Outgrower agreements- A new opportunity in Pulses from Africa?

Farming in the sub Saharan Africa needs strong vertical linkage to be a part of the bigger value chains. The access to inputs and markets that they lackcan be achieved through the Out-grower schemes, a new type public-private partnership (PPPs). The Outgrower agreements have started to become an important policy initiative in many countries, especially the G8's New Alliance.

Farmers and small scale producers often look forward for such schemes as the partner company can provide them with inputs and production services. The type of seeds, the farming practices and the overall knowledge transfer helps their farming incomes to rise by opening up new markets and access to new technology. The outgrowers are aware about the pricing mechanism, as the buyers and sellers agree on a price that is attractive to both. This also allows the out growers to avoiding mono-croppingsystem and their reliance on credits for inputs also goes down.

The buyer, on the other hand can be sure of the quantities, and the quality attributes. This is a much better option than going into commercial farming and making huge capital investment. For processors, it is much cheaper than investing in commercial farming. It also allows them to have a better control over sourcing. They can be more confident about the control over quality, timing, traceability and other issues. This will also enable them to diversify the production risk by spreading the sourcing over a wider area.

Sometimes, contract farming is misunderstood as Out grower scheme. Though, the majority of the contracts farming projects that are undertaken are actually out-grower schemes, contract farming is a much broader word.

Out grower schemes can be in different ways. It can be anadhoc informal scheme or a highly coordinated system. In the Ad Hoc arrangement, the farmers and buyer have a very loosely bound agreement, more of a procurement agreement. It is not backed up by any firm enforceable contract. The buyer simple indicates the quality and price that he is interested to buy. The out growers invest in the production and finally sell the output to the buying firm.

However, in the highly organized system, the involvement of the buying firm is much higher. The firm farmer coordination is high and the buyer provides detailed technical advice to the Farmer/ Farmer groups. They also get involved in providing inputs and credit facility. The buyers handle the post-harvest handling and storage. The system is managed through a formal contract.

Should outgrower agreements be used in Pulses:

Pulses is a crop that has a big potential in Africa. India, on the other hand has an ever increasing market for the pulses. It's becoming evident year by year that the imports of pulses will only grow. The rising per capita income and the stagnancy of yields and acreage, has led to a growing import market in India. Exporter to India is mainly Canada, Myanmar, Australia, along with others. However, imports from Africa are rising. Example can be taken from Tanzania, from where, India imports about 7-8% of its chickpeas, 27-28% of pigeon peas and about 4% of moong/ Urad. Similarly, the imports from Kenya, Ethiopia and other African countries are also rising. More imports from Africa will diversify India's exposure and also allow a better price negotiation.

The demand for pulses has recently cached the attention of several farmer based associations in east African countries. Recently, Gerald Massila, CEO of East Africa Grain Council, an Agri industry body from East Africa stated It is recruiting over 100,000 growers to raise production to meet the volumes of pulses that India wants to import from Kenya. Similar interests are shown in countries like Tanzania, Ethiopia, Mozambique, and Malawi. However, since pulses are not a priority crop in many of these countries, the knowledge base of pulses cultivation is not available. This makes the supply of pulses erratic and quality aspects get compromised. The pulses importers have been making frequent visits to these countries, but the structured trade mechanism has not been established.

The option of Indian farmland investments in pulses production in Africa is also sometimes considered. However, the Indian experiment with commercial farming in Africa has not been very encouraging. The Indian corporates have moved into commercial agriculture with large scale farm acquisition, with an objective of getting to commercial agricultural production. Companies like S&P, Tata, Karuturi global, Neha International, Ruchi Soya have taken farmlands and tried their hands into commercial agriculture. However, we are still waiting for a success story to emerge from this sector.
When the pulses importers and the traders from India look at Africa as a potential source for the supply, the option of vertical integration and commercial farming does not excite.

Then can Outgrower scheme be an option. Some of such experiments have been seen. Recently, Uganda-based agro-commodity trading company Farmers Centre (U) Limited (FCL) and Imara International , an India based company signed a memorandum of understanding (MoU) that is estimated to be worth 5 million USD. Under this MOU, FCL has agreed to supply green moong beans and pigeon peas to Imara. Though this is MOU based transaction, and does not completely fall under the structured outgrowers scheme, still it's a very impressive beginning.

There are similar interests on the other side as well. A farmer group in Kenya, representing about a million farmers from different counties of Kenya want to sign a supply agreement with Indian pulses importers. They want to target a output of 200 thousand tons of pigeon peas and other pulses. The farmer group is strongly organized and wants the Indian partner to sell them quality seeds and inputs and help them with technical advice. This will be a back to back agreement to buy the production. This is again only one of such interested groups.

To make this arrangement a strong business model, there is a need of some important steps to be taken by the policy makers in the African countries. There is a need of strong legislative support to enforce contracts under such agreements. The pulses importers are also not sure about the costs that they may have to incure under this arrangement. This will make it important that some incentive or benefits is provided to attract partners. Things like tax break or subsidy by the government based on volumes mobilized through the small holders may attract partners from India.

However, while providing the legislative framework, it will be important to ensure that the buying companies do not control the market and the small holders get their share of power in the process so that the market is fair and transparent.

What should be the policy consideration for such arrangements in pulses sector?

There are several considerations that the governments have to include while developing a policy for the sector. The policy will be a important tool to attract large scale investment in the pulses sector, both financially and technically. The pulses importers and processors from India should find it attractive to make such investments. Issues like tax benefits for import of inputs and equipment, export permissions should be considered.

Further, It is Important to have representation of the out growers or the small holders in the relationship. It will be important for the governments to ensure that the adequate representation of the small holders’ interests and apprehensions is accommodated through the policy. The policy to promote organization of the small holders into small business units is more required. The price is the most important factor in this relationship. Typically the prices of pulses fluctuate significantly and this needs to be addressed through the policy. The mechanism of price determination and price to be finally paid needs to be transparently addressed.

Lastly, the comfort in the relationship will arise only with the enforcement of the contracts under this arrangement. Hence, a efficient legal system for contract enforcement will be a must. To achieve this, there can be a legal enactment to cover this arrangement and proper regulations must be developed. This legal structure should address the enforcement and competition clearly and fairly.

This can be initiative that the government of India can undertake as a diplomatic assignment. After the impact of pulses prices on various socio political issues in the recent past, the government has more than one political and social reason to take keen interest in the sector. The Government of India, through a bilateral agreement canhelp the supplying country to develop a enabling policy environment. Such agreements can boost the confidence of Indian importers about permission for export and contract enforcement.

The scope for production and export of pulses in Africa is high and it can be a important trading partner to India. The rising pulses prices in India will need diversification and a more broad based trading mechanism to open the market. In such situation, an enabling environment for Indian importers and processors to set up outgrowing agreements in Africa can be a path breaking initiative. This will not only lead to more exports to India but also allow the pulses industry in India to expand and export to third party countries from Africa. The production potential of Africa and the technical expertise of India can create a new paradigm in South South Cooperation. No better time than the International Year of Pusles!