Contract Farming in Tanzania's Central Corridor

Lessons from the Rural Livelihood Development Programme

Tanzania

HELVETAS Swiss Intercooperation

swisscontact

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Executive summary

The Rural Livelihood Development Programme (2004-2015) aimed to improve the livelihoods of smallholder producers and related enterprises in the Central Corridor of Tanzania through increased income and employment opportunities. In Phase V (2012-2015) RLDP supported contract farming (CF) models focused on the three crop sub-sectors rice, cotton and sunflower.

In 2015, RLDP engaged in a Capitalisation of Experience (CapEx) process to understand what lessons could be learned from this work. This learning document explores Contract Farming initiatives and analyses the effectiveness of the Rural Livelihood Development Programme's (RLDP) efforts to catalyse systemic change at both the farmer and market systems level. This CapEx draws lessons for implementing organisations, donors, and market systems practitioners in designing and implementing contract farming business models in similar contexts to Central Tanzania, aiming at inclusive economic development in weak markets.

Analysis of RLDP's experience in Contract Farming (CF):

- The purpose of the CF model was to establish mutually beneficial relationships between processors and producers, by ultimately addressing market constraints and underperforming supporting functions that resulted in poor quality and quantity of produce. Given the weak relationships between producers and the market in the selected crops sectors, the contract arrangement was used to stimulate a win-win situation. Producers were in part able to access services and inputs on credit, while buyers were able to consolidate with more ease needed volumes and quality of raw material to feed their operations and reach new markets.
- The CF model pitched to processors by RLDP included provision of **inputs** (e.g. improved seed, equipment, pesticides and fertilizer), and **services** (e.g. training on good agronomic practices, transport of harvest and value addition) to producers. These varied depending on crop and investment from processors. For 'multiple-year' partners, RLDP recommended adjustments to the model, such as offering additional training services or increasing the number of producers included in contracts. RLDP often made financial contributions to support processors in adopting untested or risky business models. RLDP also planned to engage with farmer organisations (FOs) to strengthen the ability of producers to advocate for themselves, but this was side-lined as Phase V progressed. The major focus of RLDP became supporting processors in piloting or expanding contract farming models.
- The CapEx draws attention to the Springfield Centre's Systemic Change Framework, part of the 2nd edition of the Making Markets Work for the Poor (M4P) Operational Guide, to articulate what systemic change means in the context of Tanzania's Central Corridor and what, if any, indications existed that this was occurring in relation to contract farming. The Systemic Change Framework proposes four elements of systemic change, **Adopt**, **Adapt, Expand and Respond (AAER) which were used as an observation guide during the CapEx**. 'Adopt' usually happens with,

'Adapt' without project support, while 'Expand' and 'Respond' happen with or without project support (see chapter 3).

- Across all sectors, the CapEx found mixed results in the CF experience in the context of the Central Corridor of Tanzania. Overall, contract farming is and can be a good arrangement for supporting inclusive market development, especially in thin markets. It should however be adapted to each context and individual partner. Sometimes systemic change happened, but the underlying factors could not always be identified in the three sectors.
- **Adopt** in the rice sector**:** RLDP introduced contract farming to one miller in 2012 and to a second in 2013. Both partnerships lasted for two years, with each partner expected to increase their outreach in the second. RLDP recognised that the prevalence of rain-fed agriculture in the Central Corridor left producers and processors vulnerable to drought and poor harvest. To address this issue, RLDP began a rice-intensification intervention promoting the use of improved seeds more tolerant to drought.
- **Adapt** in the sunflower sector: Before one of the growing seasons began, one processor coordinated a meeting with all relevant government officials in each district in which they worked. At this meeting, the processor shared its business vision, how the contract farming model would operate, and what support local government authorities (LGAs) could provide. From this, the processor identified key contacts in each district and built buy-in with agricultural extension officers who assisted in building up trust with smallholders.
- **Expand** in the cotton sector**:** Competition in the cotton sector had increased by Phase V of the programme, with companies from the Lake Zone moving south into the Shinyanga and Tabora regions and increasing the density of ginners present. This competition included both those offering contract farming services and others only interested in buying cotton. While producers of one ginner expressed great loyalty, a common practice in cotton is for producers to sell a portion of their harvest to competing buyers to cover basic needs. This is done while waiting to sell the bulk of their cotton to the contracting ginner.
- **Respond** in all the three sectors**:** Local government (district, ward and village levels) began offering significant support to processors that were piloting and expanding contract farming models. Their work can be considered as a response to the introduction of the contract farming model, particularly in the areas of training and extension services, as well as trust building. Further, apex processors' and producers' associations (in the sunflower and cotton sectors) took up advocacy for favourable business conditions, for example in import of processing equipment (sunflower), influencing price-setting processes and other policy issue discussions (cotton).

Key lessons learnt, conclusions and recommendations

Given RLDP's experience and the aim of this CapEx to inform future programmes working on contract farming with an M4P approach, both in Tanzania as well as in other countries, lessons, conclusions and recommendations are drawn in five key areas:

- Market actors' vision
- Managing partner relationships and scaling
- Investing in organisations
- Relevant financial products and services and
- Building trusting relationships

These areas point M4P practitioners to insights regarding what RLDP would do differently if they were to begin again with CF interventions. Further, given that contract farming may not be an appropriate business model for all processors or contexts, it is recommended that M4P practitioners in Tanzania and beyond consider fundamental practices of effective supply chain management, and that projects consider the following foundational business practices needed to build strong, trusting relationships:

- Capacity to define clear, transparent, and consistent rules, grades and standards, and incentives to enforce them fairly and vigorously,
- Merit-based benefit flows based on adhering to agreements and meeting or exceeding grades and standards

In the end, the thrust of this CapEx underscores the fact that development programmes should avoid to promote a single and particular business model, but rather seek to develop models that incentivise the market system to innovate and meet particular standards to foster inclusive development. This includes sufficient attention to advocacy issues rather striving for expansion and outreach only.

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List of Acronyms

AAER	Adopt, Adapt, Expand, Respond
BA	Business Analyst
CapEx	Capitalisation of Experience
CEZOSOPA	Central Zone Sunflower Oil Processors Association
CF	Contracting Farming
CSR	Corporate Social Responsibility
EAC	East African Community
FOs	Farmer Organisations
HELVETAS	HELVETAS Swiss Intercooperation
LGAs	Local government authorities
M4P	Making Markets Work for the Poor
MoU	Memorandum of Understanding
MRM	Monitoring and Results Management
MSD	Market Systems Development
MSE	Micro and Small Enterprise
PM	Programme Manager
QDS	Quality Derived Seed
RLDC	Rural Livelihood Development Company
RLDP	Rural Livelihood Development Programme
SDC	Swiss Agency for Development and Cooperation
SHGs	Self Help Groups
TA	Technical Advisor
TACOGA	Tanzania Cotton Growers Association
TASUPA	Tanzania Sunflower Promoters Association
TOSCI	Tanzania Official Seed Certification Institute
TCB	Tanzania Cotton Board
TGT	Tanzania Gatsby Trust
VSL	Village Saving and Lending

1. Background on the Rural Livelihood Development Programme

In 2004, the Swiss Agency for Development and Cooperation (SDC) mandated two Swiss development organisations, HELVETAS Swiss Intercooperation (HELVETAS) and Swisscontact, to design a programme that could address issues of poverty in the Central Corridor of Tanzania. In response, a consortium of the two organisations formulated the **Rural Livelihood Development Programme (RLDP)** implemented by the **Rural Livelihood Development Company (RLDC)**, a not-for-profit company founded on request of SDC and jointly owned by HELVETAS and Swisscontact**.** Operations began in August 2005 and continued up to September 2015. Initially, RLDP supported market linkages between producers and buyers aiming to increase the income of small rural producers. From 2008 onwards, however, RLDP shifted to the Making Markets Work for the Poor (M4P) approach – also called the Market Systems Development (MSD) approach.[1] This shift was motivated by an aim to achieve higher outreach and more sustainable market development through facilitating market actors in strengthening and improving market systems in selected sub-sectors. In its final phase, on which this document focuses, RLDP worked in four sub-sectors (sunflower, rice, cotton and poultry) aiming at the goal and outcomes presented in the box.

RLDP OBJECTIVES IN PHASE V

Goal

Livelihoods of smallholder farmers, women and men, and related micro and small enterprises in the Central Corridor of Tanzania are improved through increased income and employment opportunities.

Outcome 1 – farmer-level change

Market access, production, productivity of and value addition by farmers increase through availability of improved inputs, skills and knowledge and services, bargaining power, and awareness on gender equality.

Outcome 2 – system / market-level change

Business environment and services market undergo a systemic change, micro and small enterprises (MSE) providing support functions to agricultural production become more competitive, agriculture sub-sectors and related MSE growth, trade increases and smallholders have more and better business opportunities.

In previous phases, the programme had engaged in the honey, dairy, rice, sunflower, cotton and poultry sectors. Narrowing down from this broad portfolio, the thrust guiding Phase V was to **"focus on fewer sub-sectors, but scale up".**

Table 1: Overview and foci of RLDP phases:

2004 – 2005	Phase I	Inception / Setting up of RLDC
2005 (Aug) – 2007	Phase II	Linking farmers to markets
2008 – 2010	Phase III	Introducing M4P in five sub-sectors
2011	Phase IV	Transition phase under the same modalities as Phase III
2012 – 2015	Phase V	Scaling up in four sub-sectors and cross-sector services

[1] The terms M4P and MSD are used interchangeably in this document. More information about the approach can be found on https://beamexchange.org/

2. RLDP Capitalisation of experience in Contract Farming

This document on Contract Farming (CF) is part of a series of three Capitalisation of Experience (CapEx) documents. The other two documents deal with RLDP's experience in Programme Management and Gender Mainstreaming within a market systems development approach programme. All three documents are available in two versions; a long one such as this document, available online, and a short version available both online and in print. These three documents complement a series of CapEx documents produced at the end of the previous phase, Phase IV, on the following topics of RLDP's work: Collection Centres, Cotton Sector, Poultry Sector, Commercial Radio Programming, and the Facilitation Role.[2]

2.1. Objective, target audience and document structure

This CapEx document explores Contract Farming initiatives and analyses the effectiveness of RLDP's efforts to catalyse systemic change at both the farmer and market systems level. The target audiences for this document are the two implementing organisations, the donor involved in RLDP, as well as other practioners in implementing organisations and donors working on contract farming models under the M4P approach in similar contexts to central Tanzania.

This document is structured in six key sections. Section one provides the introductory information. Section two looks at RLDP's capitalisation of experience (CapEx) in contract farming, objectives and the CapEx process. Section three provides the conceptual framework it's limitations and RLDP's use of the same. Section four provides RLDP's experience in contract farming in the Central Corridor, zeroing-in on the business case and associated risks for each subsector (sunflower, rice and cotton) and analysis of systemic change in the sectors. Section five provides lessons learnt at sector, farmer and market levels. These culminate into section six, which provides key conclusions and recommendations to M4P practitioners on successful CF interventions.

2.2. CapEx process

Staff and managers at RLDP identified key questions through which the programme could offer specific insight. These questions guided the learning process:

1. From RLDP's experience in contract farming, what has worked? What has not worked?
2. What, if any, elements of systemic change are present in the sunflower, rice and cotton sectors/market systems at the farmer and market level?
3. How can future programmes better facilitate trusting relationships between processors and producers?

[2] For the CapEx documents on Phase IV see: http://www.rldp.org/index.php/blog/downloads/55-capex

Detailed questions developed for key stakeholder interviews are found in Appendix A. These questions aimed at obtaining a better understanding from **the perspective of processors** as key leverage points in their respective market systems. A deeper understanding of the processors' perspectives helped shed light on the functional details of contract farming and helped address the learning questions above.

The CapEx process was then initiated with a stakeholder workshop held in Dodoma in June, 2016. Data collection, discussions and analysis for this learning piece subsequently took place over the course of June – September 2015, and engaged various internal and external stakeholders, such as RLDP staff, SDC, local government, and project partners, in semi-structured, one-on-one key stakeholder interviews (see Appendix B for a list of key interviewees). For conceptual framework, Adopt-Adapt-Expand-Respond (AAER) was applied for analysis (see next chapter).

In parallel, a desk review of relevant documentation, including partner Memorandums of Understanding (MoUs), project strategy documents, annual reports, project guidelines and external documentation such as apex organisation publications, advocacy papers, and recent policy decisions, was conducted. A list of selected documents reviewed is provided in the Reference section. The document was finalised by conducting a peer review that included feedback from HELVETAS, Swisscontact, SDC and external market systems practitioners.

3. A conceptual framework to understand systemic change

The Springfield Centre's Systemic Change Framework Adopt-Adapt-Expand-Respond (AAER) was used to articulate what systemic change means in the context of Tanzania's Central Corridor and what, if any, indications existed that it was occurring in relation to contract farming:

- **Adopt** – occurs when a programme partner takes up a pro-poor change that is viable (*with support of the program*) and makes plans to continue with the pro-poor change in the next term
- **Adapt** – occurs when an initial partner continues to invest in independent activity around the pro-poor change (*without project support)*
- **Expand** – occurs when similar or competing players (of the initial partner) copy pro-poor change or add value or diversity by offering variants of the same product or service *(with or without project support)*
- **Respond** – occurs when non-competing players adjust practices in reaction to pro-poor change *(with or without project support)*

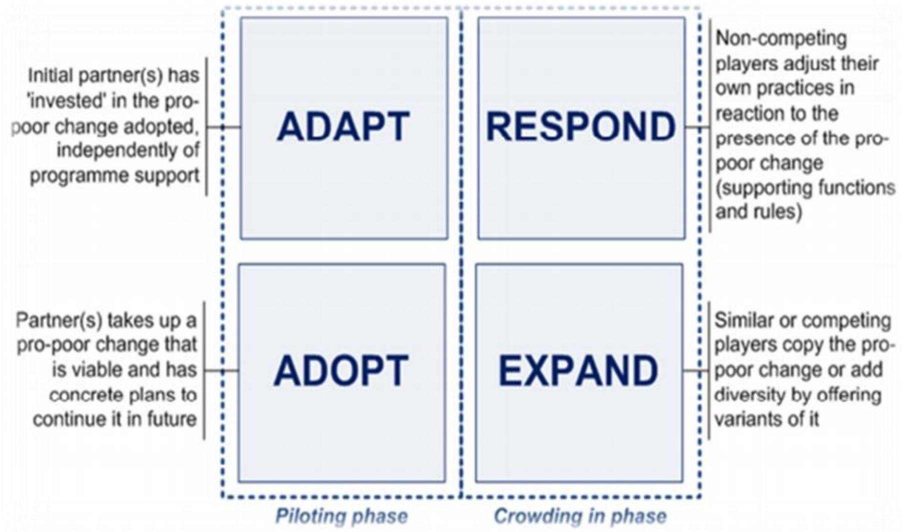

Figure 1: Systemic Change Framework

Note in Figure 1 that the **piloting phase** involves initial project partners while the **crowding-in phase** is inclusive of competing and non-competing actors. For the pilot phase, a change that results directly from project intervention is classified as 'adopt' while change without project support is termed 'adapt'. For the crowding-in phase, a programme may support both 'expand' and 'respond' elements of systemic change. Programmes may develop strategies to accelerate uptake of a pro-poor change amongst competing stakeholders while also promoting a 'response' from supporting actors. The "crowding-in" phase is an important consideration for RLDP as the change strategy for Phase V was focused on how to achieve scale, building on previous phases' interventions.

3.1. RLDP's use of the Systemic Change Framework

With regard to contract farming, RLDP identified processors as their main project partners. Hence this learning piece particularly provides lessons to practitioners in market systems programmes for engaging processors in contract farming.

It is however worth noting that the *Systemic Change Framework* is part of the 2nd edition of the M4P Operational Guide (the Springfield Centre, 2014). It was hence not used by RLDP as a planning tool of Phase V. Therefore, the CapEx exercise did not evaluate RLDP's strategies against this format. Instead, the tool is used as more of an observation guide.

3.2. Limitations of the Systemic Change Framework

In the M4P Operational Guide mentioned above, the authors describe the limitations and varying interpretations of the framework, such as:

(1) **Lack of linearity -** the framework emphasises that each element **does not** occur in a particular order. For example, first a private sector partner of RLDP may **adopt** a new business strategy. Then, a competing player may see that business profiting and recognise the value of the pro-poor change **(expand)**. At the same time, RLDP's initial business partner may begin to **adapt**

the model for their needs while government policy changes to encourage the new way of doing business **(respond)**.

(2) **Contextual judgement calls -** the framework does not reflect the complex realities that market systems programmes face. Therefore, judgement on the part of individual programmes is necessary.

(3) **Application from multiple perspectives -** the framework was effective for framing the story of processors, while for other actors the framework's usefulness became limited to one or two component quadrants. For example, policy makers knew little about the inner workings of processing operations and were better able to inform the 'respond' quadrant of the framework rather than 'adopt', 'adapt', or 'expand'.

In navigating these limitations, the CapEx team considered how to represent the information collected regarding shifts in contract farming in all three sub-sectors. In the appendices, the team presents the findings used for analysis in tabular form, to avoid placing emphasis on one quadrant over another. In addition, the team categorised the lessons learnt section by specific issues within each sub-sector rather than by adopt-adapt-expand-respond, to discourage the notion that each element exists on its own without influencing the others.

4. RLDP Contract Farming in the Central Corridor

4.1. The Contract Farming business case and associated risks

In response to market constraints identified across several sub-sectors, contract farming was identified as a mechanism to establish mutually beneficial and sustainable relationships between private sector buyers and producers. Given the weak relationships and lack of trust between market actors in the selected crops sectors, a contract arrangement was thought to create a win-win situation. In a contract farming arrangement, producers should in part be able to access services and inputs on credit, while the buyer is able to consolidate with more ease needed volumes and quality of raw material to feed their operations and reach new markets.

A definition of Contract Farming (amongst many):

"A contractual arrangement between farmers and other firms, whether oral or written, specifying one or more conditions of production, and one or more conditions of marketing, for an agricultural product, which is not transferable"

Source: Rehber, 2007. Contract Farming. Theory and Practice. ICFA/University Press. Hyderabad, India.

RLDP pitched a model to processors that included provision of **inputs** (e.g. improved seed, equipment, pesticides, and fertilizer), and **services** (e.g. training on good agronomic practices, transport of harvest, and value addition) to producers (typical offer provided under each crop sector). These varied depending on crop and investment from processors. For 'multiple-year' partners, RLDP recommended adjustments to the model, such as offering additional training services or increasing the number of producers included in contracts. RLDP often made financial contributions to support processors in adopting untested or risky business models.

The programme also planned to engage with farmer organisations (FOs) to strengthen the ability of producers to advocate for themselves, but this was side-lined as Phase V progressed. It is uncertain if RLDP saw the strategy as ineffective or if management priorities led to a focus on processors. In either case, the major focus of RLDP became supporting processors in piloting or expanding contract farming models.

Contract Farming Business Case

For producers, the model offers:

- Increased supply of agricultural inputs and equipment where this is incorporated in the agreements
- Improvement in delivery of extension and other technical support services
- Access to a reliable and consistent market (often at a pre-agreed price)
- Stable prices for produce, hence increased ability to plan
- Ultimately increased productivity, sales volumes and therefore income

For processors, the model offers:

- Increased quantity and quality of raw material supplied by smallholders, hence consistency on throughput
- Reduced time and money spent on searching and negotiating with suppliers
- Reduced transactional costs sourcing for materials
- Economies of scale through consolidating produce and making bulk deliveries to the buyers

While contract farming offers advantages as detailed in the text box above, it is not without risks to both processors and producers. According to Prowse (2012), five risks are particularly important for smallholders:

- contract farming can contribute to a loss of autonomy and control over farm enterprises and a form of dependency on the contracting firm;
- there is substantial production risk if the technology or the firm's forecast is inappropriate;
- the firm's exclusive purchase rights can depress producer prices, or lead to late and/or partial payments;
- contracts can be verbal, and even if they are written, it is not always in the vernacular — this can result in manipulation of conditions, with smallholders in a weak position to challenge alleged discrepancies;
- the intra-household distribution of labour/income can be altered to the detriment of women's interests.

In the context of Tanzania, key among the risk to processors is investing in smallholder farmers who may not produce the requisite volumes and/or quality of produce or may even sell to another buyer ("side-selling"). For producers, if the processor is not able to locate a market and buy from them as agreed, they risk losing their income. The processor might also take advantage of a monopoly situation and lower buying prices. This can happen especially in cases in which the contract farming arrangement is not formalised in written documents, leading to a lack of clarity in expectations, rules and standards, contributing heavily to eroding trust and poor relations between market actors (see text box and chapter on conclusions, point 5). Usually when this happens, there is not much recourse for either party as the contract farming is often a verbal agreement providing no room for legal recourse.

Image by Martin Fischler

CF arrangements: oral or written?

In the context of Central Tanzania, where a high percentage of smallholder farmers (like in many parts of Africa) are not well-educated in legal provisions regarding contracts, written contracts naturally become difficult to administer as the farmers will not sign them for fear of any legal reprisals. This leaves CF arrangements to be mostly made as verbal agreements. In these circumstances, what is important is that farmers understand the terms and implications of their specific contracts, and seek clarification where needed.

Since CF agreements are often done with farmer groups, it is important that these terms are explained and discussed by the contracting firm and the farmer groups in a meeting. Minutes of such meetings, documenting the agreements reached, provide a minimal written source to which parties can adhere. Further, as a facilitator, projects like RLDP should intervene in creating preconditions and spaces to ensure that at the minimum farmers and potential buyers meet and go through a process of trust building, reaching mutual agreements.

Moreover, given that many smallholder producers work in self-help groups (SHGs) they are often shunned by buyers who want to get into binding contracts. The registration and hence structure of SHGs is often through a social path[3] rather than a limited company or cooperative that has legal obligations and defined liabilities. Engaging with SHGs has been the bane of many processors hence they shun engaging in legal agreements with them. Farmer Cooperatives on the other hand offer a better structure for contract engagement and enforcing.

With the general business case and associated risks in mind, the following sections investigate, for each sub-sector, RLDP's strategies, elements of systemic change present, and relevant lessons for both processors and M4P practitioners.

[3] In Tanzania, SHGs are registered under the Social Services I Act, and farmer cooperatives are registered under the Cooperative Act. This is different to the Companies Act that provides limited liability and scope for legal clarity and engagement.

4.2. Sunflower Contract Farming in the Central Corridor

RLDP identified several persistent constraints facing the local sunflower market, resulting in low productivity for producers and generally poor quality of seed for the sunflower oil produced. Some of these constraints included:

- Limited accessibility and usage of quality seeds
- Minimal value placed on supply chain management by processors. While many households in the area grew sunflower, the vast areas of coverage and the low volumes produced given the low productivity had not fostered organised management of sourcing supplies
- Minimal value placed on investment in extension services. Like in many countries in the region, government extension services have waned in Tanzania and processors/buyers needed a strong value proposition to invest in these services
- Limited access to reliable markets for producers including challenges with logistics such as transport from farmer to processor
- Unreliable supply of product to processors. Paradoxically, farmers cite lack of markets for their produce as a challenge, yet when linked to markets they are not able to produce and supply consistently, posing challenges to processors who cannot plan around unreliable supplies for the market
- Lack of appropriate financial products/services for processors limiting their engagement with many producers

RLDP's sunflower sector strategy aimed to improve how this market functioned by promoting a model that could build mutually beneficial relationships between processors and producers. As such, it made sense to test contract farming. RLDP's main strategy was to cost-share pilots and expansion of the contract farming model with small-scale sunflower processors connected to local markets. RLDP planned to withdraw support after a certain period of time, with the intention that processors would continue with the model on their own. Results of contract farming interventions in the sunflower sector are presented below.

Table 2: Achievements of Contract Farming in the sunflower sector during Phase V

Indicator	Baseline	Phase target	Phase achievement			
			2012	2013	2014	Total
Number of farmers under CF	12'230	34'000	21,360	19,629	15,177	56,166
Price received by farmer (TZS/bag of 65kg)	35,000	40'000	35,000	40,000	42,000	38'333
Productivity (kg/ha)	642	1090 (+70% baseline)	813	1,463	1,138	1'138

Source: End of Phase V Report; Appendix 6.1, Table 1, outcome indicators

Elements and analysis of systems change

The following section presents an overview of observations captured through semi-formal interviews with stakeholders in the sunflower sector. The experiences and lessons shared focus on the perspective of the processors.

Adopt

The contract farming strategy was initially taken up by thirteen processors beginning in 2011/12, with six of those processors continuing up to 2014. Three additional processors were engaged in the second and third years of Phase V. These processors used a model that offered both products (e.g. improved seed) and services (training on good agricultural practice, gender training, and one on seed crushing). In one case, an integrated micro-insurance service was piloted. Communication between processors and producers took place primarily via mobile phones as well as through company and government extension officers, but there were no 'mobile phone contracts' for micro-insurance. In fact, none of the processors established formal (written) contracts.

> **A typical CF package/offer for sunflower processors**
>
> The following was constituted in the MoUs between RLDP and sunflower processors:
>
> - Training on good agricultural practices (GAP)
> - Starter pack (improved QDS seed)
> - Provision of extension services
> - Fuel for motorcycles for exensionists
> - Taking samples to TOSCI
> - Project Coordination (monthly allowances)

In the previous phase (2010/11), RLDP had already worked on contract farming in the sunflower sector. However, the modality of support was different; RLDP engaged nineteen processors in a continuous coaching process of learning and reflecting through mutual discussions. The action learning addressed important supporting functions and rules around the contract farming model (trust between processors and farmers, access to working capital from financial institutions, plus organisation of producers and processors for business environment advocacy).

"The contract farming arrangement has allowed me to operate for a longer time in the year than before, I am more competitive now." – Sunflower processor, Singida

Adapt

Processors faced common challenges during implementation of the contract farming model, such as poor infrastructure and low adoption of good practices on the part of producers. In particular, some producers were hesitant to enter into agreements with companies and take on credit due to a lack of trust. A few processors addressed this challenge by bringing local government extension officers into the model. Government extension officers based at the district and ward level provided processors with an introduction to communities. In some cases, the government extension officers collaborated with company extension officers to provide training to smallholders on relevant issues, including good agricultural practices and gender. The presence of these officers, who already had an established relationship with community members, assisted processors in building trust with smallholders.

Working with [government] extension officers has helped – now we are known in the community and people trust us." – Sunflower processor, Dodoma

Before the growing season began, one processor even coordinated a meeting with all relevant government officials in each district in which they worked. At this meeting, the processor shared their business vision, how the contract farming model would operate, and what support local government authorities (LGAs) could provide. From this, the processor identified key contacts in each district and built buy-in with extension officers.

Another processor in Singida integrated a category system for producers. This categorization of producers as small, medium and large determined how the processor engaged with them. Smaller producers were provided with transport services from specific selling points. For medium and large producers, crushing services were available for those able to transport their own material. The price offered to producers per bag was dependent on what services had been accessed, so cost for services was taken out of harvest income. The processor estimated that 90% of the producers they interacted with were 'small' but was uncertain what percentage of volume was sourced from smallholders. Categorizing producers according to the size of land under cultivation for the crop was seen to contribute to building trust and incentivizing the supply side, while providing economies of scale for buyers and making operations more efficient.

All of these examples occurred without programme support and show that processors were adapting the model to their own needs. It seems that sunflower processors had now recognised the consistent quantity and quality supply challenges facing their operations. Both processors interviewed have begun investing in their supply chain management practices. One of the processors has done well with this approach, building trusting relationships with producers by being responsive and open to their needs. This required that the business be clear with producers about their own motivations to grow their business. In contrast, the other processor has struggled to expand its producer engagement strategies, has in fact slowed investment and continues to source from non-contracted producers. This latter processor expressed that the potential for increased volume and quality through contracted producers did not cover the added, up-front cost of investing in smallholders.

Expand

New competitive pressure in the sunflower market has stemmed from large, foreign companies moving into the region to source raw material. Generally, these companies are not engaged in contract farming and have looked to smaller processors as buying agents. In terms of local competition, RLDP partner processors did not identify small-scale processor competition in the region, whether as buyers or contract farming operations. It seems that RLDP partners' engagement in contract farming did not influence other small-scale processors to take up the RLDP-induced contract farming business model.

Respond

As already mentioned under 'adapt', local government (district, ward and village levels) has been offering significant support to processors that were piloting and expanding contract farming models. Their work can be considered as a response to the introduction of the contract farming model, particularly in the areas of training and extension services as well as trust building. This points to the importance of leveraging key stakeholders in the market system to provide services that might not be core to one player in the market – in this case, processors. It remains to be seen if the local government will continue to provide these devices beyond the project based on market considerations.

> In leveraging the market to provide services (e.g. extension) to weak players (producers), facilitators do well to consider a key question in market systems development; that of "***Who does, who pays, in the long term?"***

The processors' association in the Central Corridor, CEZOSOPA, has been particularly active in advocacy, pushing to reduce equipment import tariffs and pilot a 'cluster' initiative that would see competitors collaborating to compete with larger companies. CEZOSOPA will pilot this initiative in 2016/2017. This response in the area of advocacy can at least partly be attributed to RLDP's support in the previous phases, III & IV, as the processors' association CEZOSOPA was strengthened by the spirit of collaboration conveyed through the action learning programme (see under 'adopt'). Moreover, RLDP has supported CEZOSOPA's first advocacy initiatives around tariff-setting on imported crude palm oil, and waiver of tax on imported sunflower oil processing equipment.

"After the trip to China and India, we decided to invest in refining machines… we applied to have the [import] tax reduced and we are waiting for the machines."

– Sunflower processor, Dodoma

In the previous phase (in 2010/11), a response was also observed in the area of financial services. The action learning programme (see under 'adopt') had prepared the ground for interest from the bank CRDB to offer credit to processors through a warehouse receipt system. Using sunflower stocks in warehouses as collateral to access bank loans has increased processors' capacity of storage, enhancing their capacity to buy from producers as well as enabling producers to sell in bulk. In part this speaks to an innovative mechanism promoted by the project to introduce an element of risk management for the different market actors through financial instruments.

4.3. Rice Contract Farming in the Central Corridor

In the rice sector, millers also face challenges in consistently procuring quality produce in large quantities. Contract farming was applied by the RLDP project in addressing these market constraints. The approach was first piloted in Igunga District in Phase IV (2011). RLDP saw this pilot as a success as both the millers and the producers were willing to engage. In Phase V, RLDP identified two small-scale millers connected to local markets with whom they would cost-share implementation of contract farming in the Shinyanga and Singida Districts.

A typical CF package/offer with rice millers

In the MoUs between the project and millers, millers were expected to provide the following to smallholder farmers:

- Improved seeds
- Training on good farm practice
- Gender training
- Group formation
- Access to tractor/oxen services

The table below shows the results of contract farming in rice between 2012 and 2014.

Table 3: Achievements of contract farming in the rice sector during Phase V

Indicator	Baseline	Phase target	Phase achievement			
			2012	2013	2014	Total
Number of farmers under CF	1'972	6'000	2'000	3'416	4'342	9'758
Price received by farmer (TZS/bag of 80 kg)	50'000	60'000	55'000	60'000	90'000	68'333
Productivity (kg/ha)	1'976	3'360 (+70% baseline	2'400	(3'600)*	(4'200)*	3'400

Source: End of Phase V Report; Appendix 6.1, Table 1, outcome indicators
** likely to be overestimated yields reported by partners*

Elements and analysis of systems change

Adopt

RLDP introduced contract farming to one miller in 2012 and a second in 2013. Both partnerships lasted for two years, with each partner expected to increase their outreach in the second. Just as was the case in the sunflower sector, no millers used formal contracts between themselves and farmers to formalise their relationship. RLDP recognised that the prevalence of rain-fed agriculture in Central Corridor left producers and processors vulnerable to drought and poor harvest. To address this issue, RLDP began a rice-intensification intervention and promoted, among processors, the distribution of more drought-tolerant improved seeds to farmers.

Adapt

The millers faced many challenges in executing the agreed MoU, including poor weather conditions, vast geography, and a scattered population of producers. In addition to 'environmental' challenges, millers faced mistrust amongst producers, difficulty tracking credit provided, and a lack of capital to invest in smallholders. Access to appropriate financial products is key in the rice sector, as rice cultivation is resource intensive (requiring labour and inputs for pest and weed control, soil fertility and water management). Most smallholders do not have sufficient capital to invest in inputs themselves. In addition to issues of capital, one miller predicted it would take two to three years to build adequate internal management systems; these include formalising relationships with producers and developing a services package to manage large numbers of producers under contract farming as part of supply chain management.

To address this issue, RLDP promoted Village Saving and Lending (VSL) groups to partners. The aim of this initiative was to encourage producers to invest in inputs for greater agricultural performance by accessing loans to do so. This would relieve pressure on processors to use limited capital on upfront costs, such as inputs. Processors buying from producers during the harvest could then use the capital saved.

Despite promotion of VSL groups, millers did not overcome the challenge of meeting up-front investment needs. The first miller, engaged in 2012, moved out of rice milling but continued with its business in the cotton sector, which offered more profit. The second miller bought very little product from producers and is considering moving out of the rice sector entirely due to low profitability.

Expand

Similar to the adapt scenario above, there was little incentive to engage in contract farming. Buyers in the region are mostly small traders. There was no evidence that non-target competitors engaged in contract farming in the Central Corridor.

"They [processor extension officers] came and set up groups, gave us inputs. They said they would return to buy. They did not come back and we don't know why."
– Rice producer, Shinyanga

The first miller did not buy from producers following investment during the planting season, citing that poor weather conditions had greatly reduced harvests; he claimed there was little financial incentive to travel to the field to collect from smallholders. When visited, he was actively buying and processing cotton but there was no sign of rice processing.

"There has been little rain and a small harvest – it is not worth travelling to the villages to transport just a few bags." – Rice miller, Shinyanga

Generally, the rice sector in the Central Corridor has struggled over the past four years. A combination of poor weather and difficult regulatory issues has disincentivised private sector investment and discouraged producers from improving performance. RLDP's partners were not willing to make a large investment due to a lack of return during harvest. In general, processors did not establish mutually beneficial relationships with producers and hence there is little evidence of systemic change triggered by RLDP interventions at this stage.

Respond

Regulation issues have dominated dynamics in the rice sector in recent years. Despite investment from the Government of Tanzania (GoT) to double rice production by 2018, issues regarding rice imports and Tanzania's relationship with fellow East African Community (EAC) members have negatively influenced the rice sector. Specifically, Tanzania imposes a 75% import tax on rice. However, according to the Rice Council of Tanzania, Zanzibar does not impose this same tariff. Supposedly, this has led to a consistent supply of imported rice being packaged from Zanzibar (in bags indicating Tanzanian origin) and being transported to the mainland, where they undersell local breeds. Tariffs have influenced Tanzania's relationships with other EAC countries, with both Uganda and Rwanda stopping shipments at the border or levying a 75% tariff on all rice from Tanzania. This has effectively closed one of Tanzania's largest export markets. Consequently, cheaper, imported varieties have outsold local breeds of rice, affecting the profitability of local millers and smallholders.[4] Despite these issues, RLDP continued investment with both rice sector partners for a second year. One potential reason for this investment is that RLDP believed the sector needed more time and attention from the programme and that continuing to support the millers could lead to change down the road. However, there were other issues around rice and its position as a staple in the EAC region that should have been considered in RLDP's intervention strategy in this sector (discussed in the PCM CapEx: section lessons regarding market analysis).

Image by Jane Carter

To a larger extent, this raises the question of targeting for RLDP in the rice sector. While the project targeted market actors (millers), stifling challenges faced by the sector seemed to emanate from the enabling environment. A reorientation of the strategy to address issues in the enabling environment and define different entry points might have contributed to more success.

[4] See also lessons learned regarding market analysis in the full version of the CapEx on PCM.

The CapEx document on Programme Management looks further into the question of how RLDP chose its entry points and partners. It analyses the management and team capacities and organisational culture that can favour re-orienting strategies towards more sustainable systemic change.

4.4. Cotton Contract Farming in the Central Corridor

As with sunflower and rice, the cotton sector in Tanzania's Central Corridor faced similar challenges of quality and supply, as well as a lack of trust between market players. Additionally, cotton represents a high-risk investment due to recurrent episodes of drought and high price volatility.

RLDP's strategy in Phase V was to address these constraints through the promotion of comprehensive training services for producers through already-existing contract farming models. RLDP shared expertise with ginners on the value of building long-term, mutually beneficial business relationships with producers and producer groups. RLDP also cost-shared the expansion of contract farming schemes with large-scale ginners connected to export markets who were already engaging with the model. Results of contract farming interventions in the cotton sector are presented in the table below.

Table 4: Achievements of contract farming in the cotton sector during Phase V

Indicator	Baseline	Phase target	Phase achievement			
			2012	2013	2014	Total
Number of farmers under CF	6'447	7'000	4,200	854	11,380	16'434
Price received by farmer (TZS/kg)	660	660	660	710	750	707
Productivity (kg/ha)	1'173	1'994 (+70% baseline)	1,250	(1,700)**	(1,700)**	1'550

Source: End of Phase V Report; Appendix 6.1, Table 1, outcome indicators
* Numbers dropped in 2013 because RLDP re-oriented interventions in the cotton sector with a shift of geographic focus
*** Likely to be overestimated yields reported by partners*

Elements and analysis of systems change

Adopt

In 2012, RLDP began partnerships with ginners who had previously taken up contract farming, aiming to improve extension services available to contracted producers.

These partnerships continued into the 2013 season. In 2014, RLDP collaborated with two large-scale ginners who had previously used contract farming in cotton and other crops. As in the sunflower and rice sectors, MoUs were entered into between RLDP and these ginners, encouraging ginners to offer extension services to producers as well as to provide inputs including improved seed, insecticide and spray pumps on cash or credit. Some producers claimed that they signed formal contracts, while others were simply registered by the ginner during trainings.

A typical CF package/offer with ginneries

- Awareness meetings and farmer registration
- Training of Trainers (TOT) for extension officers
- Training farmers in good agronomic practices and cross-cutting issues (Gender and HIV/AIDS)
- Support provision of extension services
- Establishment and management of demo plots
- Extension services and management of demos plots
- Support provision of agricultural inputs services
- Project management and monitoring (detailed scope attached appendix C)

In the previous phases, III & IV, as well as in the beginning of Phase V, RLDP also supported three producer groups to manage their groups as viable business entities. The assumption was that as a result of farmers being organised, ginners will be able to benefit from reduced transaction costs for service provision to farmers, purchasing of cotton and quality control.

Adapt

RLDP partner ginners experienced similar challenges to their counterparts in the rice and sunflower sectors, including producers defaulting on loans and high costs associated with delivering services in rural areas. Each processor adapted their approaches in different ways.

For one ginner engaged in 2012, working with a scattered population was of particular concern. Without support from RLDP, they piloted a 'farmer business hub' model in 2014 that established a central site for producers within walking distance of three to five villages. The central location is home to a company extension officer who provides advisory services to producers. Producers use the centre as a pick-up location for buying inputs on cash or credit. Those who take credit are required to pay 50% up front with the remaining cost paid over the growing season or at harvest. The ginner pays for the centre itself as well as the salary of the extension officer.

This example of ginner adaptation demonstrates that processors are willing to innovate and are capable of following through on pro-poor models when motivated by business incentives.

"The distance between farmers was a big issue and we had to establish the farmer business hub to increase our reach while reducing costs of service delivery." – Cotton ginner, Tabora

Expand

Competition in the cotton sector had increased by Phase V of the programme, with companies from the Lake Zone moving south into the Shinyanga and Tabora regions and increasing the density of ginners present. This competition included both those offering contract farming services and others only interested in buying cotton. While producers of one ginner expressed great loyalty, a common practice in cotton is for producers to sell a portion of their harvest to competing buyers to cover basic needs. This is done while waiting to sell the bulk of their cotton to the contracting ginner.

"Other buyers come and some offer better prices, but we wait for them [the processor] to come as we want that relationship to continue." – Cotton producer, Shinyanga

One of the 2014 RLDP partner ginners based in Shinyanga, faced with significant producer default rates, offered to defer loan payments to the following season. This decision was encouraged by the efforts of a strong community farmer organisation. According to the ginner and contracted producers, the decision paid off, with the vast majority of producers able to repay all loans the following season. This risk taken by the processor demonstrated their commitment to investing in their producers. As a result, producers who benefited from the loan reprieve have remained loyal throughout subsequent seasons. This provides learning in how market actors (buyers in this case) can be instrumental in building trust between themselves and producers in weak market systems.

It is unclear to what extent RLDP's efforts to encourage contract farming in previous phases have catalysed this increase in competition, as there are many development and government actors operating in the cotton contract farming space, including the Tanzania Cotton Board (TCB) and Tanzania Gatsby Trust (TGT).

Respond

Various dynamics could be observed in the area of rules and advocacy. During RLDP's previous phase, Phase IV in 2011, the cotton sector underwent far-reaching reforms led by TCB with support from TGT, namely introducing a nation-wide mandatory contract farming system. While these reforms can probably not be attributed to the programme, RLDP certainly made efforts that contributed to influencing policy development based on its experience at the time. Many public actors continued to promote contract farming during the Phase V period. Extension officers provided direct support to ginners in extension service provision while TCB, in collaboration with development partners, encouraged a contract farming mandate for all ginners from 2012. However, complex political economy characterises the cotton sector in Tanzania, and in the following season, political support wavered. There was increased lobbying[5] against contract farming as many ginners were unconvinced about the public sector's ability to regulate such a system and protect the investment. This led to many ginners abandoning it without consequences (e.g. no measures taken for refusing licenses to those ginners unable or unwilling to invest in contract farming).

Meanwhile, the Tanzania Cotton Growers Association (TACOGA) – the national apex organisation of cotton producers – had gained influence in price-setting processes and other policy issue discussions. These enhanced advocacy efforts can be partly attributed to RLDP's support to TACOGA in their

[5] A paper written by TGT explains the developments in cotton policies in Tanzania in more detail. An interesting lesson emerging from this paper is that widespread sectoral change is inherently a political process, requiring buy-in to a reallocation of resources. Understanding the incentives and influence of any potential losers in the reform process is likely as important as understanding those of potential beneficiaries when designing interventions. https://beamexchange.org/resources/196/

internal governance capacity. In the 2014 season, nine cotton buyers under the Cotton Buyers and Ginners Association, UMWAPA, joined together to invest in contract farming in Mwanza, Shinyanga and Geita. The buyers distributed seed and hired extension officers to work with contracted producers in seven districts. Unfortunately, due in part to poor weather, the buyers did not source sufficient cotton to cover their costs.[6]

This unstable enabling environment has and will continue to test the loyalty of producers and willingness of ginners to invest in smallholders. This instability has a direct impact on processors attempting to establish contract farming with the purpose of securing supply and building mutually beneficial relationships with producers.

5. Lessons learned

This section presents overarching lessons from RLDP's experiences with contract farming in the three sectors examined. Specific sector lessons are provided at the opening of the section to ground the learning and later the lessons are categorised at farmer and market levels.

The purpose of the contract farming model was to establish mutually beneficial relationships between processors and producers by ultimately addressing the market constraints and underperforming supporting functions that resulted in poor quality and quantity of produce. The experiences made show that this undertaking was extremely challenging in the context of the Central Corridor. Processors often set false expectations with producers, who on the other hand continued to be prone to side-selling.

5.1. Sector-level lessons

Sunflower sector

In the sunflower sector**,** associations have made strides to lessen the cost of imported agricultural and processing equipment. Through a Ministry of Trade application process, processors can apply to have the tariffs on imported agricultural processing equipment waived. Still, there is room for improvement regarding the consistent enforcement of these pro-value addition policies. Processors, through apex organisations (TASUPA and CEZOSOPA), will need to push for the consistent application of this reduced tariff policy. In addition, apex organisations could play the role of information provider, and ensure processors understand the procedures to receive the benefit of waived tariffs.

[6] A newspaper article by AllAfrica.com from August 2015 supports the claim that bad weather conditions have contributed to poor harvest and thus a high default rate by cotton growers. http://allafrica.com/stories/201508280669.html

Rice sector

In the rice sector, producers are generally dependent on rain-fed agriculture in the Central Corridor, a region vulnerable to drought each year. If producers and processors wish to continue with rice cultivation under contract farming, then there is a significant need for investment in irrigation systems or the use of new seed varieties and/or intensification methods, which can all reduce reliance on water. This investment would need to come from processors themselves, apex organisations, government authorities or collaboration thereof. The Rice Council of Tanzania is a strategic body to drive forward this and other advocacy issues.

Further, regulatory and enabling environment issues must be borne in mind and projects would benefit from having a level of flexibility with regard to reorienting and targeting the market system for relevance. As rice is a staple food, the rice sector in the larger East African region is highly regulated. Regulations range from the quota system to rules on exporting and importing. Instead of just working with millers to streamline supply systems, projects should also provide vital support to market actors to make informed decisions while investing in such a highly regulated environment. On the other hand, projects could directly address issues in the enabling environment through strengthening apex groups to lobby, as happened in the sunflower sector.

Cotton sector

The cotton sector is particularly vulnerable to political trends. Cotton is a popular and economically important crop in Tanzania, accounting for a large proportion of exports from the country. Due to the high level of interest in cotton, political interference is common in the sector. The components of common understanding and transparency for building strong relationships are especially important for ginners.

> The necessary condition for contract farming is stringent regulation that prevents free-riding by ginners who do not invest - this requires a regulatory body with the autonomy to refuse licences and with capacity to enforce contracts. It thus requires government ability and willingness to take extremely difficult decisions.
>
> Source: TGT (see footnote 5)

5.2. Farmer-level lessons

In all the three sectors the importance of investing and working with strong producer cooperatives and groups emerges. Organised groups hold the potential for higher levels of accountability regarding financial agreements. Engaging with producer groups reduces the inherent inefficiency of working with many individual smallholders, therefore reducing the overall cost of investing in smallholders as suppliers.

The facilitator however needs to carry out analysis to ensure that the groups have strong internal accountability processes and also legitimacy to enter into binding contracts. In the cotton sector, RLDP worked with three local producer organisations but with mixed results. Given the focus of the project, especially in Phase V, on working with processors and brokering agreements as a project, analysis and strengthening of farmer organisations may have been insufficient.

5.3. Market-level lessons

Overall, for contract farming to be effective, processors must overcome the inefficiency of working with many small units of producers. Trust is key to this model's effectiveness. Facilitators promoting contract farming through partnerships with processors are advised to put particular emphasis on trust relationships. They should stimulate a change in processors' behaviour that includes the following aspects:

(1) Be **upfront and transparent** about how the contract farming model will function; including pricing, supply quality standards, etc.

(2) **Communicate consistently** with producers, providing up-to-date information regarding service and product delivery and also when and if they are able to buy the product or not.

(3) **Provide services and products complying with what was originally communicated to farmers.** This however can be a challenge, for example in the case of RLDP where what was communicated to farmers was based on a negotiation between the buyers and project rather than the buyers and the farmers. Commitments made and sealed at project level need to be guided by analysis of viability of the same in a business reality given that businesses make decisions guided by profitability. This could in part explain why millers exited the rice and joined the cotton sector.

(4) **Provide incentives for producers to invest in their performance** in the field. These incentives could be **social** (such as inclusion in a loyalty club that offers benefits including status), **material** (such as bicycles for those working with other producers to improve their yields), or **financial** (such as discounts on inputs for the following season, encouraging them to continue investing in their performance).

(5) **Provide incentives for producers to remain loyal despite the immediate, recurring and pressing short-term demands** such as school fees, medical emergency, etc. that push them to side-sell. This could include a percentage of advance payments or reprieve on credit repayments or even working with service providers to enable financial literacy among smallholder farmers.

6. Conclusions and recommendations

The conclusions point M4P practitioners to insights on what RLDP would do differently, if they were to begin a new phase to ensure a strong inclusive market system. The section also ties in key recommendations made in the Food and Agriculture Organization (FAO) publication "Contract farming: Status and Prospects for Tanzania",[7]

- ***Start small and support gradual growth***
- ***Get involved, as justified, to stimulate change but do not take on indispensable market roles***; for instance, negotiating and signing MoUs with buyers on behalf of farmers in contract farming shifts focus from market actors to the project
- ***Align strategies so that they mimic market transactions – don't distort or inhibit transactions***. Projects that have financial and other incentives to market actors as part of their strategy should ensure these are **light touch.** Further considering **crowding-in** early in the process can help foster lasting changes at the market system level in terms of adaptation and expansion
- ***Be firm regarding the systems change vision but not rigid in the pathways to realizing that vision***. Working in the cotton sector required firmness of systems change vison but also flexibility in adjusting the pathway to the vision; for instance, addressing enabling environment issues
- ***Foster commitment to the system change process, not donor dependency***.

Drawing from the RLDP and the FAO' Contract farming document, five consolidated conclusions and recommendations emerge for the M4P practitioner.

1. Market actor vision

Market actors have their own particular challenges and needs, hence one business model may not work for all. The CF experience shows that **projects should engage with market actors** to develop unique models or solutions to the specific constraints affecting their business operations. RLDP designed and hinged interventions in Phase V on contract farming and applied this uniformly across the three sectors. Projects, through a facilitative role, should encourage adaptation of models and solutions based on viability analysis of the different market actors (especially buyers) and further understanding of their interests; and need all actors to be involved. To force the partner to align with the programme's agenda is to engage in unsustainable development. M4P facilitators need to understand the **willingness**, **capabilities** and **needs** of potential partners fostering the wider market vision for systemic change.

> While designing or selecting a business model for intervention to foster inclusive economic growth, it helps for the facilitator to bear in mind and respond backed by analysis to the question: ***'why is the market system not working for the poor?'*** And further '***what is the best market arrangement to stimulate the market system to work for the poor without leading to distortions in the market?'***

[7] http://www.fao.org/uploads/media/Contract%20farming_Tanzania.pdf

2. Managing partner relationships and scaling

Partly due to poor expectation-setting on the part of RLDP, some actors saw partnership as an opportunity for personal financial gain and business subsidy. RLDP's CF experience shows that clear communication with partner processors prior to engagement is vital to enable the partners to have a clear understanding of the risks the funds were to offset. It is important for the partners and even the project to understand that they are not working with the partners to realise a development agenda, rather supporting the business to take up a mutually beneficial pro-poor strategy. There is a thin but important line between these two perspectives. If the partner perceives that the project wishes to force its agenda on the business, it tends to skew their motivations, ultimately jeopardizing the sustainability of the intervention, as well as the potential for scaling. Some partners, though unprepared, saw an incentive to agree to an MoU with RLDP because of the funding associated, and continued taking on more producers even though they neither had the necessary internal management systems in place nor access to the capital required.

M4P practitioners should have the understanding and innovativeness in selecting partners to work with and package offers that would support companies to sustain profits in the long run, while still maintaining an attention to social responsibility and ethics.

3. Investing in organisations

This CapEx has shown through the CF example the need for facilitators to work with organisations for two purposes. The contract farming experience of RLDP showed good results in terms of the first purpose, strengthening organisations for advocacy. In the sunflower sector, the investment in the two processors' associations (TASUPA and CEZOSOPA), contributed to their advocacy efforts (see 'respond' in the section on the sunflower sector). Likewise, in the cotton sector, strengthening TACOGA proved relevant in the context of a complex political environment. TACOGA has gained influence in pricing and other policy discussions over the past four years. In future programming, TACOGA should be considered as a key actor to leverage change in an information and advocacy role in the cotton sector.

Regarding the second purpose, it is clear that farmer organisations, particularly those with strong internal accountability processes, can play a key role in maintaining beneficial contract farming relationships. In the cotton sector, RLDP worked with three local producer organisations, but with mixed results. If RLDP were to begin again with interventions in contract farming, the programme should consider both processor and producer apex organisations as part of interventions aimed at improving relationships between processors and producers. How these parties function in the current system and how they can be leveraged to bring about change should be investigated as part of the intervention strategy, especially for scale and crowding-in.

4. Relevant financial products / services

Financial service markets are an integral part of all the market systems RLDP engaged with. Despite the importance of financial service markets, in Phase V there was little effort to influence the way financial providers develop or deliver products and services for small and medium enterprises in the agricultural sector. Effort was made, via VSL groups, to promote financial access for producers. More support is required with formal financial institutions as well to develop and offer relevant products for processors.

Going forward, part of the learning and a gap to be addressed is the **real** and **actual** ability of producer units (individual farmers) to carry debt. Working with financial service providers to engage patiently with smallholder producers through financial literacy as part of their credit services, is key to foster pro-poor growth. This should go hand in hand with strategies to increase productivity, to ensure economies of scale for the producers.

In many instances, where contract farming has been successful (especially in high-value crops such as tea), contract farming has included an element of the check-off system to manage the inputs and credit components. The check-off system enables farmers to access services upfront that are paid off by deducting a portion of the income due to them on supply of the product.

5. On building trusting relationships

To encourage processors to invest in relationships with smallholders, development programmes can take on some risks while the buyer/supply chain managers establish a strong and rooted set of rules and relationships. Buying down risk means that the programme would use a cost-share agreement to prove value to the market actor. For example, a partner may have the capital to invest in a pro-poor strategy but does not see the business value of investing. A programme may offer to cost-share the expense of taking up this new strategy for ***an explicitly stated, temporary period***. Once that period is over, the partner can continue with the strategy on his or her own.

It has been the strategy of many development programmes, lobbying groups and policy makers to propose enforcement of contract farming amongst all processors across all agricultural sectors. This proposition carries risk, i.e. the use of a uniform business model creates vulnerabilities in the market and decreases resilience to shocks. If a shock were to occur, all processors engaged in the same business model would be impacted at the same time and in the same way. Practitioners do well to realise that part of the reason there is no trust in the market system between producers and buyers/processors is the skewed power relations. This especially plays out where there are no clear, transparent, and consistent rules, grades and standards[8] regarding the products.

[8] These are not necessarily the rigorous phytosanitary standards (SPS), but can be as simple as time of harvest, handling of the produce, packaging, and when to deliver produce to the buyer. In some cases pack houses are used and products pre-inspected and graded on site before delivery to the buyer. In some cases a farmer representative accompanies the produce to the buyer premises to witness grading etc. All these expectations need to be pre-defined and enforced by the market actors themselves.

Part of the practitioner's facilitative interventions should be based on foundational supply chain management practice to ensure that capacity is built among key players to jointly **define, apply** and **enforce** rules, grades and standards. The ensuing benefits should also be spelt out through joint action that could be documented (even as meeting minutes), especially in cases in which the actors are averse to written agreements as part of trust building.

Foundational supply chain management practice

- Capacity to define clear, transparent, and consistent rules, grades and standards, and incentives to enforce them fairly and vigorously
- Merit-based benefit flows based on adhering to agreements and meeting/exceeding grades and standards

Overall, contract farming is and can be a good arrangement for supporting inclusive market development, especially in thin markets. It should however not be promoted as a single business model and prescribed to all partners to follow. It should be adapted to each context and individual partner. When engaging in these partnerships, facilitators need to understand the will and skill of the partner, have clear communication on mutual responsibilities, and negotiate temporary cost-sharing arrangements to buy down risk without financing core business activities. Beyond individual partnerships, changes in the wider market system are necessary to ensure contract farming arrangements are resilient and reach scale in a sustainable way ("expand" and "respond" in the AAER framework). Emphasis should be placed on access to financial services but also attention paid to ensure that actors do not take on more debt than their operations can profitably bear. Organisational development and advocacy capacities to address business environment issues are also key for successful M4P interventions.

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Appendix A – Question Templates AAER framework

Systemic Change Framework: Question Template - *Processors*

Adapt	**Respond**
• How have you adapted the contract farming model for your business? If yes, why? • Did you form any new business connections/relationships while adapting the contract farming model? • What is the future of contract farming for your business? Do you plan to continue? Why or why not?	• What has been/is your relationship with market actors you are not in direct competition with (non-competing*). • Have you seen changes among these non-competing actors? If so, what? Why do you think these changes have happened? • What policy issues are important to your sector? Have there been policy changes that have affected your business?
Adopt	**Expand**
• How did your contract farming model operate during your first year? Any variation between villages? If so, why? • Why did you adopt the contract farming model for your business? • What has been your experience with contract farming? What benefits have you seen? What challenges have you faced?	• Who is your competition in the processing business? • Have you seen changes among your competition? If so, what? Why do you think these changes have happened? • Have you changed your business strategy or operations because of your competition? If yes, what, when, why did you change? What was your motivation for changing your business?

**government, regulators, service providers (financial, input, transport, etc.), research institutions/academia, apex organisations, etc.*

Systemic Change Framework: Question Template - *Contract Producers*

Adapt	**Respond**
• Has the processor you have a relationship with ever changed their services or products? How so? Do you know why?	• Have you heard discussion of contract farming in local media (radio, newspapers, TV)? Or at community meetings? • Have you heard politicians, government officials or researchers talk about contract farming? If so, what do they say? • Have you heard any business people (besides the processors) talk about contract farming? • Are you part of a farmers' organisation? If so, do the members/leaders of that organisation discuss contract farming?

Adopt	Expand
• How did you begin your relationship with this processor? • Do you have a formal contract with the processor? • What services does the processor offer you? • What products does the processor offer you? • When does the processor buy from you? How does that work? • What has been your experience having a relationship with this processor? Benefits? Challenges?	• What processors are operating in your area? • Has another processor ever offered to buy your produce from you? If so, what did they offer? Did you sell to them? If so, why? If not, why not?

Systemic Change Framework: Question Template – *Service Providers*

Adapt	Respond
• Have you worked with processors using a contract farming model for several seasons? If so, have you noticed any changes in the way the processor operates from season to season?	• Have you heard discussion of contract farming in the media (radio, newspapers, TV)? Or at community meetings? • Have you heard politicians, government officials or researchers talk about contract farming? If so, what do they say? • Have you heard other business people discuss contract farming? • Have you heard of any policy or regulatory changes related to contract farming?
Adopt	**Expand**
• Have you worked with processors that were using a contract farming model? • Have you experienced benefits working with a processor that is using a contract farming model? • Have you experienced challenges working with a processor that is using a contract farming model?	• Have you approached or been approached by multiple processors using the contract farming model? • How do you select who you would like to work with?

Systemic Change Framework: Question Template – *Extension Officers*

<table>
<tr>
<th>Adapt</th>
<th>Respond</th>
</tr>
<tr>
<td>

Have you worked with processors using a contract farming model for several seasons? If so, have you noticed any changes in the way the processor operates from season to season? What was your role in those changes?
If you have worked with processors using contract farming, how will you continue to partner with them? Do you think your partnership will evolve in the future? How?

</td>
<td>

Have you heard discussion of contract farming in the media (radio, newspapers, TV)? Or at community meetings?
Have you heard politicians, government officials or researchers talk about contract farming? If so, what do they say?
Have you heard other business people discuss contract farming?
Have you heard of any policy or regulatory changes related to contract farming?
Have you noticed any changes to your district plans integrating contract farming model? (*district EO)

</td>
</tr>
<tr>
<th>Adopt</th>
<th>Expand</th>
</tr>
<tr>
<td>

Have you worked with processors that were using a contract farming model?
What was your role in supporting processors using a contract farming model?
Have you experienced benefits working with a processor that is using a contract farming model?
Have you experienced challenges working with a processor that is using a contract farming model?

</td>
<td>

Have you approached or been approached by multiple processors using the contract farming model?
If yes, what type of contract farming model are they implementing? Is it the same as the one implemented by processors you are working with? If not, what are the difference/changes?
How do you select who you would like to work with?

</td>
</tr>
</table>

Appendix B – List of key interviewees

Interviews were held with the following stakeholders:

- Former RLDP staff and management
    - Godfrey Bwana (MRM and temporary PM)
    - Athumani Zuberi (MRM)
    - Susan Lyaro (Cotton)
    - Ralph Engelmann (Technical Advisor, Swisscontact)
    - Fadhili Kasubiri (Rural Advisory Services - RAS)
    - Braison Salisali (Senior Business Analyst)

- SDC representative
    - Ueli Mauderli (Head Employment and Income Domain, Embassy of Switzerland, Dar es Salaam)

- Current RLDP staff and management
    - Margaret Masbayi (Technical Advisor, Swisscontact)
    - Jan van Haaften (International PM April-Sept. 2015)
    - Martin Fischler (Programme Coordinator East Africa, HELVETAS)
    - Vicky Msamba (MRM)
    - Daudi Mwasantaja (Sunflower)
    - Devota Pasky (Rice)

- Management and extension officers of:
    - Three Sisters Sunflower buyers/processers (Dodoma, Kondoa)
    - Muenge Sunflower buyers/processers (Singida)
    - DBB Rice buyers/millers (Shinyanga)
    - Gaki Rice buyers/millers (Shinyanga)
    - Gaki Cotton buyers/ginners (Nzega)
    - MSK Cotton buyers/ginners (Nzega)
    - Alliance Cotton buyers/ginners (Mwanza)

- Contract farmers of (in one-on-one and some FDGs):
    - Three Sisters Sunflower buyers/processers (Dodoma, Kondoa)
    - Mwenge Sunflower buyers/processers (Singida)
    - DBB Rice buyers/millers (Shinyanga)
    - Gaki Rice buyers/millers (Shinyanga)
    - Gaki Cotton buyers/ginners (Nzega)
    - MSK Cotton buyers/ginners (Nzega)

- Government extension officers in Singida and Kondoa
- TACOGA (Tanzania Cotton Growers Association) representative
- CEZOSOPA (Central Zone Sunflower Oil Processers Association) representative
- TASUPA (Tanzania Sunflower Processers Association) representative
- Ministry of Agriculture Representative (Dar es Salaam)

Appendix C – RLDP Contract Farming offer for the cotton sector

Result	Key inputs by RLDP
AWARENESS MEETINGS AND FARMERS' REGISTRATION	Farmers & group formation meetings - allowances to Village Extension Officers (VEOS) & Village Chairs
	Contract signing meetings - allowances to VEOS & village chairs
	Daily Subsistence Allowance (DSA) for project team (6)
	Stationery & contract photocopying
TRAINING OF EXTENSION OFFICERS (TOTs)	DSA to 27 Extension officers for 7 days
	Refreshments for 27 extensionists for 7 days
	Travel refund for 27 extension officers
	DSA for 1 Moderator for 7 days
	Facilitation Fee for Moderator
	DSA for 2 YARA Agronomists
	Transport cost for YARA Agronomist
	1 Venue for 7 days
	Stationery
TRAINING FARMERS IN GOOD AGRONOMIC PRACTICES & CROSS-CUTTING ISSUES (Gender and HIV/AIDS)	Refreshments
	Trainers allowance for 27 trainers for 4 days each
	Allowance for 20 Ward Community Dev. Off. for 4 days
	Stationary
	Venue
	Printing & distribution of leaflets
SUPPORT PROVISION OF EXTENSION SERVICES **A) Establishment & Management of Demo Plots**	Improved Seed for 100 Demos
	Pesticides for 100 Demos
	Sprayers for 100 Demos
	Herbicides application
	Tractor - Ripping Service
	Tractor Ploughing Services
	Fertilizer: Basal
	Fertilizer: Top dressing
	Fertilizer: Foliar application
	Cotton Collection Bags (for quality control)
	Transporting fertilizers from Dar to Bariadi
	Prepare and erect sign posts
	Lead farmers incentives/allowances for 10 months (TZS 20,000 per month)
	Extension Officers Allowance During Farmer Field Days (FFDs) - 14 days per each demo plot
	Agronomists monitoring during FFD 2 days@ month x 10 months
B) Extension services and management of Demos plots	Fuel and Motorbike Maintenance Monthly allowance for 12 months (TZS 30,000/= per month)
	Bicycles for Lead farmers
SUPPORT PROVISION OF AGRICULTURAL INPUTS & SERVICES	Supply of improved seeds
	Supply of herbicides
	Supply of sprayers
	Tractor services - ripping
	Tractor services - ploughing
	Distribution costs for improved seeds
	Distribution costs for pesticides
	Distribution costs for fertilizer