

2511 words

Making smallholders rich; the agro-enterprise approach in Tanzania

Introduction

In the southern highlands of Tanzania about 850 km from Dar es Salaam, the livelihoods of many smallholder families depend heavily on the cultivation and marketing of paddy. In 2013, four wards in the Mbarali district of Mbeya Region (Chimala, Ihahi, Igurusi and Mapogoro) – an area rich in paddy production - were integrated into the *Marketing, Infrastructure, Value Addition and Rural Finance (MIVARF)* programme. This programme is being implemented by the *Government of Tanzania* and supported by the *African Development Bank (ADB)* and the *International Fund for Agricultural Development (IFAD)*. Its major objective is to encourage marketing skills amongst small-scale paddy producers in ways that lead to poverty reduction and improvements in income and food security. The program's implementation strategy was based on the *4Ps (Public, Private Producer Partnership)* approach and a service provider from the private sector the *Ruvuma Commercialization and Diversification of Agriculture (RUCODIA)* was contracted by Mbarali District Council to facilitate interventions.



Programme approach and objectives

MIVARF works with different actors along the value chain and these include producers, processors and marketing associations. Reducing farmers' dependence on middlemen and bringing them in direct contact with potential buyers is the major objective. Hence, marketing inefficiencies receive special attention.

In its effort to reduce transaction costs along the value chain and increase smallholder rice producers' profit margins, *MIVARF* brought together different value chain actors. These included producers, processors, marketing associations, input agro-dealers, the Local Government and millers as well as other business development service (BDS) providers.

Between 2013 and 2016, steps were taken to gain an insight into the prevailing situation and capacity building through training, coaching and mentoring of farmers' groups was the primary intervention.

Strategy: learning by doing

There is a considerable demand for the high quality paddy/rice produced in Mbarali both in Tanzania and in neighbouring countries. Buyers, operating as individuals or as corporations, continue to stimulate this demand. However, in general the price smallholders receive for their paddy/rice is determined by the middlemen who link supply with demand.



Figure 1: Group of farmers in one of the coaching meetings

The *MIVARF* programme was not the first attempt to bring groups of farmers together to improve their market position. Other organizations had also tried adopting a collective approach to marketing and had achieved some success. For example, some programs and projects in the focal area set up the *Mbarali Farmers Organization* - an umbrella federation - to facilitate the marketing of paddy/rice. It soon became clear that this type of organization did not have enough capacity to develop the market linkages needed to improve smallholders' incomes. So another approach was needed.

With *MIVARF* support, the first step in this process was seen as increasing the value of the rice being offered for sale. Smallholders used to sell paddy. Now, with the cooperation of a local miller, *MIVARF* began encouraging farmers to mill their paddy into pure grain so that they could attract a better price.

At the same time the decision was taken to set up a limited company. Its objective would be to look for potential buyers, identify their requirements and offer them quality certified and packaged rice.

This involved identifying those who would most benefit from such a company's activities i.e. the beneficiaries. Working with local ward leaders and interested parties *MIVARF* initially identified 46 farmer groups as likely beneficiaries and subsequently 36 groups of these groups became involved in activities.

Once established the company would explain to farmers and the other partners involved how it would work to improve the financial position of its beneficiaries. The next step was to



brand determination, agreement and registration took about a year. A continual review of

Figure 2: Usangu Rice Brand Name as it was at its final stage in 2015

establish such a company. This took some time as all 36 farmers groups had to be consulted. Eventually, in August 2015 it was decided to register the company as *USANGU MARKETING COMPANY LIMITED (UMACO)*. In addition *USANGU RICE BRAND*, a taxpayers' identification number (*TIN*), a business licence and barcode were applied for.

By 2015, these formalities had been completed. A brand name and logo had also been designed and adopted. The process of common understanding and consensus between individual groups played an important role. It was decided that the milled rice husks would be packaged in quantities appropriate for different categories of buyer. Each package would display the brand name *USANGU RICE* and its logo. The name *Usangu* was chosen because Mbarali's Usangu valley produces up to 30% of Tanzania's rice and potential buyers are well aware of the superior quality of the rice produced in this area.

Among the difficulties *MIVARF* encounter during facilitating the development of this company was how to select the 50 shareholders required by law from more than 150 individuals who said they were interested in becoming shareholders. When selected each shareholder would have five shares worth TZS 10,000 (US\$4.48) per share which meant they would have to pay in total US\$22.39. Initially some shareholders were slow to meet these costs. This caused funding problems for the company as it was heavily reliant on this source of revenue.

UMACO's Board consisted of nine members. *MIVARF* coached and advised them on the general principles of company management and marketing procedures. This was not always

easy. Capacity building efforts had to take into account the different levels of education and experience of those involved because this affected their ability to grasp information and develop the necessary skills.

MIVARF also supported *UMACO* staff in dealing with local authority laws and regulations as well as marketing procedures. In doing so it took into account the fact that many of those involved in the company had yet to develop the confidence to actively take part in company decision making. The process of decision making was also affected by the fact that company meetings were often poorly attended or did not start on time.

Consolidating market identity

Important steps had now been taken to improve the economic status of small-holder rice producers. A company had been established and practical details associated with milling, packaging and market had also been addressed.

Milling and quality procedures: The financial benefits to smallholders of selling milled rice rather than paddy have already been mentioned. *MIVARF* had facilitated the identification and engagement of a rice miller who would cooperate with nine millers working at the *Igurusi Rice Market* in Mbeya. The *Igurusi* market had been developed as part of a *MVIWATA* project designed to improve rural micro-enterprise activities by facilitating the wholesale marketing of food crops.

UMACO applied for rice safety and quality certification from both the *Tanzania Food and Drugs Authority (TFDA)* and the *Tanzania Bureau of Standards (TBS)* to comply with food quality and safety issues. At *Igurusi MIVARF* also took steps to ensure that the premises being used by *UMACO* were kept clean and that millers followed quality management procedures. This included ensuring that *Usangu Rice* did not get mixed with other varieties during the grading process.

Packaging: Milled rice grain is packaged according to the amounts required by the buyer. Buyers' preferences were assessed to determine the type of packaging materials that should be ordered from selected packaging producers. For example, it was found that 5kg and 10kg bags that were made of non-transparent and transparent materials were preferred by customers who would store the rice they bought in their homes. Rice could also be delivered in 20kg, 25kg and 50kg packages.



Figure 3: Rice Bag 5Kg - Grade I (Whole Rice) ready for sale

Although care had been taken in identifying where rice bags could be obtained not all bags delivered complied with *UMACO* specifications. Some were poorly printed or did not have the necessary bar code, while others were larger than the ones ordered. Delays in delivering the bags during the harvest season when they were most needed also led to difficulties and created problems that had to be addressed.

Marketing: Efforts to market *USANGU* rice included promoting it at agricultural trade fairs held at key locations. These included Mbeya, Dar-es-Salaam, Morogoro, Lindi and Arusha. At least two carefully chosen and trained *UMACO* representatives attended these events. They were responsible for establishing contact with potential buyers and they were often able to sell considerable quantities of rice.

In July 2016, as part of ongoing market development activities, a *UMACO* store was opened in Dar-es-Salaam and between October and December of that year about 4 tonnes of rice was sold. Market reach subsequently widened significantly and increasing numbers of people have now become familiar with the *USANGU* brand.



Figure 4: Usangu Rice products (5kg and 10kg bags) as displayed in the farmers-based shop located at Tabata Mawenzi, Dar es Salaam, owned by *Usangu Marketing Company Ltd*



Whilst there has been substantial market progress there have also been difficulties. These include a lack of reliable transport to carry rice from Igurusi to market, the high cost of promoting *USANGU* at trade fairs and the expense of opening new shops. In

addition, a positive but complex problem arising from promoting *Usangu Rice* is that demand is now greater than supply.

Assessing impact and sustainability

The impact of the Mbarali agro-enterprise project can be assessed in several ways. In analysing project experience *MIVARF* has been careful to note the problems that need to be addressed if progress is to be sustained.

The agro-enterprise approach to training, coaching and preparing farmers for agri-business initiatives has been successful in reaching both men (60%) and women (40%) farmers. It has enabled them see their farm as an enterprise and to understand the dynamics of marketing and price fixing. Smallholders came to understand the importance of knowing about market prices, buyers' requirements and regional demand. This information can help them decide how and at what price to sell their rice. It also reduced their dependence on middlemen and small-scale traders who they tended to see as their only market outlet.

MIVARF encouraged farmers to explore the advantages of collective marketing, storage in public warehouses where buyers could see their product and to adopt standard weights and measuring procedures. Its agro-enterprise training and coaching efforts also contributed to stimulating support for *UMACO* and its efforts to negotiate between *USANGU* farmers and those interested in buying their rice.

However, there are still many farmers who are unable to negotiate a fair price for their rice because middlemen know that if they offer to buy it at harvest time there will be farmers who urgently need money to meet family expenses like school fees or pay back loans and therefore will accept a very low price. Connecting these farmers - who often have little confidence in their ability to negotiate better prices - with those with more experience in dealing with buyers and middlemen is seen as a problem that needs attention.

UMACO and Company sustainability: Among the factors that will affect the sustainability of production and future marketing activity is the sustainability and effectiveness of *UMACO* itself. As a company it still relies heavily on funding contributed by shareholders. While this has been sufficient to cover the initial cost of establishing the company, funds must now be found to cover ongoing operational expenses. Currently, external sources as well as shareholders are being approached for financial support. In addition, *MIVARF* continues to train and support members of the *UMACO* board and management to enable them to deal with the complexities of business operations including government regulations and taxation procedures.

The *MIVARF* project which was programmed for the period 2013-2016 for Mbarali District Council will come to an end in March 2017. The project is being handed over to Mbarali Local Government and other development partners to ensure sustainability. At the same time personal initiatives from *RUCODIA* will continue to encourage an agro-enterprise approach.

Conclusion: From concept to reality.

Smallholders can become pioneers of their own business once they realize the future potential. *"I have realized that we can do rice business ourselves instead of depending on the middlemen, because by working through our company it became easier and profitable"*, says Mrs Kuruthum Mickdadi Abdallah, a farmer and *UMACO* shareholder.

The groundwork facilitated by *MIVARF* has provided an opportunity for agro-enterprise development. Indeed, smallholder farmers become the marketers of their own produce through *UMACO* in collaboration with contracted farmer groups. The brightness of farmers' future demands the cutting back of costs along the value chain. Continued collective selling through *UMACO* empowers farmers in terms of bargaining power and income aggregation.

Case: Farmers' agro-enterprise strategy on board

Kennan Sanga (Pictured below) is a small-scale farmer living in Lunwa Village, Igurusi Ward; Mbarali District Mbeya Region. Since 1999 his main occupation has been paddy farming. A standard seven education level person, he is a married man with six children.

Previously while farming he used to get 10 bags of 100kgs each per acre paddy and sold this at TZS 30,000/- per bag (US\$ 13.43). After the training provided by the *MIVARF* program, Kennan Sanga transformed himself into a commercial farmer. *"Training helped me to do commercial farming by starting keeping all farming records as well as establishing short and long terms action plans on farming and business activities. All of these are a result of MIVARF training. For instance this year I have managed to cultivate five acres instead of the two I previously farmed and as a result the yield was 780kg instead of the 260kgs I got from my two acres. With paddy value addition I have successfully managed to sell rice instead of paddy whereby in 2014/2015 I sold 6,343kg of rice at TZS1750 (US\$ 0.78) per kg resulting in TZS 11,100,000/- (US\$ 4970.91).*

Further Sanga reported his ability to do rice business without involving rice brokers and as a result he has had a significant increase in income which he will use to pay his children's school fees, buy a motorcycle which cost TZS 2,200,000/- (US\$ 985.23) and complete the building of his seven roomed house. *"What contributed to my income increase and change is the result of the training I received from MIVARF program on paddy value addition"* says Mr. Sanga.

Kenan Sanga appreciates *MIVARF* as it has given him the opportunity to own a share the company with 50 fellow farmers – the Usangu Marketing Company). Now he is the *UMACO* Board Secretary. With this company he has gained further skills and business marketing knowledge as well as how to identify business opportunities.

Mr. Sanga believes that collective efforts are the way to transform agro-businesses into agro-enterprise strategy.



To draw farmers out of poverty and improve their incomes *UMACO* needs to be supported so it can increase its capacity to purchase large volumes of paddy/rice directly from farmers at trustworthy prices. Further, apart from operating in a single focal area, it should eventually scale up its operations so it covers the whole district. Lastly, *UMACO* has to open up more selling points or use agents in different parts of the country to access potential buyers.