot Pepper</b>	<b>KSIIIP – Vanilla</b>	<b>ITFC – Mango</b>	<b>Cheetah Paprika</b>
Crop	Annual, irrigated	Perennial, rain fed	Perennial, irrigated	Annual, rain fed
Model	Centralized model	Centralized model	Nucleus Estate model	Centralized model
No. of farmers	120	1,500	2,000	7,000-12,000
Farmer organization	Strong association	Weak associations	Young but growing	Loosely organized ‘interest’ groups
Financial Projections	Information markets poor and not updated Different sections of proposal present different figures Financial projections over optimistic Not made explicit that projections for year 1-3 were for non-target beneficiaries (existing vs. new growers) Some budget lines not specified, e.g. ‘vanilla operations’ and ‘hot pepper operations’ (inputs, trade, processing, labour?)			
Contributions	No complementary financial contributions from partners			
Loan component utilisation	No adherence to original budget, e.g. cold store for hot pepper and vanilla processing plant			
Grant component utilisation	Utilisation for Technical Assistance on production and Capacity Building not documented			
Responsibilities	Not made explicit that parties had different responsibilities for hot pepper and vanilla operations			
TA	BDS Provider	BDS Provider	Company	Company
Input provision	Farmer Association	BDS Provider	Company	Company
Processing	Farmer Association	BDS Provider	Company	Company
Marketing	Company	BDS Provider	Company	Company
Administration	Relatively good	Poor	Good	Good
Production projections	Okay, but hit by diseases (threat)	Unrealistic	Lagging behind	Subject to weather and external threats (side-buying)
Adjustment to realities	Ignored	Ignored	Done	Continuously required
Response to challenges	Poor	Poor	Good	Good
Acknowledgement of problems	Continued projecting a positive image	Continued projecting a positive image	Yes	Yes, but reporting slow
TA	Insufficient	Good (doubts on outputs)	Good	Good
Capacity building	Specific (certification)	Poor	Good	Not applicable
Repayment of loan	No	No	Yes	Difficult

## 4 Notes on Commercial and Social Dimensions of Outgrower Arrangements

### 4.1 Profit - Commercial Dimension

Outgrower schemes are commercial activities. Commercial actors within the value chain should demonstrate their commitment by contributing towards the proposed interventions, if only to be assured that there is some sense of ownership of the project or programme.

It is sometimes argued that the company or organisation does not have the means to make such contribution. If that is the case, then it can also be wondered if the company will be in a position to repay the loan, irrespective of any grand projections on how the financial injection is going to make all the difference.

Outgrower schemes without a sound business plan are bound to fail. As in any business plan, projections are always based on assumptions. The key question therefore is how *realistic* are these assumptions. As a very minimum any projections should have the possibility to make changes to these assumptions, and show how such changes affect the projections. In that way there will at least be a possibility to project different scenarios, including a break-even scenario.

The assumptions could serve as performance indicators, allowing the monitoring of the real situation against the assumed projections. There may be a need to ‘translate’ the assumptions into more directly measurable parameters. As an example, in the KSIIP programme the number of farmers to be recruited was an indicator of the targets to be achieved, and served as an assumption for the projected volumes of vanilla that the programme was expected to generate. An underlying assumption was that each farmer was to receive 90 vanilla vines. By monitoring the distribution (and planting) of vanilla vines one would have had a direct performance indicator, linked to the projected vanilla volumes. If this performance indicator had been used, one would have been alerted as early as one year after the start of the project that the projected volumes were not going to materialize. This, coupled with a price performance indicator would have enabled the supporting organisation to *very simply* establish that there was a genuine risk that the targets and objectives were not going to be achieved.

Any projections stand or fall with the accuracy of the assumptions. Whenever there is any doubt with regard to the assumptions, additional information should be sought or requested for, or result in a detailed (complementary) assessment study before any funds are committed. Such a study may cost e.g. anywhere between € 10,000-20,000, but if it can prevent the potential loss of a € 200,000-300,000 loan, it is a worthwhile investment.

If the assessment results in an approval of the proposed support, the actual cost of the assessment could be added to the loan amount, i.e. will eventually be paid for by the recipient of the loan. If there are any objections to such an arrangement by the recipient, one should really start wondering if any support should be considered. Alternatively, such an assessment could be part and parcel of a complementary grant arrangement.

One way of circumventing uncertainties in respect of assumptions is choosing for outgrower scheme arrangements that have been in operation for e.g. a minimum of two years already, and thus can provide a timeline/track record of actual performance data.

Another aspect to be taken into account when viewing the relationship between companies and farmers is the nature of the commodity: the higher or more stringent the quality requirements, the closer the interaction between company and farmers should be. For example, fruits and vegetables, and e.g. milk, which are for direct human consumption, require a very close interaction to assure quality and hygiene. A commodity such as paprika, which has its end use in human consumption but only after certain processing, still has its quality requirements but these are not as stringent as for fruits and vegetables. Cotton, a commodity also often subject to outgrower arrangements, on the other hand has quality requirements that are of a different nature compared to the other commodities mentioned here, e.g. general cleanliness (i.e. freedom from foreign matter).

## 4.2 People – Social Dimension

From the perspective of many supporting donors and organisations there appears to have been a tendency to put the social dimension in front of the commercial dimension. However, without a sound commercial strategy there is no room for the social dimension at all: simply put, without *Profit* there is no *People* when considering outgrower scheme arrangements. And it should never be forgotten that also for the farmers profit is the ultimate aim.

There are several aspects to the social dimension. The first is the formation of and support to farmer associations or other representative organization. It should be questioned if this is always realistic. In the end the feasibility depends to a large extent on the nature of the outgrower scheme. If the outgrower scheme is limited in size, e.g. a 100 or 300 up to possibly 2,000 growers who are situated within a geographical area which is relatively limited in size, then coherent farmer associations could well be developed. It should be noted that in examples of outgrower arrangements with limited numbers of participating farmers the crops/commodities involved are usually those that have longer lead times and may require substantial investments before any profits are being reaped. At the other end of the scale are the outgrower schemes, usually involving annual crops, involving thousands if not tens of thousands of farmers, loosely organized in ‘interest groups’ with often larger numbers of farmers dropping out of or joining the schemes annually. In the latter case, pursuing the idea of formation of farmer associations may well be a rather futile exercise.

A second recurring aspect of the social dimension is the transfer of assets to representative farmer organizations after repayment of the loan amount to the company. One should however ask if this is really always in the interest of the farmers. What do the farmers gain by taking ownership of capital items that often are basically written off, e.g. vehicles, without simultaneously having been able to make reservations for replacement of the same when necessary? If at all a contribution (= commitment) is to be expected from the farmers, then possibly the contribution towards the capital assets should not exceed e.g. 50% of the total cost.

Possibly farmers would be better off if capital assets (cold room, pack house, cooler tanks for milk) should simply remain the property of the company, with the company writing the assets off and replacing them when needed. Farmers then pay e.g. a handling fee for each unit of

produce being processed: at least they will pay according to the volumes produced and processed, and are protected from carrying a heavy financial burden in case of failing production (which is always a genuine risk in agricultural activities).

There is another reason for leaving capital assets under ownership of the company: in case of failing repayments to the supporting organisation if the assets have been purchased under a loan agreement, the capital assets can be repossessed without the complication of having to take into account that the assets are partly owned by the farmers.