



Developing Private Sector Input Supply Systems

Q & A Session

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Speakers:

Patrick Norrell
CNFA

Dinnah Kapiza
Tisaiwale Trading

Douglas T. Nelson
CropLife America

Facilitator:

Zachary Baquet
USAID Bureau for Food Security

Sponsor

United States Agency for International Development

Zachary Baquet: Thank you, Dinnah. With that I would like to welcome questions and answers. As I said, state your name and organization before asking your question. And for those of you online, the 90 of you online participating from around the globe, please, again, state your name, organization and actually where you're participating from before asking your question, so that we can recognize you as well.

And with that I'll open it up.

Audience Member: I'm Dan Norell from WorldVision and this is a question for Patrick. And just in terms of your model that you have across Africa and then your change to Ethiopia. Why the change? What was the factors that you had a very different model in Ethiopia?

Male: Well, one of the things _____ Ethiopia is replicate the common branding and package the training and facilities that we had done through the farm service center models in Afghanistan, Georgia, Romania, Moldova. And the main reason for doing that, or the value proposition in developing what would essentially be a franchise network is to establish a recognizable brand for small holders, where they know that they can get quality products, never counterfeit, never improperly repackaged; service with the sale from qualified professionals; they will be larger businesses that we expect to be able to get volume discounts on their own inventories and offer an improved product along with service at a competitive price with existing sources of inputs. And we think it will be a model for replication, not just in Ethiopia, but in other countries around the world.

Male: We have a question from online.

Female: We've had several folks online wanting to learn more about credit guarantees, and Alex Snelgrove from Aperio Toronto asks – he wants to know more about how the credit guarantees have worked, how effective they are, how many dealers were able to access credit, and after the guarantee was removed how many dealers were able to continue to access credit.

Male: All right, I'm not sure I'm going to be able to give you hard numbers for all of those, but I can explain in general how the credit guarantee worked. Usually these funds were small, \$300,000.00, \$400,000.00 placed on deposit with a commercial bank. From country to country it differed as to whether they were targeting commercial lenders. In many cases commercial lenders or let's say the size of an agro-dealer is below the minimum, the threshold for a minimum loan for a commercial lender. So in many cases they were microfinance institutions. I would say most commonly it was a trade credit guarantee from wholesale suppliers.

One of the rules that we built into all of these guarantee programs is that agro-dealers would not be able to access it more than one or two seasons. So in response to the question of how did they do after the guarantee facility was removed, they only got to access it once or twice over the life of a four-year program, and from what we've seen they did continue to access trade credit. That's part of the reason for the high leverage ratio, the 6:1 leverage ratio that we talked about, because those are agro-dealers that are continuing to get trade credit without the guarantee, that one dollar that we use for the guarantee, the first or second time they used it is continuing to generate trade credit long after they're no longer using the credit guarantee facility.

The numbers of agro-dealers, I think virtually all of the 7,000 that we supported at some time or another did access the credit guarantee facility. As I said, for the Africa agro-dealer programs it was the key in getting these businesses off the ground. And the repayment has been very good; in most countries well higher than 90-percent.

Audience Member: I'm Jean Downing from USAID. I was wondering what happened to the existing private sector? I mean to what extent is this crowding out the existing private sector? What has been the impact on private providers, provide service providers, input suppliers who were already there? And I guess also, you know, coming from the enterprise development community, we had a – the donor community for enterprise development, we focused for years on business development centers. And I think one of the issues that we all, all the donors came to was that overheads tended to be high. Once the subsidies were withdrawn the sustainability was really questioned. And I could – I don't know the context of Moldova, whether there was no private sector. Just the concerns about the sustainability and your impact on the private sector with the subsidies that you are investing.

Male: Sure, that's a fair question. In the first place, well, I suppose we have to recognize that the matching investment grants are subsidies. But the point that I'd like to make about the grants methodology is that what we're doing really is buying down risk for local private entrepreneurs to invest in their own economies. And with the matching requirement, a one-to-one match, so for every dollar of USAID funds invested in those, private entrepreneurs having to come up with a dollar of their own, most commonly what we're doing is facilitating the engagement of the commercial finance sector in rural agribusinesses in a way that they would not otherwise have considered without the presence of hand-holding from a development organization and the relative security of this matching investment of USAID funds.

And obviously the Moldova experience, and now the Georgia experience and Afghanistan experience prove that they're profitable businesses, and

that's the lesson that we've been trying to get out there. Farmers are risk-averse, the agribusiness community tends to be risk-averse as well. So one of the most important reasons for investing grant funds in programs like this is to show not just in the early stages, but over time, that it is profitable to do retail business with small holders in the long-run. So we're not trying to solve the input supply programs of any of these countries by investing matching grant funds; we're trying to establish models that will demonstrate to other entrepreneurs that they too can do this business without the subsidy.

And the impact on the existing private sector, it certainly is the case that with the farm service center model we were filling a hole that was otherwise unserved. In the collapse of the collective farm system the emergence of small holder farmers, privatization of land, all the systems that used to supply farm inputs and services had collapsed, and small holder farmers were largely at the mercy of the larger farmers that had somehow emerged from the privatization process, that still had their links to the big suppliers in the major cities, and small holders essentially getting their cast-offs, their rejects, their machinery after their field works had already been done. So we weren't really displacing anybody with those programs.

I think it's a different discussion with the agro-dealer training in Africa, because there are many agro-dealers out there operating at various levels of sophistication, usually very simple operations. To that I would say what we are doing is raising the bar. An African small holder deserves to know what product he's buying, he deserves to have some professional consultation with his purchase, he deserves to know that if he comes today and buys a product and he comes back tomorrow and it's faulty or he has a question or he wants follow-up, he's going to find the same person, the same vendor there, qualified to respond to his questions. So I think it's inevitable that as we build the professionalism of some agro-dealers we catalyze the process by which some sort of evolution takes place and some of the less-professional agro-dealers drop out. Most of them raise their bar of service to compete, and we think that's a good thing.

Male:

I was just going to add, if I can just reaffirm what Patrick's saying from a 30,000-foot perspective and more from the multinationals, it's vital in a sense to have a public-private partnership for us to enter into the market in some ways. And we've actually, through CropLife Foundation, have partnered with CNFA to do some experimental plots, and it's basically been to show the farmers the value, increased yields, productivity, and the rest. So we've done that.

We've also expended a lot of money as charitable contributions to do train-the-trainer programs, to show that, you know, safe use is a very

effective way to increase your yields and the rest. So we haven't seen that as blocking out private enterprise; it's just the opposite, it's opening the door for us.

Male: Ms. Kapiza is still on the line. Do you have any comments on the question about displacement of other agro-dealers?

Female: I am in the placement – can you come again?

Male: Jean, would you care to repeat the question for me?

Audience Member: What I was asking about was what has been the impact of these investments on the existing private sector actors.

Female: The _____ has been very good. In fact, the thing is the big supply companies usually stay very far from where the small _____ farmers are, so their _____ in terms of business, they are doing very well; most of them have got good, big businesses, they have been linked to supply companies, and they are able now to support the small-scale farmer in the rural area

So the impact of course has been great in the sense that they have been very instrumental in the distribution of high-quality seeds, the small _____ in the implementation as well, or in the distribution of production products. And they've been also able to give them information. And as somebody has already said, once they funded the product is sub-standard it will always come back, and the agro-dealer is always there to assist them, find out what is wrong with the product. So the impact is very good.

A good example is what I'm giving you, I started with one shop. Now I am _____ four shops. And I am employing more than 15 people, and at least something is happening somewhere and more from _____ I'm _____ about 3,000 farmers around my shop. So what about the 2,000 agro-dealers who are trained and were in business? If you can say 2,000 people are being assisted, at least there is an impact somewhere.

Male: Okay. We have a question from online.

Female: I think I've answered your question. Mm-hmm.

Audience Member: This question is from Dilla Bondari from Heifer International in Little Rock, Arkansas, who asks "How are the agro-dealers making sure that they are selling quality inputs that are not counterfeit or outdated? Basically how are these inputs sourced by agro-dealers?"

Male:

That's a very good point, and that's a key part of the training that we provide to agro-dealers, how to recognize a quality product. The importance of – a lot of times what you see in terms of poor quality products at agro-dealers is not only counterfeit, but somebody buying a large bag of seed or a large bag of fertilizer and then spooning it out into smaller bags and the packaging that small holders really need for their small plots. That process of opening containers and repackaging them in inappropriate containers is both environmentally dangerous, dangerous to human health, and opens the opportunity to dilute them, adulterate them, and reduce the quality. So it's one of the strictest elements of our training and our certification process for agro-dealers, that that kind of activity not be allowed to take place.

We also help agro-dealers through the agro-dealer associations to work with wholesale suppliers in their countries to advocate for the availability of more and more small packaged products, whether it's plant protection products, small packets of seed, or 1, 5, 10 kilogram packages of fertilizer, so that they have the inventory on hand that farmers are needing or demanding, and there's no need to do improper repackaging.

Now in counterfeit inputs per se, that is one of the most challenging issues, because in many cases a well-intentioned agro-dealer has little control over the product that's being provided from his wholesale supplier and not enough knowledge to be able to recognize, even from very well-done labels, if it's really Roundup or if it's a knock-off. It's an element of our training, and particularly in the credit guarantee facility, as we are directly forming the linkages between agro-dealers and the wholesale suppliers, we make every effort to make sure the wholesale suppliers we're working with are the official distributors for the major input manufacturers.

Male:

And we have – there's a whole slew of new programs that are being designed to try to increase this surety that you've got the right product. In particular there's hollow spots now being put on some of the major manufacturer's products with identifiable barcodes and telephone numbers that the dealer or the recipient or the farmer itself is supposed to call back to check to make sure that that is a legitimate, you know, product. But as Patrick said, the label – copying of labels is a major business and they are very effective, because if Bayer, Syngenta, somebody puts out a new label, within two hours the counterfeiters can duplicate that label. So the hollow spots, the telephone numbers, there's a whole slew of other devices that are being tried in pilots as a way to, you know, hopefully guarantee you've got the right product and to train the farmer or the dealer himself as to how to handle that call, etc.

Audience Member: Good morning. I'm Giselle Aris from Land O Lakes. My questions are for Patrick and for Dinnah. I'm wondering in the different regions and countries you've worked in, when you work with all these agro-dealers can you give us a rough percentage breakdown of men versus women dealers that you're working with? And for both Dinnah and Patrick, if you've noticed there are any constraints to women entering these private sector positions, could you tell us what they are and the strategies you use to help mitigate them?

Male: I think it would be suitable if we let Dinnah answer that one first.

Male: Dinnah, did you hear the question?

Female: Yeah. That's a good question. Yeah, gender has to be looked into. But the problem is usually women are fewer than men. The problem is women do not have access to finance in most cases, and it's very difficult for one to start a business when you completely have nothing. But in Malawi we are trying to do that. There are so many women who are agro-dealers, though the number is a bit fewer. I don't have the actual figures, but I think CNFA has got the figures. There are fewer women agro-dealers, but no women access the farm inputs through the subsidy program through the women agro-dealers.

So the good thing is these people know where to find certified seed _____ of the certified agro-dealers. And what we are doing is we have established an association for the agro-dealers whereby we are trying to _____ the majority of the people that this is not a man's world only; women can also join in. So more women are joining in. I hope in the near future we'll have more women agro-dealers and more women from _____ there. I think I was a part of that.

Male: Yeah, absolutely. I believe statistically about 30-percent of our agro-dealers are women. Certainly we would like that to be higher, but as Dinnah points out, it is an issue of access to capital most commonly. Some of the approaches that we've employed in order to increase the number of women participating or to have in the first place female certified trainers who are out promoting the fee-based agro-dealer training do their friends and peers and to other businesswomen in their communities. That's been one of the most effective approaches ever.

Male: We have a question from online.

Female: Vincent Pourtier from Syngenta in Switzerland and Gabriel Songolay from City Hope in Malawi were both asking about the selection of agro-dealers, how CNFA Agri selects them, what qualifications they need. And is it people with basic technical knowledge in farming or just people with

good reputations within their community? And which category was most successful as agro-dealers?

Male:

Sure. Well, I draw a big difference between the farm service center model. If you'll forgive me for parsing words, the grants-driven model that I referred to during which the selection process was very thorough, very much an investment due-diligence process, looking at their past business operations, their ability to make a matching investment, developing detailed business plans to look ahead to their future financial performance. That was a very rigorous selection process because we're investing significant amounts of usually U.S. taxpayer money in getting those businesses off the ground.

The agro-dealer selection by contrast in Africa, which was really a training model, in those examples anybody that could pay for the agro-dealers training, that could pay the certified commercial trainers to receive the basic business management and technical training could do it. Anybody that was interested to pay could do it. And most of them, in fact I would say the vast, vast majority of them did not have any particular either business skills or agricultural knowledge before purchasing the training. And that agro-dealer training is designed to take essentially laymen and make them into small entrepreneurs and basic agribusiness consultants or agronomic consultants.

Male:

Do we have any other questions in the room?

Audience Member:

Hi there. I'm Eric Furnay from the USAID Enabling Cultural Trade projects. And Ms. Kapiza mentioned briefly the concept of the enabling environment, and I was kind of curious as far as how that plays into developing these private sector supply systems.

Male:

Again, maybe Ms. Kapiza will have a lot to say about the Malawi example, and I'll tee her up with one of the issues that I think is most important in enabling environment for retail input supply. Very commonly in the countries in which we work governments run large-scale input subsidy programs. Most commonly it's fertilizer, but often it extends to seed as well. Usually that amounts to a government truck pulling up into the village on a given day and offloading bags of fertilizer and passing them out for free to everybody in the community. No extension training is provided, there is no effort to match up the fertilizer with the needs of the soil in that community. It's often an inefficient, costly for the government, and not very useful for the farmer, giveaway that completely shuts out the private sector.

So I'll give one example of where I think our advocacy efforts have been most effective, which is Tanzania, where through the Tanzania Agro-

Dealer Association they were actually able to get themselves included in the Tanzanian government's input subsidy program, which was converted to a voucher-based program, including electronic vouchers, where farmers had to go to CNFA-certified agro-dealers in order to redeem those vouchers. And one of the reasons for doing that is that redeeming the vouchers at the agro-dealers, the government of Tanzania knew that they could get service with the sale, they could get, you know, tailored advice on seed selection, because there were a range of seeds available, on fertilizer selection, again, a range of fertilizers available, and detailed instructions on how to go back and apply those in a way that would make the best use of the Tanzanian government's investment and inputs. It's a good partnership between the private sector retail distribution and the public sector subsidy program, which we too rarely see.

Maybe Dinnah would like to say something about what advocacy has done for the enabling environment in Malawi. She's certainly at the forefront of it.

Female:

Yeah. Here in Malawi I say it's very good enabling environment with the government. It was we work hand-in-hand with the government. For example, as you already put it, we have the subsidy program here in Malawi. Most of the small scale farmers were able to access good seed from certified agro-dealers, and they were _____ we work hand-in-hand with the extension workers from the EPAs where we are. So the farmers really know where to get good quality seeds, which is not fake, or where they can get fertilizers. It's because there is that enabling environment.

So many people are able to access the fertilizers from us through that angle.

And another thing is they have – the government has given us the freedom to form associations. We each can _____ the government if there are any other laws or any policies that we would like the government to help us. And our government is a listening government; we're able to contact them whenever we have anything. That's how we came in to join the subsidy program, because previously we were not giving out – we are not in the group of the subsidy, providing subsidies. But as soon as we talked to them they were able to listen to us and they included us in the program. And when they have their meetings we usually come there and give them feedback on what is happening on the ground. So it's a good, enabling environment.

Male:

Thank you. Do we have any questions online?

Audience Member:

We have a quick question for Dinnah from Katy Turner, who says that "You've spoken about credit for agro-dealers, but what about credit for

small farmers? Is credit offered to the small holders, and if so, who is it from, from you, Dinnah, or from the bank?"

Female:

What we are trying to help farmers is we ask them to be in groups, we train them, and unfortunately enough here in Malawi there are so many _____ where which are training them in village settings and the other things, and so these people, when they are grouped together they are able to access credit from more _____ companies. I have a _____ group in my area over women, they came to me, they wanted to buy from my shop on credit. Unfortunately, because I get the goods on credit from the supply companies it was difficult for me to give them on credit too. So what I did, I organized them as a group and introduced them to the microloan finance company, where they were trained in business management and then they were given the loan and they came to buy from me. They bought the seed from me, and when they grew their – they harvested their produce, I was able to buy from them. So that's the way we support these small-scale farmers.

I wished if I could provide credit to them. Right now I have tried _____ way I've organized the 15 women from within the village, I have provided them with groundnut seed and they will pay 30 kilograms to _____ groundnut seed. And the other seed, I asked them to give their friends so that next year there will be more women in the group. I started with 15, I want maybe next year to have 30, then the number should grow like that. The object is to try to empower those women.

Audience Member:

This is Kris Oplanic, USAID. Patrick, I was curious, in the Moldova example, I think it's great you guys went back years later to see how many were still standing, and we need to do more of that. But I'm curious, the ones that had closed, was there any further research evaluation on what happened to them? Did it tend to be more men or women? Was it that they couldn't get credit? What? Was it just oversupply in the market? Did you have any information on that?

Male:

Sure. Not exactly statistically reliable; I'd say it's more anecdotal, but if I had to mention some general causes, the most common would be what you might say is oversaturation. I think we were placing them in markets that were too small and too isolated. So, you know, if the village is 5,000 people, it's far from any kind of market center, particularly if it's growing field crops, because one thing that I haven't mentioned in the presentation is that because they serve small holders, the best customers are small holders that grow high-value crops. If you have a community of small holders in a relatively cold climate, which is common in Moldova, who are growing field crops, which are low-investment, low-return crops, it does not make for a viable local retail input supply business.

So a little bit oversaturation; some lessons learned about which crops, what kind of producers to be targeting. It's still very hard to get a rural agricultural loan in Moldova, so an undercapitalized enterprise was another common cause. And also what everyone knew would happen as a result of the privatization process in these post-Soviet countries, the gradual emergence of the large farmer, who as he grows in size and financial capability, less and less needs a local retail input supplier.

Audience Member: Hi. Alan Schroeder, consultant. What do the pesticide registration systems look like in these countries and how do you link with global _____?

Male: I've heard your name many times; nice to finally meet you, Alan Schroeder. In Moldova it was actually very strict; we're continuing that example. They had kept largely the Soviet system for pesticide and seed registration on the books. Very difficult for major international companies to introduce a new product. Many of the products that were registered were category II products and really not allowed by USAID funding. We went by USAID in those cases and we allowed the stores to stock, you know, as would be established through a _____ swap, stock only the products that meet the EPA regulations. So that resulted in maybe 60-percent of the list of approved agrochemicals in Moldova being allowed in farm service center inventories.

Georgia was an entirely different case, much more liberal. They've thrown everything out of the book and they were entirely willing to go with USAID regulations, and the products were available. To their credit, the major international companies were very engaged in Georgia, delivering modern products that meet modern environmental standards.

Afghanistan is a different case. The complete chaos and the large dependence on inventory that comes from Pakistan and China, very difficult to regulate. And mostly dealing with generics of older products that are still allowed for sale in the United States, not so much with the brand name products that we'd like to see.

In Africa, because of the relatively low penetration of modern plant protection products we usually have a clean slate and were able to start from scratch, particularly in the countries of East Africa, like Uganda, Kenya, and Tanzania. It's a relatively modern and favorable environmental regulatory environment.

I would say the bigger problem than the problem selection are the worker safety possibilities; the availability of running water in every location, proper ventilation. Anybody that's ever visited agro-dealers in Africa, there's a common sensation of an overpowering smell of agrochemicals

that's not healthy either for workers or for customers. So getting the facilities right so you're able to ventilate them properly for the safety of workers and clients. Protective gear, gloves, masks, coveralls for workers; it's just not practiced. And even those that are out spraying in the field, you commonly see people without respirators, without gloves. So I think environmental safety, it's those that are the bigger challenges than the selection of products on the shelves.

And global gap. Well, global gap remains an elusory dream for most small holder farmers, and the key issue being the inability of exporters to conduct the traceability all the way down to the level of the one hectare farm. Unfortunately I would say that the trend that we see more commonly and that we hope to be able to change in years is a vertical integration, whereby the traders begin to secure their own raw material base, where they can vouch for the production practices that have been used and the post-harvest handling and the packaging and the transport, all the way through to the end-user, completely bypassing the small holder farmer.

The most effective interventions I've seen on that front are where farmers have been able to organize farmer groups that can conduct bulk input supply, that can agree and enforce on production practices, and which can share post-harvest infrastructure in order to be able to maintain produce quality and traceability after harvest.

Male:

Okay, with that I'd like to thank our speakers for joining us today. Thanks to Doug Nelson, Patrick Norrell, and a special thanks to Dinnah Kapiza for joining us all the way from Malawi today to give her insights as an agro-dealer there. All right, thank you.

And with that, I'd just like to highlight for those of you in person there is an evaluation form on your seat. If you could please fill that out, we would greatly appreciate your feedback. And for those of you online, there is a link that's sent to you or available in the room to send back your feedback too. All these materials will be available on the Agrilinks website, so please check it out.

Also, if you're interested, I think about a year ago the Ag Sector Council presentation then talked about the Tanzania voucher program had World Bank presenter, so go online and you can listen to that presentation as well. So with that I thank you and have a good day.

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