

Supplemental Resource

Best Practices for Outgrower Arrangements Literature Review

How to Use this Resource

This resource accompanies Phase 2, Task 2, Step 6 of the Model Guidebook for Government. The external resources summarized here provide guidance and discuss best practices for establishing outgrower arrangements as a method of compensation or alternative to outright land purchase or lease.

1. R. van Gent, *Outgrower Best Practices, Field Reporting, Appraisal and Monitoring, and Notes on Commercial and Social Dimensions of Outgrower Arrangements* (FAO 2010), available at www.fao.org/uploads/media/Outgrower%20Best%20Practices.pdf.

This report outlines a set of best practices for outgrower schemes. It lists recommendations for selecting outgrowers, registration practices, contracts, input supply and loan recovery, extension services, marketing arrangements, pricing mechanisms, and group development facilitation. It also sets out guidelines for field reporting, appraisal and monitoring techniques, and other notes on commercial and social dimensions of outgrower arrangements. The paper begins by mentioning the problem of side-selling and side buying. Even if all of the best practices outlined in the report are addressed, an outgrower arrangement may still fail if side-selling isn't appropriately addressed. The report recommends addressing the issue from the buyer side; if there are no side-buyers there will not be any side-selling.

The first set of recommendations develops selection criteria for outgrowers. To do so, the paper sets out a list of questions to inform the investor/company about the farmer as an outgrower. It asks a set of questions as to land availability, location and conditions in order to understand whether the farmer and her land fit the minimum criteria of the particular crop to be grown. It then asks questions that will inform the company about the farmer's knowledge and experience, business awareness, motivation, and

commitment in order to determine whether she or the company should enter into an outgrower arrangement.

The paper then shifts to the management of basic data recording and monitoring. It recommends basic data capturing for the farmers (names, locations, credit provided, mobile telephone numbers, etc.) and computer monitoring that tracks the performance of the farmers along a number of criteria. Contracts in outgrower arrangements should be transparent and detailed. This often includes a translation to the local language, and training and capacity building to ensure the farmer can make an informed decision on the terms of the contract. The paper then recommends terms that should be included in the contract, subject to the particulars of the transaction. Among other recommendations, this paper suggests pricing mechanisms and payment modalities that account for the asymmetry of knowledge that often accompanies these transactions. For instance, it suggests a pre-planting price; farmer's lack of understanding how and why international market prices fluctuate, or an asymmetry of accessible information may lead to the farmer feeling exploited. It also suggests that payment to farmers be as prompt as possible, with a detailed record of the transaction. This paper presents a great overview of best practices for outgrower schemes, but misses an opportunity to discuss gender considerations in developing outgrower schemes.

2. International Finance Corporation, *Working with Smallholders: A Handbook for Firms Building Sustainable Supply Chains* Available (2013), available at <http://www.ifc.org/wps/wcm/connect/8dc5628042112fdbba2fff494779b2ad/Handbook++Working+with+Smallholders.pdf?MOD=AJPERES>.

This handbook discusses smallholder farmers and outgrower arrangements as potential opportunities for addressing greater demand for food, limited access and availability of arable land, and new food and water issues associated with climate change. It also identifies some of the issues associated with sourcing from smallholders, such as productivity, crop quality, scalability and capacity issues. This incredibly detailed handbook includes guides on the business case for working with smallholders, program design, working with producer organizations, training and communication strategies, standards for smallholder supply chains, access to inputs, farm management skills, incorporating gender into interventions in supply chains, and measuring results of smallholder programs.

As the only outgrower manual to explicitly address gender, this handbook is very useful in discussing the benefits, strategies and opportunities for integrating gender into outgrower practice considerations. It discusses the ways in which greater inclusion of

women can offset many of the issues with outgrower schemes; a strategy that prioritizes women's participation increases productivity, optimizes the use of inputs and reduces management costs. The handbook also describes specific outgrower projects that increase women's inclusion, such as the FRICH Project's support of Finlay's Kenyan tea outgrowers' cooperatives, which includes quotas for women's participation in its management.

3. J. Bugri, et al., *Recommendations for Large Scale Land-Based Investment in Ghana: Model Lease Consultancy Project Report for the Ghana Commercial Agriculture Project* (Landesa/Ghana Commercial Agriculture Project 2014), available at: <http://gcap.org.gh/wp-content/uploads/2017/04/Lease-Consultancy-3.pdf>.

The purpose of this report is to make recommendations and provide tools for investors and communities in Ghana to improve investment outcomes in commercial agriculture. For the purposes of this literature review, the primary focus will be the "Innovative Models for Inclusive Commercial Agricultural Investments" section, beginning with investment structure and payment terms for land and then discussing innovations in outgrower models in Ghana.

This section outlines a number of different payment options for land. The traditional method of payments for leased land in Ghana is the fixed-sum payment. Although communities derive the benefit of assurance of payment up front in this arrangement, significant drawbacks exist for all parties involved. Firstly, up-front payments discount the expected rise in value of land over time in exchange for security of payment. This tradeoff is especially imbalanced in long-term leases. Secondly, these up-front payments rarely make it to most community members, far less equitably so, and divest future generations without payment for their loss of land. Replacing the up-front payment with a periodic fixed payment gives the community a greater sense of fairness while increasing investor stability. Advantages to the fixed-price method include greater transparency and financial security for communities. These transactions are easier to understand, monitor, and enforce.

A payment model with increased risk, but potentially increased benefit for communities, is the revenue sharing model. This model bases the returns to the communities on the success of the company, and on factors often outside of community control. It also requires a higher level of sophistication for community monitoring. Advantages of revenue sharing compared to equity or profit sharing models include a comparative ease of calculating and monitoring returns. Disadvantages compared to equity models

include an inability to access financial records, participate in management or build up longer term value.

Equity share compensation models grant minority shares to the community in the company's equity, which provides a portion of profits, a voice in management decisions and access to financial records. The risks however, include a trade of land for only potential profits that are difficult to determine, and may take years to produce. As a minority shareholder, the communities would have little say over many decisions, including decisions to reduce declared profits. Communities would also need the capacity to perform due diligence on the pertinent business plan. This report outlines a series of techniques to increase the viability of the equity share model, such as the establishment of a strong outgrower component, as opposed to a plantation style farm.

Hybrid schemes combine fixed-payment leases with revenue sharing or equity sharing models. Some examples of hybrid schemes are offered, including one that diminishes fixed-payments over time, and balances the risk-sharing components with stability of income for communities. It seems that hybrid schemes, depending on the circumstances of the transaction, are likely ideal, but require a level of business and financial sophistication that may not be currently available in many communities.

The section continues with a discussion of innovations in outgrower and contract farming models. After a brief introduction and definition of terms, it describes particular examples of outgrower schemes in Ghana, including the GADCO example, which is discussed extensively in the payment of land section as one of the most successful outgrower programs in Ghana. Based on these examples and experiences, the report provides a number of conclusions and recommendations for outgrower models. Importantly, this report notes that outgrower schemes reduce the need for land acquisitions, and increase tenure security for farmers, particularly in customary systems like Ghana's. It also notes risks inherent in these models, including a lack of farmer capacity, high interest rates for farmers, and unclear contract terms. Based on these conclusions, this report makes a series of recommendations for realizing a higher level of benefits from outgrower schemes, including conducting ESIA's, making resources and materials available in the local language, and establishing procedures for addressing grievances.

4. H. Desmond et al., *Forestry Out-Grower Schemes: A Global View* (FAO 2001), available at <ftp://ftp.fao.org/docrep/fao/006/ac131e/ac131e00.pdf>.

This working paper, although related to forestry outgrower schemes, provides useful information and issues that are useful to outgrower schemes beyond the forestry

context. It describes different types of outgrower schemes definitions of terms. It then discusses the benefits of outgrower schemes, including more secure land tenure for farmers and additional or cheaper raw materials for investors. This paper addresses some of the issues surrounding outgrower schemes. Some of these issues are particular to the forestry context, but many are widely applicable, such as the issue of access to financial loans. This paper's primary usefulness is a snapshot of the benefits and issues associated with outgrower schemes in general, and forestry outgrower schemes particularly. It offers a few recommendations for successful schemes, such as accurately calculating and sharing risks and structuring the scheme so that the arrangements contribute to community well-being.

5. TechnoServe, *Technical Brief: Outgrower Schemes-Enhancing Profitability* (2011), available at: www.technoserve.org/files/downloads/outgrower-brief-september.pdf.

Responding to an increase in large-scale investment in Africa, this technical brief attempts to identify replicable, scalable practices which tend to contribute to the success of outgrower schemes. It identifies a range of factors that success depends on, such as access to markets, transparent pricing mechanisms or attractive prices for farmers, avoiding overreliance on credit, and regular, direct interaction between the buyer and farmer. This brief includes a number of useful graphics, including one that demonstrates the benefits of outgrower schemes for buyers and outgrowers, a visual comparison of outgrower models and their characteristics, and a comparison of crop types with their suitability for outgrower schemes.