



# Farmer Group Review Report

Malawi Nacala Rail and Port Value Addition  
and Inclusive PSD Project,  
Fund for Africa Private Sector Assistance  
(FAPA)

Contract No. MITC/FAPA/2018C1



From  
the People of Japan



AUSTRIAN FEDERAL  
MINISTRY OF FINANCE

## Contents

Acknowledgements.....	4
1. Introduction.....	5
1.1 Background .....	5
1.2 Objective of Diagnostic Study.....	6
2. Methodology.....	6
2.1 Sampling.....	6
2.2 Data collection.....	6
2.2.1 Focus Group Discussions (FGDs) .....	6
2.2.2 Data analysis .....	7
2.3 Challenges.....	7
3. Findings.....	7
3.1 Capacity Building Challenges.....	7
3.2 Access to Markets .....	8
3.3 Access to Finance .....	10
3.4 Specific Needs of Farmer Groups and Smallholder Farmers.....	11
3.4.1 Summary of Specific Needs of Farmer Groups .....	11
3.4.2 Summary of Specific Needs of Smallholder Farmers.....	11
4. Conclusion .....	12
APPENDIX 1: FARMER GROUP DIAGNOSTIC STUDY TOOL....	Error! Bookmark not defined.
APPENDIX 2: List of Shortlisted Farmer Groups Interviewed During the Study .....	Error! Bookmark not defined.
APPENDIX 3: List of Shortlisted Farmer Groups Not Interviewed During the Study ...	Error! Bookmark not defined.
APPENDIX 4: Detailed List of Selected Farmer Group and Member Needs.	Error! Bookmark not defined.

## Acronyms

<b>ESCOM</b>	Electricity Supply Corporation of Malawi
<b>FAPA</b>	Fund for African Private Sector Assistance
<b>FGD</b>	Focus Group Discussion
<b>SIVAP</b>	Smallholder Irrigation and Value Addition Project
<b>ICT</b>	Information & Communication Technology
<b>MOITT</b>	Ministry of Industry, Tourism and Trade
<b>PPP</b>	Public Private Partnerships
<b>SME</b>	Small and Medium Enterprises

## ACKNOWLEDGEMENTS

---

This report is a product of various forms of assistance given to Enclude, the Consultants by many individuals, organizations and enterprises too many to mention. We nonetheless wish to thank them all. In particular, we are very grateful to all the farmer groups which took part in the study. Thank you for your kind acceptance to participate in the consultation process, for your time and frank opinions on the issues discussed.

**Enclude, BV**

# 1. INTRODUCTION

---

## 1.1 Background

The Nacala Corridor Rail and Port Value Addition and Inclusive Private Sector Development Project aims to support inclusive and sustainable economic growth along the Malawi Nacala Corridor through the improvement on the efficiency and competitiveness of local businesses situated in the Nacala Corridor in order to enable them to better exploit the newly available transport infrastructure, and to achieve accelerated economic and social development in Malawi. The project's targeted beneficiaries are agro-processing SMEs, farmers' support organizations, smallholder farmers, extension service workers, financial institutions, and the Government of Malawi.

The project is designed to be achieved through three components namely: capacity building of key stakeholders, access to markets and access to finance. The capacity building component will build the capacities of 15 growth-oriented agribusiness entrepreneurs, 25 farmer groups and about 1000 smallholder farmers in the Nacala corridor to increase their ability to effectively make use of the available transport infrastructure. The access to markets component will focus on creating and facilitating access to markets for SMEs, farmer groups and also smallholder farmers. The access to finance component will focus on facilitating access to finance for SMEs and farmer groups primarily. It will also include capacity building for loan officers of selected financial institutions. By implementing the three components, the project envisages accomplishing the following results:

- Increased agriculture production
- Increased small holder farmer productivity
- Increased value addition by agro-processors
- Increased incomes for small holder farmers
- Increased profitability for SMEs in agro-processing
- Contribution to a PPP dialogue to improve the enabling environment for industrialization

Prior to the diagnostic study, a call for proposals was conducted, and 60 farmer groups were shortlisted for further assessment so that the required number of 25 farmer groups can be selected by the project Selection Committee. The smallholder farmers to participate in the project will be members of the selected farmer groups.

## **1.2 Objective of Diagnostic Study**

The broad objective of the diagnostic study was to identify capacity building and training needs of the shortlisted farmer groups. This was expected to inform the design of appropriate training curricula and other interventions aimed at building the capacities of the value chain actors in the project to become effective providers of raw materials to SMEs for value addition and for the smallholder farmers to become effective producers of crops to be used as raw materials in the targeted value chains. The diagnostic study was therefore expected to establish the prevailing status of each Farmer group in terms of their capacity gaps, production, marketing, financial management, governance and access to finance challenges. This review report presents the results of the diagnostic study conducted among farmer groups in all the FAPA Nacala Corridor project districts.

## **2. METHODOLOGY**

---

### **2.1 Sampling**

All shortlisted farmer groups in the Nacala Corridor region were selected for consultation during the diagnostic study.

### **2.2 Data collection**

Focus group discussions were the main methods of data collection which were employed during consultations with farmer groups. These were conducted using a focus group discussion guide which was prepared for this purpose. Appendix 1 below is a sample of the Focus Group Discussion guide that was used during consultations with farmer groups.

#### **2.2.1 Focus Group Discussions (FGDs)**

Focus group discussions were conducted with the shortlisted farmer groups using a checklist which included questions on members of the farmer groups. A total of 40 focus

groups discussions were conducted. Some farmer groups were not visited either because they were not available during the period of the study or because they were unreachable due to the remoteness of their locations and distances from major roads. The groups were visited in their areas of operation which are their villages. The groups comprised board members and ordinary members of the farmer groups, although typically it was Executive Members of the farmer groups (i.e. the Chairperson, Secretary and Treasurer), that participated in the discussions. The focus group discussions were typically attended by between 8 to 10 members.

### **2.2.2 Data analysis**

The data gathered during both the interviews and focus group discussions which included data on both the farmer groups themselves and their members was analyzed through a process of identifying the themes from the checklists and synthesizing them. Summaries of each theme were then developed and written down.

### **2.3 Challenges**

The main challenge that was faced during the diagnostic study was that the farmer groups were spread across the districts in very remote locations and the distances between them were quite large. Because of this, the study took longer than anticipated, and some farmer groups could not be reached during the study. Nevertheless, the study findings were not negatively impacted by these challenges.

## **3. FINDINGS**

---

The diagnostic study has revealed many needs of Farmer groups and their members.

### **3.1 Capacity Building Challenges**

#### **3.1.1 Governance**

All the farmer groups interviewed had functioning constitutions and governance structures. The farmer groups had either a board of trustees or board of directors. However, one half of the farmer groups interviewed had active boards while the other half had no active boards at all. The study has shown that those farmer groups whose boards are inactive have weak governance structures and have performance issues.

### **3.1.2 Business plans**

The study revealed that only 36% of the farmer groups interviewed had business plans. The business plan period ranged from 1 year to 5 years. Those that had no business plans indicated lack of training and skills to formulate them as the main reason for not having business plans. Further, the study revealed that only 14% of the farmer groups had full time managers. And, even where managers were in place, not all of them had been exposed to business management trainings and business plan formulation.

### **3.1.3 Lack of warehouses**

At least 50% of farmer groups do not have adequate space for the storage of crops grown by farmers. Since most crops are grown only once per year, they are available in sufficient quantities only during the harvest period. Farmer groups which have no warehouses miss opportunities to stock up which limits the quantities that they can buy from their members or aggregate. This puts them at a disadvantage because when SMEs require the raw materials outside the harvest period, they are unable to supply at a time when they can fetch high prices due to scarcity.

### **3.1.4 Quality of raw materials**

The diagnostic study has revealed that the quality of raw materials is problematic. Farmers have a tendency to sell ungraded produce and at times they deliberately mix the produce with other matter such as stones in an attempt to increase its weight. Sometimes, the farmers mix different varieties of raw materials when selling to the market. Such poor handling of raw materials leads to losses for the farmer groups.

## **3.2 Access to Markets**

### **3.2.1 Access to market information challenges**

The following are the challenges faced by farmer groups with regard to access to market information:

- Lack of a forum for sharing markets information
- Farmers union used to send prices of different crops and markets through phones SMS, but they are no longer doing this.
- Farmer Organizations used to get information on prices and buyers through SMS by ACE (ESOKO), although the information was being sent out late in the season



after the farmers had already sold their produce. However, ESOKO messages are no longer being sent out.

- There is no information for the cassava market
- Prices sent through SMS differ from the actual prices. At times the farmers would get information on markets and market prices of certain crops through phone calls from sources they are not familiar with. The information could therefore not be relied upon
- Lack of market information centre, and lack of information (market) forum

### **3.2.2 Access to markets challenges**

- Private companies do not adhere to contract prices that they sign with Farmer Organizations. The companies prefer to dictate prices instead. An example is Exagris which had signed a contract stipulating that Paprika would be bought at K1,000 per kg but the company eventually bought it at K250/kg in breach of the contract.
- Most of potential buyers are in cities, and farmers have to travel to the buyers' premises to make business deals with them. Farmers therefore incur transport costs and the whole process becomes expensive for the farmers.
- Determination of prices for certain products such as cooking oil is difficult because similar products on the market are being sold at lower prices.
- Government deducts a 3% tax from sales by farmer groups thereby reducing the net profit.
- Some non-governmental organizations such as ICRISAT would provide seed to Farmer Organizations and promise to buy the produce from them, but they never come back to honor the pledge.
- There are no linkages between buyers and farmer groups where prices could be negotiated
- Produce is bought late in the season, and the farmers end up selling at low prices, to access cash and manage storage costs
- During aggregation transporting produce to selling points is expensive.
- There are no structured markets. Vendors are the main buyers, and they determine prices and usually offer low prices.

- Prices fluctuate within one season.

### **3.3 Access to Finance**

#### **3.3.1 Lack of adequate marketable collateral**

The diagnostic study has established that farmer organizations have challenges to access credit because of lack of appropriate and adequate collateral. Banks require collateral to secure their loans in case of default. The study established that collateral deficiencies are an important constraint for farmer organizations to obtain loans. Collateral is not a risk free asset because it can be damaged or moved before the creditor seizes it. As such, titled land and savings are the most preferred collateral.

Most of the land in rural areas owned by smallholder farmers is not titled and therefore lacks evidence of legal ownership and is not accepted by formal lenders. Therefore, the absence of assets that can be pledged and the transaction costs for establishing and enforcing security interests of available forms of collateral are the two most important collateral obstacles that farmer groups face when considering credit finance. The study has therefore established that the requirement for collateral is a significant obstacle to access finance by farmer groups. Since, lack of adequate and appropriate collateral excludes a large proportion of producers from accessing credit, it subsequently contributes to low production levels due to lack of inputs.

#### **3.3.2 Lack of Structured Markets**

This study has found that there are no structured markets for crops grown by farmer groups. The absence of such structured markets exposes credit that would be offered to farmer groups for production to risks of default due to poor crop prices in unstructured markets. In Malawi, the formal financial institutions are providing credit to the smallholder sector for crops such as tobacco, sugarcane, tea and other traditional commercial crops where structured markets exist. They don't provide credit for non-traditional crops. If the value chains being pursued by some of the farmer groups had structured markets, this would reduce the risks to acceptable levels and would attract

the attention of banks and financial institutions to begin to offer credit and other financial products to farmer groups.

### **3.3.3 Dependence on rain-fed farming with no crop insurance**

Smallholder farmers are highly dependent on rain-fed farming which is subject to unpredictable climatic conditions. Farmers are affected by effects of climate change which include drought and floods that result in low crop production thereby affecting loan repayments due to reduced production if they access a loan. Banks find it unattractive to commit finances to enterprises that are prone to weather uncertainty in the absence of insurance. On the other hand, irrigation, which would help reduce the risk of crop failure, is not well developed. In such circumstances, banks find it too risky to finance the rain-fed enterprises without requiring adequate marketable collateral and weather index insurance.

## **3.4 Specific Needs of Farmer Groups and Smallholder Farmers**

### **3.4.1 Summary of Specific Needs of Farmer Groups**

The following summary gives a list of all the specific needs of Farmer groups showing the frequency of each need and the project component where the need falls.

<b>NO</b>	<b>NEED</b>	<b>FREQUENCY</b>	<b>PROJECT COMPONENT</b>
1	Markets for their produce	14	Access to Markets
2	Working capital to buy crops	13	Access to Finance
3	Finance to buy equipment	11	Access to Finance
4	Finance to construct warehousing	5	Access to Finance
5	Business management training	5	Capacity building

### **3.4.2 Summary of Specific Needs of Smallholder Farmers**

The following summary gives a list of all the specific needs of smallholder farmers showing the frequency of each need and the project component where the need falls.

NO	NEED	FREQUENCY	PROJECT COMPONENT
1	Improved seed	11	Access to Markets
2	Crop production training	9	Capacity building

#### 4. CONCLUSION

---

The diagnostic study has established that farmer groups are faced with enormous access challenges both to markets and to finance and they need help to overcome these challenges. With regard to access to markets, the absence of market information is a major constraint in the local market. Collateral requirements and high interest rates are among the factors hindering access to finance.

The farmer groups have also knowledge and capacity gaps in production, marketing, finance and management. These are hindering the growth and profitability of the businesses. Their members also have production constraints which include access to improved seed varieties and crop production training to improve their crop yields.