

Outgrower Planning Toolkit

Prepared for Niger State Government

*Issued according to Executive Order No. 5 of 2023 titled:
Establishment, Adoption, and Implementation of Framework for
Responsible and Inclusive Land Intensive Agricultural Investment
(FRILIA) Order issued on 20th December, 2023*

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INTRODUCTION

The Outgrower Planning Toolkit is aimed at encouraging large-scale agribusiness investments to engage smallholder farmers to participate as outgrowers in the investment.

This toolkit guides investors and outgrowers on how to:

- Ensure compliance with all FRILIA principles:
 - Social, Land, and Environmental, by both Investors and Outgrowers
- Structure the Investor Outgrower relationship enabling parties to sustainably contract with each other, and others in their value chain,
- Ensure the investor's quality and production requirements are met,
- Ensure that the growers are properly compensated for their produce and continuously upskilled by learning and extension:
 - improving productivity by adopting modern techniques and equipment
 - reducing impact on climate and environment
 - continuously growing income.

As such the templates include recommendations for organizing, contracting and operating a modern value chain in agriculture. A brief section also gives guidance on financing Outgrower Schemes and the Infrastructure required.

1.1 *Outgrower Schemes*

Outgrower schemes are broadly defined as contractual agreements between small scale farmers and buyers of farm products, in terms of which:

- Farmers agree to supply an offtaker with agricultural produce to stated requirements of Quantity, Quality, Timing and Price; the offtaker agrees to buy the produce, often at a prior agreed price. Usually, the offtaker also provides some incentives such as pre-finance; seeds and fertilizers and other inputs; creditworthy contracts with the farmers; and knowledge of modern business farming.
- Outgrowing enables investors to obtain more produce without the need for acquiring more land, and without using additional capital.
- Outgrowing ensures involvement of local farmers, introduces modern farming techniques, contributes significantly to economic upliftment and social harmony of the surrounding communities.
- Outgrowing keeps land and other natural resources in the hands of the community.

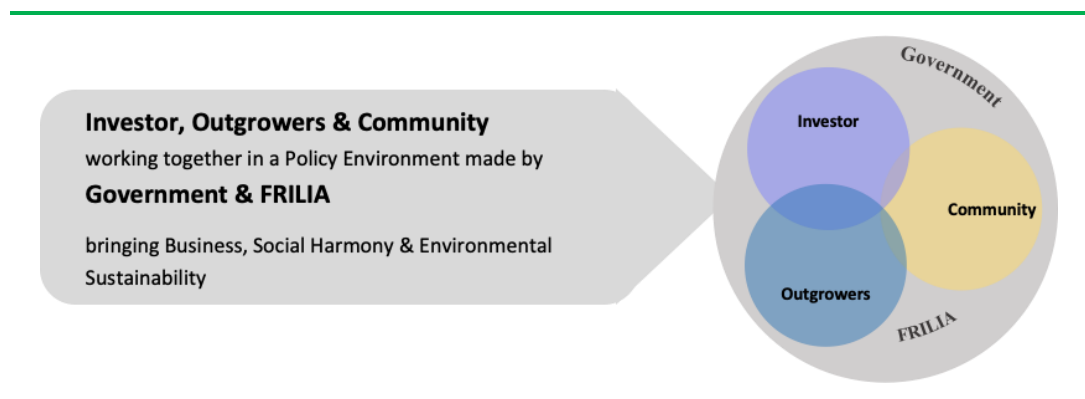
The Outgrower toolkit will enable such investors to follow an agreed pathway to identify, contract and work with smallholder farmers as Outgrowers and suppliers of essential feedstock.

It is worth noting that without outgrowers, Agri-investors would be forced to demand more land, and with that bring about all the problems that the FRILIA is trying to resolve. Outgrowers are therefore a key strategy for the success and sustainability of Agri-investment in Niger State.

1.2 Key Players in an Outgrower Scheme

Figure 1.1 below shows the key relationships and the roles of the key players.

Figure 1.1 Key Relationships



1.2.1 Investor's role is lead partner and off-taker

- Proponent of investment; Initiator of relationships
- Lead researcher, analyst; arranger and guide
- Contracting partner and purchaser

1.2.2 Outgrowers role is partner and supplier

- Partner in investment, and knowledge sharing
- Contractor and supplier,
- Farms and delivers to specified standards

1.2.3 Community's role is contributor of land and natural resources:

- Partner and host for investment
- Guarantor and underwriter of peace and stability

1.2.4 Niger State government's role is enabler and regulator

- Policymaker and provider of incentives
- Regulator and auditor

The FRILIA principles apply to all stakeholders acting in the Agri-investment environment: This includes Outgrower farmers and the communities from which they come, and the VCDFs through which farmers will be organized.



Therefore, all FRILIA principles apply to the conduct of the Investor / VCDF/ Outgrower relationship and underpin the design the Outgrower and Food Security Toolkits.

1.3 Putting FRILIA into practice through Outgrowers

1.3.1 The FRILIA principles

The following FRILIA principles apply to Outgrowers:

Overarching	Land Acquisition and Environment
<p>OV6. Investments should contribute to policy objectives</p> <p>OV7. A range of production and investment models such as joint-ventures, Outgrower schemes should be considered as alternatives to the large-scale transfer of land</p> <p>OV8. Affected communities must decide whether to make non-state land available for investments,</p> <p>OV9. Investment should include consultation with affected people and communities,</p> <p>OV10 Investments should be preceded by independent assessments of impacts and then monitored</p>	<p>L1. Land acquisition and related adverse impacts should as much as possible be minimized or avoided</p> <p>L4. Supplemental livelihood improvement or restoration measures will be provided if taking of land causes loss</p> <p>E1. Investments should incorporate recognized elements of environmental and social assessment good practice,</p> <p>E2. Investments should incorporate due consideration for social risks and impacts</p>

Other International Requirements

Applying these Principles leads to the Requirements given in the Box here:

Box 1.1 Key Requirements for Successful Outgrower Schemes

- Careful pre-investment evaluations of the business plan, sustainability, and benefits for participating farmers and communities
- Early-stage community consultation, particularly with respect to community impacts and access to land
- Written and signed contracts, with effective monitoring and grievance procedures
- Efforts at multiple levels to improve the productivity and quality achieved by smallholders
- Processes for managing risk in responding to changing circumstances
- Support for community engagement and capacity to engage.



1.4 Outgrower Organisational Models

There are four (4) organisation models proposed for outgrowers and three (3) business models for investors. These are detailed in the sub-sections below.

1.4.1 Model 1 Individual Farmers

Individuals, and often their families, farm small pieces of land, up to 1 ha, using traditional methods. The supply contract is between the Investor¹ and the Farmer through supply agreements, which are often unenforceable². A variation on this model occurs when farmers form 'associations' to carry out activities such as harvesting and haulage.

1.4.2 Model 2 Individual Farmers + supported by a Value Chain Development Firm

Individuals, and often their families, farm small pieces of land, up to 1 ha, using traditional methods. The supply contract is between the Investor³ and the VCDF through supply agreements. As the VCDF is a substantial and legally registered entity these contracts are enforceable⁴. The VCDF arranges credit for the supply of inputs.

1.4.3 Model 3 Co-operative

Individual farmers are members of a cooperative. Farming is undertaken individually on small pieces of land, up to 1 ha, using improved traditional methods. The cooperative arranges for the supply of modern fertilisers and improved seeds, usually on credit⁵ from the investor. The supply contract is between the cooperative and the investor. Some cooperatives also carry out first stage processing. For example, drying and hulling of rice.

1.4.4 Model 4 Farmers Corporate

Individual farmers exchange land use rights for a share in their own, properly registered and incorporated, company. The share entitles each shareholder to a dividend, and an opportunity for wage employment. The FC is styled as a modern business with an organisational structure, business management and farm operations to match.

¹ Properly the 'Offtaker', a term used in project financing to describe the party who buys the product being produced.




² Unenforceable because it is unseemly for an investor to pursue a smallholder farmer through the courts for a small amount of money. Significant problems arise for credit providers when thousands of small debts are not paid.

³ Properly the 'Offtaker', a term used in project financing to describe the party who buys the product being produced.

⁴ Enforceable by the Investor on the VCDF but probably not enforceable on the individual farmers.

⁵ Either the Investor supplies inputs or provides credit to the cooperative or gives a guarantee to the cooperative lenders.

Table 1.1 Investor/Outgrower Business Models

<p>Investor Model 1: Aggregate, Process, Market</p> <p>Collects from individual small holders, transports, and aggregates. Processes, packs and ships, sells to Market.</p> 	<p>Suited to NG Model 1: Individual Farmers</p>	<p>Rice, Maize, Cassava; Fresh Vegetables, Small Dairies, Poultry eggs and Broilers, Aquaculture</p>
<p>Investor Model 2: Process, Market</p> <p>Investor buys produce already aggregated by the Outgrowers either through their own organization or a VCDF. The Investor processes packs and ships, and sells to Market.</p> 	<p>Suited to OG Models 2, 3 & 4: Cooperatives, VCDF, and Farmers Corporate</p>	<p>Rice, Maize, Cassava; Fresh Vegetables, Small Dairies, Poultry for eggs and Broilers, Aquaculture Oil Palm, Cashew, Cocoa</p>
<p>Investor Model 3: Final Process & Market</p> <p>Produce is processed by the Outgrowers and sold to an investor who finished the process, packs and sells to final market.</p> 	<p>Suited to NG Models 2, 3 & 4: Cooperatives, VCDF, and Farmers Corporate</p>	<p>Medium Dairies, Poultry for day old chicks, eggs and Broilers, Aquaculture Oil Palm, Cashew, Cocoa</p>

1.5 Investor / Outgrower Contracts

It is strongly recommended that the relationship between the Investor and Outgrower is governed by a formal legally enforceable contract. This should cover key issues:

- Product bought by the Investor: Specifications of Quantity, Quality, Timing and Price
- Support offered by the Investor: Extension Service, Credit Supply, Machinery Loan
- Obligations of both Parties: Implementation of ESIA, Food Security, Repayment of Debts
- Non-performance and disputes: Remedies for non-performance, Arbitration

See **NG Template 1** for principles guiding Outgrower-Supplier agreement and **GMOU Template 4** for a MOU template between investors and farmers. The differences that emerge from selecting the different Outgrower Models are discussed in detail in the Outgrower model template (**NG Template 2**). It is important

to recognise that the transparency requirements of FRILIA demand that the investor/outgrower contract is approved by the Government Agency tasked with oversight of FRILIA.

1.6 Generic Outgrower and Investor Processes

Below are given the steps to be followed by Outgrowers and Investors in setting up their businesses:

Table 1.2 Process Flow for Outgrowers

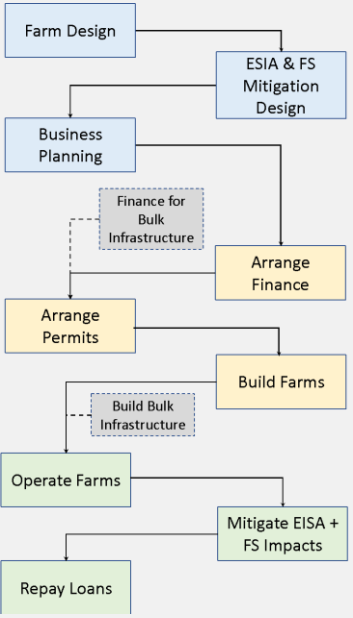




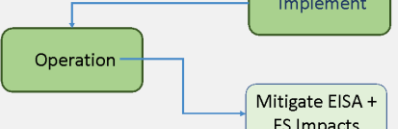
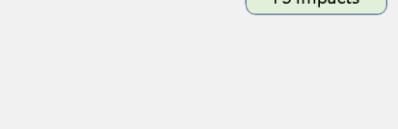
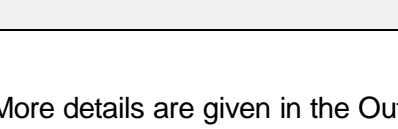
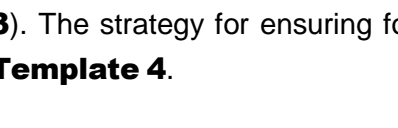
Process for OUTGROWERS to Follow	Matters for OUTGROWERS to Consider	
 <pre> graph TD A[Farm Design] --> B[Business Planning] A --> C[ESIA & FS Mitigation Design] B --> D[Arrange Finance] C --> D D --> E[Arrange Permits] D --> F[Build Farms] E --> F F --> G[Operate Farms] F --> H[Mitigate EISA + FS Impacts] G --> I[Repay Loans] H --> I </pre>	Design Farm + Organization	Technical: Soils, Crops, Water, Nutrients Organization: Groups, Governance, Sharing
	ESIA + Food Security	Impact: assessment and Mitigation Plan Environment, Food Security Mitigation
	Business Planning	Business: Income, Cost, Management Finance: Loans, Interest, Collateral, Repayment
	Funding:	Sources, Conditions, Repayment. Donors, Dev Banks, Pvt Banks, Govt
	Permits:	Land, water, environment as Govt Requires
	Construction:	Building of Farms and Infrastructure
	Operate Farms	Farm Operations and Business Management
	Mitigation	Environment Impacts and Food Security Mitigations
	Repay Loans	Funders Loans and Contributions Repaid

Table 1.3 Process Flow for Investors

Process for INVESTORS to Follow	Matters for INVESTORS to Consider	
	Scoping	Objectives & Land Requirements Defined.
	Develop Concept	Preliminary Assessments & Concept Designs:
	Inform Stakeholders	Introduction to Local Govt & Community
	Assess Feasibility	Technical Design for Outgrowers
	Parties Agree	Model Selection and OG Selection
	Detailed Design	Business Plans; EISA & Food Security Plan. Funding Application
	Funding	Funding Approved and OG Contracts Signed
	Implement and operate	Final Design & Construction of Farms and Infrastructure Training for Operations and Management
	Mitigate Impacts	ESMP and Food Security Plan Implemented

More details are given in the Outgrower-Investor processes template (**NG Template 3**). The strategy for ensuring food security in host communities is provided in **NG Template 4**.

Investors are guided to follow the steps recommended. These are necessary for establishing and progressing good relations, effective designs and sustainable operations with Outgrowers. More details are given on the following pages.

1.7 Funding of Outgrower Investments

- Experience in outgrower development in African countries points to the need for government and development finance institutions to support outgrower projects in the form of grants and soft loans.
- Some outgrower projects require bulk infrastructure such as roads, power supplies, and irrigation dams and main canals. Such infrastructure is best funded by the state with assistance from donors. The investors' role should be to contribute data and information to enable the design of facilities by the proper agencies.



- It is not recommended to rely on investors to fund the outgrower development and operations. Investors contribution should be technical and organisational support.
- The different ways to fund / finance the components of outgrower investments are shown here:

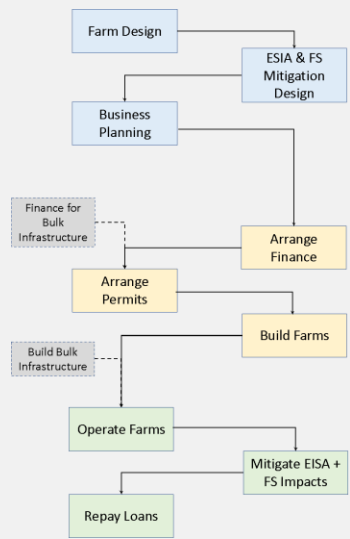
Table 1.4 Types of Funding and Financing for Investor and Outgrower Development

Project Elements	Ideas for Funding and Finance
investor facilities: factory and nucleus estates	Investors equity + debt from commercial and development Banks
Private Infrastructure for investors facilities	Investors equity + debt from commercial and development banks
Public Infrastructure for investor and outgrower	Public funds often supported by donors
Outgrower Farms	Outgrowers equity (supported by a donor) + debt taken out by Outgrower Organizations, Cooperatives and VCDFs.collateralised by a contract with the investor. Grants from donors sometimes fund specific project elements such as irrigation and equipment. individual small-scale farmers usually cannot access these products without forming coherent legally bound groups
Outgrower Organization and training	Donor funds
Outgrower extension	Public service supplemented by Investor contribution

- Funds and Funding refers to money which does not have to be repaid.
- Finance and Financing refers to money which must be repaid.

Following these ideas, the options for Specific Funding of the different components of Outgrower Development are summarized in the Table below:

Table 1.5 Options for Funding of Different Components of Outgrower Development

		Suggested Sources of Funding	
 <p>The flowchart illustrates the components of outgrower development. It starts with 'Farm Design' and 'ESIA & FS Mitigation Design' leading to 'Business Planning'. 'Business Planning' leads to 'Arrange Finance' and 'Arrange Permits'. 'Finance for Bulk Infrastructure' and 'Build Bulk Infrastructure' are linked to 'Arrange Finance' and 'Arrange Permits' respectively. 'Arrange Finance' leads to 'Build Farms', which then leads to 'Operate Farms'. 'Operate Farms' leads to 'Repay Loans' and 'Mitigate EISA + FS Impacts'.</p>	Design Farm, Infrastructure & Organization	Investor Leads Process and provides base funding	
	ESIA + Food Security	Additional Funds from Government and Donors eg IFAD	
	Business Planning		
	Funding: Identify sources of funds and finance	Investor Leads Process and provides base funding	
	Arrangement for and Payment of Permits:	Additional Funds from Government and Donors e.g. IFAD	
	Construction of Farms	Debt collateralised by Contract with investor. Support from Government and Donors either as Guarantee or Equity	
	Operate Farms	Government and Donors e.g. IFAD	
	Mitigation	Investor	
	Repay Loans	Outgrower	



2 OUTGROWER TEMPLATES

Templates		Description
NG Template 1	Principles Guiding an Outgrower Supplier Agreement	Sets out key principles and consideration for an outgrower supply agreement.
NG Template 2	Outgrower Models	Provides outgrowers options available to investors and the outgrower communities.
NG Template 3	Outgrower Investor Processes	Enables investors and outgrowers to follow parallel processes from conception to operation.
NG Template 4	Food Security Template	Provides framework to ensure access to food is not negatively impacted by the investment process.