Agro-dealers in Zimbabwe: Scaling input provision as key for successful small farmer engagement

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This case is one of a series specifically prepared by SNV and local partners for the "Seas of Change" event, taking place in The Hague, 11-13 April 2012. The cases cover a range of commodities and approaches in value chain development across Africa, Asia and Latin America. They usually include several of the following elements: strengthening of producer organisations, productivity improvement and value addition, business development services, inclusive business ventures, contract farming, marketing arrangements and improved chain financing. The work has been done with local entrepreneurs, NGOs and government bodies. Among the international collaborative partners are: IFAD, FAO, EU, USAID, DANIDA, Helvetas and IDB. For an overview of these SNV cases please see www.snvworld.org/en/sectors/agriculture

Key features

SNV coordinates The Rural Agro-dealers Restocking Programme (RARP) in Zimbabwe, a market-led approach to revitalizing agricultural production. The programme, now in its third phase, addresses systemic issues in agriculture with a focus on restocking of agro-dealers with agricultural inputs. In this way key needs and risks of small holder farmers are addressed, allowing them to obtain sustainable returns to their agricultural enterprises. To achieve this, SNV partnered with wholesalers, agro-dealers, and development agencies DANIDA, FAO, and HELP (Germany) as well as local capacity builders to improve the performance of dealers and others.

RARP contributed significantly to farmer access to agricultural inputs. Through a relatively simple and small investment (a total amount of US$112,000) in insurance of financial risks, in total 659 agro-dealers were linked to wholesalers to receive agricultural inputs. Some 500 agro-dealers were also trained in retail business management. The agro-dealers distributed inputs worth over 9 million USD through voucher and cash sales. An estimated 113,800 farmers accessed inputs in this way. In the third phase a further link is made to output marketing (i.e. agricultural produce) as well, ensuring markets for farmers who saw increased productivity due to the programme.

1. Context and background

Zimbabwe's agro-inputs supply chains collapsed during a decade long economic recession that started in 2000. The worst affected group were smallholder farmers[1] in rural areas who did not have access to the right agro-inputs locally at competitive prices and at the right time. Government and development agencies sought to solve the problem. However, their agro-inputs programmes were mainly donations which lacked sustainability.

In 2007, the FAO invited SNV to develop innovative ways of re-establishing rural input value chains. FAO preferred SNV because of its market-based approach. SNV's initiative was to revive rural agro-input shops (commonly known as agro-dealers) for the delivery of affordable agro-inputs to rural farmers. The Rural Agro-dealer Restocking Project (RARP) was first implemented in 2009 as a pilot project designed to test the appropriateness of market-driven input distribution methods in an emerging economic environment. It was funded by Cordaid (insurance) and FAO (capacity building) and implemented by SNV Zimbabwe. It was hoped that the programme would provide useful information for re-shaping rural inputs assistance for 2010/11.

In the pilot project, rural agro-dealers played an important role in the chain by selling the inputs of their choice to smallholder farmers and by buying their produce as agricultural commodity traders (output marketing). The importance of agro-dealers was recognised by other actors in the development community as well, and aid organisations shifted to implement open voucher systems in order to provide farmer beneficiaries with the inputs of their choice. In the pilot, a total of 71 rural agro-dealer shops (selling seeds, fertilisers, chemicals, and farming implements) participated and 700 metric tonnes of seed and fertilisers respectively with a total value of over US$545,000 were sold.

2. Underlying business model

At the onset of the RARP pilot, the following features of the main actors, agro-dealers, suppliers and farmers were recognised:

- Rural agro-dealers lack the financial capacity to stock their stores
- Suppliers, firstly, would have low financial capacity to support agro-dealers; and secondly, would be adverse to agro-dealer financing in the absence of guarantees.
- Farmers did not receive agricultural extension support at the store.

RARP provided a business model which is based on the need to mitigate risks for wholesalers and other chain actors through developing various innovations that isolate and address specific risk categories. In this way, a mechanism is provided through which key risks to small holder farmers are addressed, in order to allow them to obtain sustainable returns to their agricultural enterprises.

The main strategies include assisting several actors. Wholesalers are assisted to develop viable business models and train their staff on dealing with small business actors. Agro-dealers received training and mentoring on proper retail business management systems and on putting up an insurance arrangement that they did not know about yet[2]. The strategy is thus based on the provision of a package anchored in the private sector, involving risk mitigation (through insurance and training for all actors) and value chain financing.

RARP - the pilot assisted in the development of rural retail networks for three wholesalers by paying insurance premiums to cover agricultural inputs to be sold on a cash basis placed in stores. The total cost of insuring the three companies, each with four policies (fire, fidelity, money and

[1] Smallholder farmers are living in rural areas, with landholding of between 0.5ha and 3ha on average and are mostly subsistence oriented.

[2] Wholesalers are the ones who are insured so that they can place consignment stock with agrodealers who are considered to be high risk business partners. To avoid the risk of moral hazard, agrodealers were not told about the existence of the insurance.

recall, goods in transit), for a total stock value of US$545,000 was US$12,532 for a six month period, or 2.8% of the value of the inputs (this initial insurance was paid for by Cordaid). This resulted in the restocking of 71 rural shops in three provinces by March 31, 2010.

The relatively small investment of US$12,500 thus mobilised resources for nearly US$545,000 in the pilot. The result was a major success in terms of volumes of inputs sold and the zero default on the part of agro-dealers.

3. Evolution of the initiative

In the 2010/11 season, the pilot programme was scaled up to cover all eight rural provinces, with 708 shops participating under a programme that came to be known as RARP II. RARP II was developed with further support from donors such as DANIDA, FAO and a German NGO called HELP. In addition, other donors like Cordaid, the Royal Netherlands Embassy (RNE), GRM International (GRM), and the development management agent for the UK's Department for International Development (DfID) lent their support. At this stage, all these different development organisations started talking of this market based input provision model as being more sustainable in the long run than the free input hand-outs promoted by donors and government departments. Together, they decided to incorporate the lessons learnt during the piloting of RARP into a nationwide programme for the 2010-2011 agricultural season, later dubbed RARP II.

RARP II started on October 1, 2010 with two main objectives. Firstly, enhancing access to agro-inputs by rural farmers through reviving the link between rural agro-dealers and wholesalers, and secondly by the establishment of a revolving credit facility for the agricultural value chain players. RARP II aimed at achieving household food security and contributed to national food security. To achieve these objectives, the following partners supported the programme:

- **DANIDA:** DANIDA bought into the concept of RARP and decided to contribute to the up-scaling of the programme, thereby attaining national coverage. They provide a total budget of DKK 90 million, of which a budget of around DKK 6 million (US$1,100,000) was earmarked for capacity building for the first year, starting in October 2010. In addition, they provided DKK25 million (US$4,580,000) to start a revolving fund. The rest of the funds were to be provided in the second year, starting in October 2011, with 20% for capacity building and the rest for the revolving fund.
- **FAO:** FAO provided the initial US$50,000 and invited SNV to develop innovative ways of re-establishing rural input value chains. They went on to support the up-scaling through providing US$75,000 for the first phase of agro-dealer business training.
- **HELP (Germany):** A partner providing vouchers for the most vulnerable households through selected wholesalers participating in RARP II and the agro-dealers. In addition, HELP provided the insurance for the programme of around US$100,000.
- **SNV:** SNV led the implementation of the programme and the co-ordination between various partners.

Already at the beginning of the pilot programme, SNV facilitated dialogue with wholesalers and manufacturers in identifying the challenges and perceived opportunities if they were to supply rural agro-dealers with storage stock. Various risks were identified, notably fire, fidelity, money and recall. Corresponding risk mitigation strategies were explored with various wholesalers and insurers. SNV consolidated the views and developed generic concepts for both insurance and wholesaling. Partners included:

- Ten agro-input wholesalers[3] operated agro-dealer networks with 708 registered and insured agro-dealers and two insurance companies provided the insurance. DANIDA is the main donor partner providing an initial contribution of US$1.2 million for capacity building for a

[3] Wholesalers are distributors who stock various types of agro-inputs for sale to retailers

three year period[4]. Capacity building of wholesalers by SNV starts with helping each wholesaler develop a profitable agro-dealer model through developing proposals. This capacity building extends to reviewing and installing more viable systems.[5]

- Agro-dealers also receive technical training to equip them with the extension information required to properly store agro-inputs and advise farmers on the correct use of agro-inputs.
- Farmers receive basic business management training covering issues such as contract management, group formation, leadership selection, enterprise budgeting etc.
- US$4.2 million was mobilised to set up a revolving fund targeting input and output value chains in rural agriculture. SNV has since established the Zimbabwe Agricultural Development Trust (ZADT) to manage the revolving fund on a commercial basis, in partnership with commercial banks The objective of the Fund is to make credit available to intermediaries in the agricultural and food value chains to enable rural agro-dealers to stock inputs, small holder farmers to produce and rural marketing agents to purchase farm outputs for the overall benefit of farmers. The target intermediaries include wholesalers, agro-dealers, contracting companies, food processors, traders and value adding SMEs in the chains.
- FAO provided funding for capacity building – FAO plays a co-ordinating role in agro-inputs in Zimbabwe and will provide funds for preparation and early stage capacity building
- German NGO HELP[6], is running a free and subsidised voucher programme alongside the RARP programme targeting the poorest households. These households each receive a voucher worth US$60 and it is expected that they will add to it so that they are able to purchase adequate inputs. On average, a household requires inputs with a value of US$400 to plant one hectare of land. HELP also provided the bulk of the insurance. Wholesalers were invited to tender to implement these voucher programmes and were requested to utilise rural agro-dealers as distribution points. The vouchers were meant to assist the most vulnerable households, whilst at the same time acting as a catalyst to revive the rural shops, as cash was injected to the rural economy leading to more sales by the rural shops. Before, NGOs used to distribute seed/input packages to the vulnerable households, who also had no say on the composition of the packages.

In total, in RARP II wholesalers were provided with insurance covering US$5,000 worth of inputs per shop. In total, US$112,000 worth of insurance was provided (paid by the German NGO HELP), which mobilised sales worth US$9.3 million (a leverage factor of 85 times).

RARP II has evolved quite fast and is now developing other components that acknowledge that rural farmers have needs beyond agro-inputs. It has therefore been renamed as the Rural Agriculture Revitalisation Programme (RARP III). RARP III will test the hypothesis that supporting intermediaries benefits farmers. RARP III's objective will be to improve incomes for farmers by improving the functioning of rural input and output value chains.

The approach of RARP III is based on facilitating agri-business intermediaries (wholesalers, manufacturers, rural agro-dealers, contract farming companies, processors, traders, transporters) to deliver products and services to smallholder farmers more efficiently and cost-effectively through the expansion of the revolving credit facility to support both input and output marketing. The revolving credit facility was established during RARP II with a capital of US$4,580,000. At the moment, total funds committed to the facility stand at US$15 million (committed by DANIDA and DFID). The fund started disbursements in February 2012 in partnership with a commercial bank. The idea is to

[4] These amounts differ from the amounts mentioned above, as these are for the total of the three years.

[5] Some examples of the modules for wholesalers include: Strategy development, viability of distribution networks, accounting systems, trade terms with suppliers, and preparation of business plans to access finance. For agro-dealers, training in retail business management covers the following: relationship management, working capital management, record keeping, marketing and sales, costing & pricing, shrinkage management, store lay out and warehousing and merchandising.

[6] HELP and FAO are both funded by the European Commission.

develop market based solutions with an exit strategy for non-commercial players (development agencies and government) out of the input and output value chains.

This approach leads to the following choices made in the programme:
Agro-dealer Restocking: RARP III seeks to expand the outreach of RARP II, including reaching the marginal provinces of Matabeleland North and South, Masvingo and Manicaland, where there was low coverage. The programme develops innovation to allow access to farmers in remote places, where it would not be profitable for wholesalers to deliver or access is difficult. One option is to use credit insurance with agro-dealers making their own arrangements to collect inputs from a central location. The programme targets reaching 750 agro-dealers and at least six wholesalers and two insurance companies. It will benefit at least 150,000 households (including the previous 113,800).
Contract Farming: The agriculture processing industry has previously relied on commercial farmers for their raw material supply. With the demise of the commercial farming sector, companies are increasingly looking at smallholder communal farmers. There are smallholder farmers whose productivity has increased and are ready to become small-scale commercial farmers. These are going to be linked to contracting companies who provide inputs (through the agro-dealer network), extension support and ready markets. The target is to reach 10,000 farmers through at least 10 contracting companies.
Agri-business Support: In the rural areas, farmers require a number of products and services to fully participate in value chains. The Small Medium Enterprises (SMEs) who provide these services require capacity building for them to provide sustainable services. RARP III is going to identify the SMEs and provide them with training. These would include other input providers like nurseries for horticulture, traders, transporters, processors, etc. The target is to support at least 96 SMEs to reach 12,000 households in 24 districts, an average of three districts per rural province.
Output Marketing Component: Once farmers buy and apply the right inputs, productivity has been proven to improve. The next challenge is to find markets for their surplus produce. Through RARP III, rural farmers will be able to access agricultural inputs locally and those players in the VC who purchase produce from the farmers are now able to access bridging finance for working capital from the revolving facility so that they can easily purchase produce from the farmers. Without this assistance of linking farmers to wholesalers, farmers in the rural areas would have to travel to big cities to sell their produce, incurring major additional expenses. The target is to link at least 20,000 households to output markets. The combination of input/output marketing is an exciting model which offers farmers a solution to their age-old marketing challenges. Three companies were already engaged in output marketing arrangements in RARP II. In the period February 2010-March 2011, they purchased US$5.7 million worth of grain in rural areas.
Zimbabwe Agriculture Development Trust (ZADT) Banks Capacity Building: One of the major lessons learnt in RARP II was that wholesalers could get consignment stock from input manufacturers or their own cash resources, but this significantly limits the amount of stock that they can give out. For a countrywide programme, a loan facility would go a long way in expanding the programme. To compliment RARP III, the Zimbabwe Agricultural Development Trust (ZADT) was established early 2011. ZADT runs a revolving fund set up to provide value chain catalyst finance targeted to agro-input and output value chain intermediaries. These include wholesalers, agro-dealers, contracting companies, commodity brokers and SMEs in the four components above. ZADT funds are disbursed through commercial banks.

4. Impact

RARP - the pilot contributed significantly to farmer access to agricultural inputs. It is estimated that inputs with a value of US$100 are required to sustain an average farming household of six persons and to provide sufficient income to purchase agricultural inputs the following season. Based at a value of inputs sold of US$387,899 it can be concluded that over 3,800 households were supported by the first pilot phase of RARP. There is anecdotal evidence that the pilot has contributed to increases in yields of maize and verification through an independent study is planned. According to FAO, a farmer with adequate inputs achieves a minimum 1.3 metric tonne/ha while those without inputs harvest anything from 0 to 700 kg/ha.

At the end of the main agricultural season in May 2011, RARP II achieved the following results:

- 659 agro-dealers were linked to wholesalers and received agricultural inputs at consignment base in the 2010/2011 season.
- Nationwide 469 agro-dealers were trained in retail business management, including 104 female agro-dealers (22.2%).
- 560 agro-dealers received mentoring and coaching sessions delivered through 12 Local Capacity Builders.
- Crop product guides for maize, groundnuts and sorghum and inputs product promotion information were distributed through agro-dealer shops.
- Inputs worth over US$9 million were distributed through vouchers and cash sales. The inputs were leveraged by US$112,500 worth of insurance.
- An estimated 113,800 smallholder farmers accessed inputs from the programme.[7]

5. What are the key implications for scaling inclusive business?

Zimbabwe, prior to the economic collapse, had a vibrant market for agro-inputs. The collapse of that market meant that rural shops had no access to inputs. Wholesalers and manufacturers would not stock rural shops for a variety of reasons, including but not limited to violence, theft, low volume of business and infidelity. RARP, through the insurance, made it possible for the wholesalers and the manufacturers to place consignment stock with the agro-dealers again.

Insurance played a crucial role in catalysing the inclusive business relationships. Due to this risk sharing mechanism (with donors who provided insurance and facilitated capacity building especially for the rural shop owners), wholesalers were encouraged to place consignment stock with the rural shops. The low claims on the insurance provided confirmed that the rural shop owners could indeed be reliable business partners.

Risk associated with rural shop owners was lowered by the business training that was facilitated by SNV. Wholesalers are now more comfortable doing business with them as they feel that they now understand the business. SNV established a framework that ensured that agro-dealers are monitored and mentored throughout the programme. Local Capacity Builders were appointed in each of the eight provinces to visit agro-dealers at least once every six weeks to mentor them on their store-specific needs. Agro-dealer Associations will be formed at a district and provincial level, with potential to form national agro-dealer associations to lobby for national issues.

By the establishment of trust and lowering risks, a win-win situation was created for wholesalers, agro-dealers and rural farmers. Total sales of US$9.3 million recorded by the rural shops under RARP II proved beyond doubt that both wholesalers and agro-dealers could make meaningful profits from the business relationships. Above all, it proved that rural farmers do have the capacity to purchase inputs.

[7] These figures are based on an estimated 200 clients served by each of the 659 agro-dealer shops.

The availability of the right inputs in time led to increased productivity among farmers, which eventually led to further strengthening of business relationships between companies and rural farmers. Many companies have shown interest in applying for bridging finance through ZADT for entering into contractual relationships with the farmers for the supply of produce. While farmers can realise increased productivity with improved access to inputs and good agricultural practices, from SNV experience, the problem has been that it is farmers have not always got a contracting company to access markets. The majority of farmers have to rely on spot trade or taking their produce to markets. With this lack of organisation, this has tended to be very onerous and the returns very low. Someone who can identify markets and buy from a pool of farmers in a region will lower transaction costs for everyone, helping farmers to access better prices for their produce. This acts as an incentive for farmers to produce more and get better incomes.

The establishment of ZADT will enable the scaling-up of the relationships. Contracting companies will be in a position to access funds and thereby contract many smaller holder farmers, whilst wholesalers will use funds to stock more rural shops and processing companies, including SMEs and traders will be able to get loans to purchase produce from the farmers.