

**Draft****MOAP Component 3****Summary of the Baseline Survey and Organisation Development Concept**

Date: April 2010

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**Abbreviations**

AFC	AFC Consultants International
BAR	Brong Ahafo Region
CR	Central Region
FASDEP	Food and Agriculture Sector Development Policy
FBO	Farmer Based Organisation
BMO	Business Membership Organisation
M&E	Monitoring and Evaluation
MOAP	Market-oriented Agriculture Programme
MOFA	Ministry of Food and Agriculture
NR	Northern Region
OD	Organisation Development
PRA	Participatory Rural Appraisal
VC	Value Chain
VR	Volta Region

## 1. Background

Beginning of August 2009 AFC started the assignments to implement MOAP Component 3 “Strengthening Private Agribusiness Organisations”. The work began in September with a baseline survey on farmers based organisations (FBOs), relevant processing companies, and their associations.

This paper is based on preliminary results of the baseline survey, numerous meetings and discussions with farmers, as well as with staff of the MOFA, the Department for Cooperative Development, both at national and at regional level in Northern Region, Central Region, and Brong Ahafo Region, and discussions with other projects and stakeholders (also in the Volta Region). In addition, the feedback received during the MOAP Team Meeting on 9 and 10 December in Cape Coast on the presentation of conceptual ideas for the work of Component 3 were taken into consideration.

This paper represents the working concept for Component 3 and the base for the draft plan of operations for the first working phase after the baseline survey. Comments on this paper are welcomed at any time for fine-tuning work concept, approach and collaboration with the other two MOAP components.

## 2. Objectives and Targets

The entire **MOAP** aims at improving the competitiveness of agricultural producers and other players in processing, trade and services on national, regional, and international markets. The achievements of this objective are to be measured by the following indicators:

- 0.1 In the supported value chains (VC) the revenues of the actors (producers, processors, traders, of which at least 30% are women) **increase** their real **sales revenues** by 20 – 30%.
- 0.2 In the selected VC the number of **jobs increase** in the average by 10 – 20%.
- 0.3 The **exports** of the value chains with export potential **increase** by an average of 20%.

**Programme Component 1** (promotion of the value chains) has the objective to increase turnover of the players of selected VCs through improved production, processing and marketing of agricultural products. The respective indicators to be achieved are:

- 1.1 In at least 5 of the **selected VCs** the **production** base (area, # of trees or animals, mt/ha per year) **expands** by 5 – 20%.
- 1.2 The **value added** through processing and / or marketing in the VCs of the three regions **increases** by 10 – 15%.
- 1.3 In the selected VCs in the three regions at least 3 **enterprises invest** substantially in processing (start-ups or new branches).

**Programme Component 2** (public sector) has to achieve that governmental institutions, particularly the MOFA, promote market-oriented agriculture effectively and efficiently.

- 2.1 The **FASDEP II** implementation strategy and the sector-wide agricultural development approach **incorporate** the **value chain approach** and the **changed role of state and private sector**.
- 2.2 At least 50% of the consulted **actors** within the supported VCs in the three regions are **satisfied** with the range of **services** – changed and adjusted to market requirements – provided by the de-central agents of **MOFA**.
- 2.3 **MOFA's** M&E system **incorporates** into its statistics data from **private sector actors** and respective associations, especially concerning processing and marketing.

**Programme Component 3** (strengthening of organisations of the private sector in the agricultural sector) has to improve service quality and sustainability of organisations of the private sector. This will be measured by:

- 3.1 The **share of paying members** as against the total membership of the associations increases to an average of 70%.
- 3.2 At least two thirds of the **members** of selected organisations and associations **are satisfied** / content with the range and quality of services offered.
- 3.3 The selected associations increase their **available funds** by 10% in the average (excluding donor funds).

In the context of the entire Programme, Component 3 has to closely collaborate with Component 1 as both components are working with the same FBOs and processors. As the governmental service providing agencies are dominating the service market there are a lot of points of clarification and coordination between Components 2 and 3.

### 3. Summary of Baseline Survey Results

#### 3.1 Survey on Farmer Based Organisations

MOAP collaborates with FBOs identified as “good”, which are dealing with the same commodities<sup>1</sup> as MOAP does, and uses them as drivers for organisational improvements at farmer level. The assumption is that other groups will be attracted by the good examples established with MOAP support. In this context “good FBOs” are defined as farmer groups, which are interested in receiving training and advice from MOAP, have sufficient cohesion among members, and show at least some potential to develop trading / marketing services for their members. Thus MOAP is working presently with **approximately 85 FBOs**, however, this number is **fluctuating considerably** from year to year, depending on a number of factors.

One of these factors (we assume the most important one) seems to be the regularity of contacts or support measures (or services) MOAP provided, such as training, OD advisory sessions, or only visits to understand what the groups are doing. E. g. in the NR MOAP uses officers of the regional Department of Cooperatives to support the FBOs at village level. These officers regularly visit the groups. These groups show a considerably higher level of sustainability and organisational development as similar village level chilli groups in BAR, which do not have such regular visits. We conclude that a regular care / assistance / support (of immaterial nature) is important for the FBOs, which gives them new impetus and keeps them on the track of development. Apart from more regular visits also the market access seems to be a driving force for the FBOs. We assume that **regularity of visits**, best in a combination of basic OD development with agricultural extension, and well-developed **market links** would reduce the fluctuation of groups collaborating with MOAP.

Most of the FBOs are village based farmer groups with 10 up to about 80 members. One citrus association claims to have 3,000 members, which, when real, would be an exceptional case. Actually, we do not know how many of these 3,000 members are active. Another case are the six mango FBOs in BAR. During baseline survey they claimed to have almost 600 members, i.e. almost 100 member per FBO in the average. Later on, in the framework of restructuring these groups (see below), we learnt that actually the six mango FBOs in BAR have only about 230 members who paid membership dues and show activities.

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1) I.e. pineapple, mango, citrus, chilli pepper, guinea fowls, fresh water fishes, and grasscutters.

Including such exceptional cases, probably with many inactive members, the FBOs surveyed have 82 members in the average. We assume that the active members of the FBOs, MOAP is collaborating with, are not more than 40 per association, which boils down to **3,400, maybe 4,000, farmers MOAP was supporting in December 2009.**

It was known already before, but particularly experienced during, the baseline survey that the FBOs (even the farmers themselves) do not know the exact size of the land they cultivate or their number of animals. Therefore, we took the figures of those groups, who provided some during the baseline survey (although they might be associated with a high inaccuracy), and projected them on the total number of farmers. This was based on the assumption that those farmers who did not provide any figures will have approximately the same average cultivated land size or number of animals as the ones who provided figures. We are aware that the resulting figures are not much better than pure estimates. But for the moment these are the only, and hence the best, figures we could find out. In a later stage, these figures should be compared with the figures resulting of the GIS based farm survey, going on with MOAP support, and corrected respectively. Apart from the figures for Project use, these figures finally are also important for the groups themselves, latest, when they start a real trading business at FBO level. Therefore, it remains a challenge to train the FBOs and their members to measure and count their resources.

In the framework of the baseline survey 60 FBOs were interviewed, out of approximately 85 FBOs MOAP is collaborating with. Among the 60 FBOs interviewed were

- 15 pineapple growing FBOs in Central Region,
- 11 citrus growing FBOs in Central Region,
- 6 mango growing district level FBOs in Brong Ahafo,
- 11 chilli pepper growing FBOs in Brong Ahafo,
- 8 chilli pepper growing FBOs in Northern Region,
- 6 guinea fowl producing and 1 fishery FBOs in Northern Region,
- 2 mango and pineapple growing FBOs in Volta Region.

According to the figures of the survey (see Table in Annex 1) FBO farmers have in the average:

- Pineapple farmers      3.5 acres,
- Mango farmers         6.6 acres,
- Citrus farmers         0.7 acres,
- Chilli pepper farmers   0.8 acres,
- Guinea fowl farmers    27 birds.

In the framework of the baseline survey it could not be found out the fishing quantities of the interviewed fishery group, as they do not weigh the caught quantities.

As explained below, Component 3 intends to introduce a classification system for FBOs to enable extension and organisation development services to better adapt their services to actual needs. The categories (development stages) of this classification system were used to classify the surveyed FBOs groups:

Surveyed FBO Groups	N° of FBOs under Category				Total
	1 Start-Up Stage	2 Development Stage	3 Consolidation Stage	4 Business Stage	
Pineapple CR	4	9	2		15
Citrus CR	4	7			11
<b>Sub-total</b>	<b>8</b>	<b>16</b>	<b>2</b>	<b>0</b>	<b>26</b>
<b>Sub-total %</b>	<b>31%</b>	<b>62%</b>	<b>8%</b>	<b>0%</b>	<b>100%</b>
Mango BAR		3	3		6
Chilli BAR	3	7	1		11
<b>Sub-total</b>	<b>3</b>	<b>10</b>	<b>4</b>	<b>0</b>	<b>17</b>
<b>Sub-total %</b>	<b>18%</b>	<b>59%</b>	<b>24%</b>	<b>0%</b>	<b>100%</b>
Chilli NR	1	7			8
Guinea Fowls NR	2	4			6
Fishery NR		1			1
<b>Sub-total</b>	<b>3</b>	<b>12</b>	<b>0</b>	<b>0</b>	<b>15</b>
<b>Sub-total %</b>	<b>20%</b>	<b>80%</b>	<b>0%</b>	<b>0%</b>	<b>100%</b>
Mango VR			1		1
Pinea./Mango VR			1		1
<b>Sub-total</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>0</b>	<b>2</b>
<b>Sub-total %</b>	<b>0%</b>	<b>0%</b>	<b>100%</b>		<b>100%</b>
<b>Total</b>	<b>14</b>	<b>38</b>	<b>8</b>	<b>0</b>	<b>60</b>
<b>Total %</b>	<b>23%</b>	<b>63%</b>	<b>13%</b>	<b>0%</b>	<b>100%</b>

For the total of the FBOs surveyed the following findings can be concluded:

- With a share of 35% among the FBO members, **women** are **relatively well presented**. However, it needs further surveys on the roles of men and women to judge whether this is adequate with respect to the potential role women may play for development.
- Most FBOs **operate on an ad-hoc basis** without a business plan.
- Naturally, FBO members have a better access to the market, both for inputs and for their produce, than non-FBO members. However, considering the fact that marketing is the major purposes of the FBOs, it is not satisfying that non of the FBOs MOAP has yet reached the business stage, i.e. the stage with a substantial **trading / marketing business** at FBO level on behalf of the members (purchasing the produce from the members and selling in a conditioned way in bulk) to replace intermediaries. In most FBOs the marketing strategies of the FBOs are rudimentary.
- Apart from marketing only few FBOs provide **other relevant services** (such as input supply) to their members.
- FBOs, which have passed the process of **certification**, are in a better position to sell their products.
- The FBOs show a **low level of governance**. Only 17% showed good governance skills. The governance level goes hand in hand with the quality of leadership.
- For most of the FBOs the only source of income are the **membership dues**. As they are low and only paid by less than 50%% of the members the financial situation of the FBOs is insufficient to start a trading business at FBO level.
- Only 7% of the FBOs have access to **external financing** through credit or donors' grants.
- Although yields could not be measured but there is obviously a difference between FBO members and non-FBO members. This is mainly due to the training activities of MOAP. Nevertheless, the **productivity** of the primary production **is still low** due to the low level of technical knowledge as well as limited access to credit and quality inputs such as seeds and fertilisers.
- Those groups with **regular support** in form of training or organisational development have a **stronger social capital** based on trust, respected rules and mutual support on the basis of reciprocity, the major asset for FBOs, and are hence scoring higher in most FBO development and technical performance aspects.

The reason why many FBOs ceased cooperating with MOAP and also with other projects is that many FBOs were established by the farmers in the expectation of receiving grant money on previous projects' initiatives. Few of them discovered the advantages of group work, many others ceased cooperation with the projects – and often existence – when they discovered that the money or other support did not come to the expected extent.

### 3.2 Assessment on Agro-Processing Companies and their Associations

In parallel to the baseline survey at FBO level an assessment was carried out on fruit and chilli pepper processing companies and processors' associations for MOAP relevant commodities, both for FAGE<sup>2</sup> and non-FAGE members. The assessment had the purpose of gaining more information on the actual situation of FAGE, its member associations, as well as the service needs by relevant individual fruit processing companies. For this survey interviews were conducted with association managers as well as with managers of individual companies.

FAGE survives presently mainly with grant money from EDIF<sup>3</sup> and does not have a Chief Executive Officer employed. Instead, a three person Interim Management Committee has been put in place by the Executive Council for the day-to-day operational activities. A secretary and a newly recruited marketing officer support this Committee. An IT specialists runs an internet coffee, originally foreseen to serve members, in fact, however, serving the public.

The Ghana Export Promotion Council (GEPC), a public entity, has taken over functions previously provided by FAGE, e.g. training of exporters. GEPC invites representatives and members of FAGE for discussions on business environment, which undermines the role of FAGE further. The roles between FAGE and GEPC are not defined, which in turn confuses the FAGE members who do not know whom to contact when they need assistance.

Another organisation competing with FAGE came up recently, which works with a larger part of FAGE members, the Ghana Federation of Agricultural Producers (GFAP). Other organisations, with partially overlapping functions with FAGE, are the Food and Drug Board (FDB), Ghana Standards Board (GSB), Research Institutions like the Council for Scientific and Industrial Research (CSIR), the Universities, and NGOs.

FAGE comprises of 19 commodity member associations, none of them pays membership dues. They also do not receive services from FAGE. 15 of these associations were interviewed. In the following the findings of the ones relevant for MOAP work are summarised:

1. **Horticultural Association of Ghana (HAG):** This association was founded in 1992. Until 2009 they received support from TIPCEE. Now they have no paid staff any more. The office rent is paid by SPEG, which has its office in the same building on the same floor. Membership dues are 5 GHC per month, which, however, are not paid any more by members. According to HAG board members many members grew pineapples before and lost their business due to the change from sugarloaf variety to MD2. Basically HAG is not operational any more.
2. **Sea-Freight Pineapple Exporters of Ghana (SPEG):** In 1995 SPEG was founded by some HAG members who separated from HAG. This association was supported by TIPCEE and is very specifically working for sea freight pineapple export. Its main revenues are the 5 USD service fee per palette of pineapple, which members have to pay for exporting. Annual membership dues are 10 GHC per month. The 10 members of SPEG (pineapple producers) pay this membership due regularly. SPEG employs presently one GlobalGAP specialist, one marketing specialist, one office manager and 5 field officers (advisors). SPEG is operational.

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- 2) FAGE: Federation of Associations of Ghanaian Exporters
  - 3) Export Development and Investment Fund; was founded in 2000 on the basis of the 0.5% import duties on all products, except oil products.

3. **Vegetable Producers' and Exporters' Association of Ghana (VEPEAG):** VEPEAG was founded in 1997. The official membership list comprises of 260 registered members of which, however, only few are active. Previously, as an important function, the association distributed seeds to its members – mainly from grants. Some years ago these funds were exhausted and respectively the activity stopped – and with it VEPEAG's main activity. The members do not see any service from VEPEAG any more and hardly pay the 2 GHC per month membership due. VEPEAG has no staff employed and is basically not any more capable to act.
4. **Yilo Krobo Mango Farmers' Association:** The association was founded in 2000. Presently 200 members are on the list. But the list is being revised and probably the number of members will be reduced during this process. The members are mainly from the Yilo Krobo District of Eastern Region. They have very reduced staff, basically only office support staff. The association wants to export mangos. With support of ADRA and TIPCEE they also used to distribute planting materials to the members. TIPCEE provided them also with office space and some office equipment. Members seem to be satisfied with the services of the association and the association seems to function somehow. However, the 2 GHC / month membership due is not well paid.
5. **Dangbe West Farmer Association:** It was newly founded in 2005 and it comprises of 120 members (mango farmers), thereof 70 are active. The members are mainly from Dangbe West areas and Greater Accra. The association deals only with Mangos. They have no staff employed but have an office. One of the main activities is the provision of training on agronomic aspects, which was supported by TIPCEE. Presently they are searching for funding from MiDA. The membership dues of 2 GHC per month are poorly paid. All in all the association is functioning at a low level.
6. **Papaya and Mango Growers' Association (PAMPEAG):** PAMPEAG was founded in 2004 and has now 34 members, of which only 8 are active. It exports mainly mangos. The association has no staff and the services are limited to the activities of the 8 active members, who are financing them from own resources. Respectively, the 2 GHC per month membership dues are hardly paid. In summary, the association as such is not functional and 8 members do their joint business by own resources.
7. **Nsa Papaya Farmers' Associations:** The association was founded in 2006 and has 19 members, of which 16 are active. There is no staff employed. The dues of 2 GHC / month are poorly paid, however, the interviewed members were satisfied with the services of the association. The main service is delivered by one association member who buys the produce of the other members and sells them further, partly for the local market, partly for export. He also advises the other members on pest and disease management questions. The association seems to be functioning, however, more due to the services provided by one individual.
8. **Fruit Processors and Marketers Association:** This association was founded in 2005 and is locally marketing mainly pineapple and citrus juices. It comprises of 50 active members. The members are mainly from Accra and areas around Accra with few members from the Central Region. As it is a new association the due payment was only introduced in January 2010. Members are satisfied with services (marketing) and training. The chairman of the Association's Board is a food scientist. He provides the training for the other members. Up to now this association was not supported by donors. They are looking for support for capacity building of their association.
9. **National Fisheries Association of Ghana:** It was founded in 1971. Presently this association has 5 association members and 47 individual members companies. Only few members pay membership dues. Members are not satisfied with the services of the association. A sign of its limited capability of actions is the fact that the association has rented out parts of the office to other organisations. In summary, the association is still operational on a low level.

As can be seen most of the business associations have serious structural problems and are in a bad shape, often unable to render services to their member companies.

The survey showed that trying to help FAGE means to start a new bottom up development process, starting with member companies of associations to define their service needs, then the needs of the associations with respect to FAGE service, and finally supporting FAGE to deliver these services. Only when the member associations deliver adequate and needed (paid) services to their member companies they would be able to pay services or dues to the umbrella organization FAGE. Such a bottom up development process for such a number of organizations, each with its own specific problems, would by far exceed the MOAP Component 3 capacities and would, in addition, divert too much energy from the main task to help farmer organizations to link to the market.

## 4. Political Environment and Directives

### 4.1 The Government Policy: FASDEP II

According to FASDEP II predominantly smallholder family farms operate Ghana's agriculture by using rudimentary technology to produce 80% of Ghana's total agricultural output. 90% of the farm holding have less than 2 ha. FASDEP II wants to better target the service needs of different target groups, namely (1) Large Scale Commercial (LSC), (2) Small Commercial (SC), (3) Semi-Commercial (S-C), (4) Non-Poor Complex Diverse Risk Prone (NPCDR), and (5) Poor Complex Diverse Risk Prone Farmers (PCDR).

The Food and Agriculture Sector Development Policy (FASDEP II) represents a revised policy as compared to FASDEP I and emphasis sustainability and commercialisation of the sector to reach a market-driven growth in agriculture. The main aim is poverty reduction and income diversification in agriculture. The value chain approach is given particular attention to increase value addition and market access of agricultural producers.

Based on lessons learnt of the previous development strategy of the Government with focus on public-led services, complemented with stand-alone projects funded by donors, was changed in FASDEP II. Actually, the policy counts on extension pluralism on the basis of a public – private partnership, by taking into consideration specific competences and cost effectiveness. In this framework the Government wants to improve donor support coordination. FASDEP II aims at encouraging the evolution of FBOs at the grass roots, and networking them through a hierarchy of local, district, and regional groupings to a national apex.

The vision of the extension service policy is to establish an efficient and demand-driven extension service in the medium term in a decentralised manner, through partnership between the government and the private sector. This is to be achieved by the following strategic issues:

- Pluralism in extension service delivery will continue to be promoted in increase access of different farmer groups;
- In addition to the Research Extension Liaison Committees (RELCs), identify other participatory methods of extension programming and delivery;
- Integrate gender in extension programming to ensure relevance of information to men and women and equitable access to services;
- Use of mass extension methods will be emphasised e.g. farmer field schools, nucleus-farmer-outgrowers, extension fields in districts, mass communication through radio, TV, communication vans, dissemination through farmer groups;
- Build capacity of FBOs and Community-Based Organisations (CBOs) to facilitate delivery of extension services to its members;
- Enhance quality of extension to operators in urban agriculture, especially in application of good agricultural practices to ensure the safety of produce from the sub-sector;

- Improve allocation of resources to districts for extension delivery backed by enhanced efficiency and cost-effectiveness.

FASDEP II implementation will be based on district plans, which will be guided by the objectives of FASDEP II but adapted to district priorities according to needs:

- Districts will select 2 crops or livestock enterprises annually to focus on for effective use of resources but not neglecting other crops or livestock enterprises from normal course of development;
- Plans at district level will be developed in consultation with the private sector, FBOs and NGOs operating in the district;
- The final district plan should show partnership and contribution in implementation between private sector and other stakeholders;
- Activities under each objective and expected output should be grouped to indicate whether they are investments or recurrent services;
- Districts will use the new MOFA matrix of indicators to measure achievements and progress under each objective of the district plan and process the data;
- Districts may also develop additional indicators to measure achievements, which are not covered by MOFA indicators.

The district planning represents the framework for coordinating activities of the Ministries, Departments, and Agencies (MDAs) in the districts.

On 18 March 2010 Dr. Kwame Amezah invited us for a meeting, which was organised and assisted by the Deputy Programme Manager, Rüdiger Behrens. The message of Dr. Amezah was clear: In the actual agricultural policy document (FASDEP II) the plurality of an extension service on the basis of a public-private partnership is requested. Nothing was done so far and it needs to be tackled soon. The main question was: can MOAP assist? The ideas developed during this meeting were:

- There should be a **Consultative Workshop** of 2 days in July 2010 with participation of the Minister and major stakeholders, particularly NGOs and projects. This workshop should be for discussing concept papers with the target to decide on a rough approach for a partnership at district level between public and private extension work.
- **MOFA**, Directorate of Agricultural Extension, wants to **train extensionists**, both for the public as well as for the private extension services, both with respect to the initial training as well as for the ongoing training.
- In each district there should be a **memorandum of understanding** between MOFA and major private extension service / project providing extension services to regulate cooperation and coordination.

## 4.2 The Cooperative Movement

In order to enable increase farmers' voice on the market farmers have to be supported to reach higher levels of organisation as they have at present.

Historically, the cooperative movement began in the 1920s when cocoa producer groups were organised to improve drying and fermentation of cocoa beans. The cooperative obtained legal status in 1931 (Cooperative Societies Ordinance). In the late 1940s and early 1950s, a first national organisation was set up, the Alliance of Ghana Cooperatives, which later became the Ghana Cooperative Council (GCC). During

this period, the cooperative movement acquired real economic power built around a strong movement of cocoa cooperatives (Porvali, 1993).

Obviously, for the Government at that time the cooperatives became too strong, as they were not only an economic power but also a political power in rural areas. Therefore, in 1959, a few years after independence, the Government decided to reorganise the cooperative movement, which culminated in 1961 in the dissolution of all cooperatives and the transfer of their assets to new forms of cooperatives strongly controlled by the State. The Government confiscated thus the assets of the cocoa cooperatives and their economic functions were transferred to the Cocoa Board (COCOBOD). The Ghana Cooperative Bank was equally dissolved and its assets seized.

In 1968, the Cooperative Societies Decree was voted. To implement the decree, the Government set up the Department of Cooperatives (DOC) within the Ministry of Employment and Social Welfare. This ministry was statutorily responsible for regulating (registration of cooperatives, financial audits, inspection, conflict management and liquidation) and promoting cooperatives (sensitisation, training ...). Cooperatives were as such strongly monitored by the State, which granted them prerogatives to ensure supply of inputs to producers. Farmers' adherence to the cooperatives was then relatively strong and the cooperative movement was a strong government policy instrument.

With the implementation of the Economic Recovery Programme with assistance of donor institutions and principally the World Bank from 1983 onwards also the trade of inputs and products was liberalised. Many cooperatives could no longer uphold their functions especially that of input supply due to competition and thus became inactive. In the 1990s the cooperative sector went down more and more. Agricultural service cooperatives almost disappeared, only a few cooperatives remained, such as the Ghana Cooperative Poultry Farmers Association, the Ghana Cooperative Marketing Associations. The cooperative movement in general remains very weak and is further weakened by the fact that on the one side the government supports the establishment of cooperatives on the other interferes and controls them (according to existing legislation).

According to the actual legal base (NLCD 252 – Co-operative societies Decree, 1968) a farmer group can register officially only with the Registrar of Co-operative Societies as cooperative society. The only alternative is to register as a commercial business. The cooperative societies at primary (village level) are called "societies", the ones at district level "unions" and the ones at national level "associations". FBOs stand for unregistered farmer groups, i.e. they represent from the Registrar point of view a preliminary phase for the societies. According to this law the Registrar has at all reasonable time access to all books, accounts, papers, cash and securities of a registered society or can start an enquiry or an inspection. Basically, this law makes the Registrar the watchdog of the Government for the cooperatives. If rigorously implemented this law would allow all kinds government interventions. This suppresses the development of an own dynamic of a new cooperative movement.

From this history it seems self-evident that the cooperative movement in Ghana has failed. In fact it did, however, mainly due to government intervention and not because of cooperative internal problems. In the present situation a lot of mistrust is attached to this movement, which makes it difficult to imagine that a new cooperative movement, free from State control, can emerge. On the other hand, it is also evident that farmers need to reach a higher level of organisation to negotiate with buyers at eye level and to have impact on the policy. If not, they will either be pushed into subsistence niches or disappear sooner or later.

The danger is that large commercial farms financed by urban capital or from big investors abroad sooner or later will buy the land from smallholders, pushing them either into the cities to increase the urban poor labour pool, or convert them to farm labourers (presently 3 GHC per day), or to push them into rural poverty with too little land resources to produce their subsistence needs. In no country of the world rural capital can compete with urban capital. In most of the developed countries there are legal barriers to avoid that agricultural resources are bought to a large extent by urban / foreign capital. Urban / foreign investors have no traditional connection to the land. They will simply use the resources in the cheapest way and will replace labour by modern technique as soon as profitable. This might increase short term the agricultural production.

In a long run the social and environmental impact will increase poverty (example South America's soya production). When the boom is over the land will be left in a degraded condition.

To be clear we are not generally against big commercial farming. But we think Ghana should be also aware of the danger and envisage a sound mix of large commercial farms, which are working with outgrowers (smallholders). The other model, which should be followed in parallel, is in fact to professionalise farmers and to give them a voice on the market by helping them to organise themselves. Therefore, we propose that MOAP supports decentralisation and public-private partnership efforts of the government and jointly with MOFA and the Department of Cooperative Development search for possibilities to minimise the influence of the government on FBO development. We do not believe that a strict and narrowly defined cooperative system as propagated by the Department of Cooperatives is the only way. We believe in this area in the diversity of systems. The main thing is that farmers get organised, whether as cooperative societies or FBOs or commercial entities is a question of finding the best legal base.

According to the Registrar, Mr. Felix Kusi, the above-mentioned cooperative law with strong government interventions is not any more applied. Since the AgSSIP Project the Registrar completely reconsidered its attitude to, and actions for, cooperatives. AgSSIP supported the drafting of a new Cooperative Bill, which was submitted to the Ministry of Employment and Social Welfare in May 2007. Since recently the law got stuck in this ministry. However, the Registrar says than now the law is continuing its way to the Parliament.

In general the Department of Cooperatives and the Registrar are aware of the difficulties and would be ready to cooperate without feeling bound to the narrowly defined cooperative movement.

## 5. Conclusions and Development Hypotheses

### 5.1 With Regards to FBO Development

Major conclusions from the baseline surveys by taking into consideration the framework set by governmental policies are as follows:

With respect to **agricultural extension**:

1. Although the processing sector has considerable weaknesses, too, it is obvious that the **farmers** have a huge deficit and urgently need to **upgrade** their **organisational level**, to **professionalise** production and marketing in order to bring them **on eye level** with buyers / processors. This is needed to avoid that buyers either monopolise their position or more and more avoid working with smallholders as it bears too high costs and risks. As long as the degree of fragmentation of each element of the value chain has not been taken into consideration the value chain committees will not produce results, which is apt to increase impact substantially.
2. Sustainable FBO development needs a systematic and **long term** training, advising and **coaching** of the groups. Regular care / assistance / support (immaterial) is important for the FBOs to give them new impetus and to keep them on the track of development. Training, advising and coaching of the groups (extension) should **combine agricultural / technical with OD** aspects. This makes the needed OD development steps more apparent for the farmers (e.g. in order to have access to inputs or in order to market surpluses they have to organise themselves). Such a combined extension / OD development service system should work beyond project lifetime. To extend the outreach of MOAP, this extension service should **start working with** up to now **unorganised farmers or bad FBOs**.
3. In this context, MOAP should follow the political requirements of FASDEP II with its clear signals to organise agricultural extension, including basic OD for FBOs, by means of a diversity of extension systems on the basis of a **public – private partnership**.
4. The extension services must be measurable with respect to results on farmers' level. Correspondingly the budget-oriented payment of extension service should be replaced by **payment**

**upon results** with shared financial risk between both contract partners full for reaching these targets.

5. The extension service should not be specialised to only one or few crops or livestock enterprises. This does not sufficiently take into consideration the farming system combines food security, cash crop, as well as vulnerability and risk-prone aspects. The extension service should understand farmers as clients who themselves finally decide, upon information of the extension staff, what they want to do. Therefore the extension service must **take into consideration the entire farming system** of their clients with all specifics of the respective target group. For this reason it is preferred to have only one extension service who has the contact to the respective farmer group, which is used by different agents and even the Government. This improves the trust relation between extensionist and farmer as well as the knowledge base about the specifics of the target group. Special expertise can easily be added upon request of the responsible extensionist. Such an approach requires an extension system, which can be easily used by different agencies (projects, MOFA, etc.).

With respect to **organisational development**:

6. For **reaching the business stage** of the FBOs particular and specific efforts are needed, comprising a sound development concept with an adequate inherent incentive system and particular efforts to link FBOs to the market.
7. The availability of **marketing channels** is an important driving force for FBOs development. The linking activities of MOAP to the markets should, however, distinguish between the capacities of each FBO development stage to cope with the respective market links. Too ambitious market links might overcharge FBOs of lower development stages and would disappoint both FBOs and buyers with negative effects on the reputation of MOAPs activities in the field of marketing. Farmers must be in a position of managing the requirements of the buyers with respect to quantities, qualities, and timing of delivery. Market links should be used as incentive for FBOs to reach the organisational pre-conditions, i.e. to proceed in the classification system, without overcharging them. The most ambitious market links should be provided only to the FBOs having reached the business stage.
8. In order to bring farmers at eye level with buyers and to help them developing a business at association level (business stage) the association needs sufficient volume (turn-over). The critical point is employing a professional business manager. In many cases it cannot be seen how this can be achieved with village level groups. The farmer groups at village level are too small and unprofessional to provide higher levels of services; the effort to train each individual group on necessary skills is too costly.

In these cases (possibly the majority of FBOs) a **secondary organisational level of FBOs needs** to be developed through networking FBOs of similar structure and interest in a specific area. A secondary level has to bundle trade volume to increase efficiency and reduce transaction costs (by cost sharing, economics of scale, pooled resources). The cohesion and inclusion of such an entity increases the bargaining power of the farmers. In the framework of such a secondary organisation real competitive trade business can be established, which generates sufficient income and allows to develop services for the members (quality control, input supplies, etc.).

However, the glue for the needed cohesion / inclusion is trust among farmers, among farmers groups and towards the management of the secondary organisational level. In the cooperative system as foreseen by the law in Ghana such a secondary organisational level is called a union of farmer associations. We do not necessarily promote this narrow system. The main criterion is that small farmers collaborate and gain market power. A tertiary organisational level (federation in the cooperative language) is for the time being not envisaged as this is too far away from the present situation.

As trust is the most decisive asset for such organisational development it is not advisable trying to force primary farmer groups into membership of an existing secondary organisation. Membership has to be freely decided by primary groups and can be only moderated by the supporting agency. For the initial stage a sound networking strategy of farmer groups has to be implemented to create the trust among farmer groups, to figure out common interests, and to decide gradually on their joint secondary organisation. Nevertheless, this networking should not be started unless the critical mass can be achieved to bundle sufficient business volume as a pre-condition to become competitive economic partners for the other (bigger) players, gain market shares, avoid selling through intermediary traders, and increasingly develop other service than marketing for their members. The marketing services as well as the other services rendered possibly by the financially stronger base will in turn attract new members.

9. For FBOs having reached the “business stage” **professional local OD and business development consulting companies** should take over the task of advising and coaching. The agricultural extension service will not be in a position to provide these specific services.

## 5.2 With Regards to Development of Business Membership Organisations

The probability is low that it will be possible to overcome existing development constraints of the FAGE member organizations and of FAGE itself (see baseline survey results). The constraints are vested interests of individual persons within these organisations as well as the often underlying grant mentality. Most of the associations would like MOAP to simply continue what other projects did – provide a budget to enable them to deliver services to their members. However, this would only further support the grant mentality with the negative effect to establish unfair conditions on the service market. The efforts would be far too high for too little sustainable impact on the MOAP supported value chains.

Therefore, FAGE and its member associations should not be a major activity of MOAP Comp. 3. This does not exclude to contribute some specific, yet reduced activities for FAGE, if reasonable and wanted by FAGE. Also MOAP Programme Management wants Comp. 3 to focus on FBO development instead of losing time and energy with business associations (BMOs). The Chairman of the FAGE Board himself sees the difficulties of his organization and recognises that with further subsidies from Project side the basic problems of FAGE cannot be solved.

Therefore, we are proposing a very pragmatic approach (see below) to directly work with those processors who buy raw materials from farmers within the value chains MOAP is supporting.

## 5.3 With Regards to Programme Objectives and Work Strategy

It seems to be general understanding within MOAP that the VC related indicators of the Programme concern only those elements of the respective VCs MOAP actually is collaborating with and that they do not concern the entire VC within Ghana. We take this as granted although with slight doubts as, according to our interpretation, the indicators mentioned above could be interpreted in either way. However, whatever interpretation of the programme objectives is applied it seems to be consensus within MOAP that it is necessary to **increase outreach, impact, and sustainability** of programme measures.

In this context we conclude the following hypotheses:

In order to reach impact (to finally reach the Programme indicators) we assume that MOAP presently is working on the assumption that the “good examples” of FBOs supported by MOAP have a positive impact on other FBOs or on unorganised farmers (spill-over effects). However, during survey no evidence could be found for this assumption. It seems rather that farmers / FBOs expect the same Project inputs as for the supported ones prior to own activity, i.e. the subsidy mentality of farmers, if at all, could be changed only for few of the FBOs actually supported, without any spill-over effect. Therefore, we believe that the approach for supporting FBOs needs a change.

In the past, many projects supported FBOs, finally with little sustainable results. Key for the sustainability problem is the subsidy policy. At present we believe the subsidies paid by the projects to FBOs in form or direct grants (seeds, inputs, tools, etc.) or indirectly through free of charge training and extension tends to destroy self-reliance attitude and self-help of farmers, who finally regard the FBOs only as a mean to access grants and subsidies. The arguments that also American and European farmers are subsidised does not count as they work in completely different environments (different attitude of farmers, the countries can afford to pay subsidies, in addition these subsidies more and more will have to be reduced due to their incompatibility with globalisation and GATT regulations). The damage of such subsidy policy in Ghana is of psychological nature. It damages farmers' attitude and makes farmers more dependent on external aid than independent.

We do not deny subsidies, however, the subsidies should be more used to promote self-help, to develop the market for local professional service providers instead of distorting this market for services or even undermining it completely. Instead of providing free of charge training and advisory services for farmers by hired local experts for a limited project period, this money would be better used for subsidising Ghanaian service providers (with adapted rates) by at the same time upgrading their service quality, effectiveness and cost efficiency. This would contribute to a sustainable service provider–client relation as in developed countries. The clients would gradually get used to pay for appreciated services. If clients' payment for services (even though it might be only symbolic) is used as one important indicator (possibly not the only one) for subsidising service providers, a system would be established, which automatically would have to be considerably closer to farmers' needs as presently, and which would automatically filter out bad quality business services, without much monitoring efforts. This would change the attitudes of the target groups, would give local service providers a chance, and would hence contribute to a sustainable service system. Therefore, key, and at the same time the art, for achieving more sustainability of project measures is to change the use of the subsidies from market distortion to market promotion for advisory / training services and from undermining self-help to promoting self-help.

For an individual project it is difficult to make a change because often projects are competing with each other in the one way or the other (who pays most is most appreciated by the farmers, has most – short term – success stories to mention in the reports). Therefore, in agreement with MOFA and possibly other ministries there should be a concerted action of donors to find a **joint policy towards subsidies and building up local services**.

## 6. Component 3 Work Strategy

### 6.1 Strategic Elements

The proposed work strategy mainly consists of the following elements:

1. To **increase outreach and impact** of MOAPs measures at FBO level through introducing a collaboration system with FBO's, which is open for new FBOs and promotes FBOs according to their development stages;
2. To increase outreach and impact within and after project lifetime (sustainability) by contributing to rehabilitate the market for services, which means to **support the establishment of local service providers**, replacing direct project services for farmers and processors;
3. To establish / support local service providers in close **agreement and collaboration** with **MOFA** and other important **projects** to avoid negative interference with, or effects on, each other's activities and to make use of the synergy potentials.

## 6.2 Organisation Development of FBO

### 6.2.1 Supporting FBOs according to Development Stage

For the following reasons we propose a classification system for identifying the various development stages of FBOs:

- To tailor the measures for individual FBOs according to their actual development stage;
- To systematise incentives for FBOs for further development in a transparent way;
- To provide orientation for grant and credit suppliers to increase their chance to reach grant / credit purposes;
- To measure progress in supporting FBOs.

Beyond project-internal purposes this classification system should be communicated to the groups to judge about their own development stage and to provide them concrete perspectives for development (see also incentive system below). This classification system should be also discussed and harmonised with MOFA, the Department of Cooperatives, possibly other Ministries, EDIF and major credit providers. It would be finally useful if a jointly agreed classification system would be used by major players.

The classification system consists of three parts: (1) **criteria**, which indicate when an FBO has reached the respective development stage, (2) a **toolbox of OD measures** for each development stage to promote the FBO to the next higher development stage (best combined with agricultural extension), and (3) an **incentive system**, as impellent for FBOs to proceed to higher stages of organisational development.

We propose the following **development stages of FBOs**, defined by the associated criteria (see also Annex 2):

0. **Unorganised farmers** is the target group for starting the FBO development;
1. A farmers group in the **Start-Up Stage** meets the following criteria:
  - (1) Has a membership list,
  - (2) Members have at least one joint activity,
  - (3) The group carries out meetings according activities with a minimum attention of 70% of the group members;
2. A farmer group, which meets the following criteria, is regarded to have reached the **Development Stage**:
  - (4) Has a clear vision and mission defined for the group;
  - (5) Has clear objectives, which are understood by the members;
  - (6) Has an acceptable constitution and an office address;
  - (7) Has a bank account;
  - (8) Has elected, functional leaders and the decision-making procedures follow the regulation of the to constitution;
  - (9) Minimum 70% of members pay dues;
  - (10) Has substantial group activities;

- (11) Has external relations and linkages;
  - (12) Has records in reasonable form on income and expenditures, of meetings and activities;
  - (13) Has data on key achievements and activities.
3. The **Consolidating Stage** is defined by the following criteria:
- (14) The FBO is officially registered and has an office;
  - (15) Has defined services and / or business activities for members;
  - (16) Has income from services and / or business activities at FBO level;
  - (17) Has joint property, which is well managed;
  - (18) Has strategic and financial plans (budgets);
  - (19) Operates an adequate accounting and financial control system;
  - (20) Has sufficient knowledge for implementing the development / business plan;
  - (21) Is networking with similarly oriented FBOs.
4. The **Business Stage** is achieved when the following criteria are met:
- (22) Individual FBO or secondary level of FBO with sufficient business volume runs a serious business (minimum turn-over of at least 2,000 USD) according to an adequate business plan;
  - (23) Has employed a professional manager for running the business;
  - (24) Has adequate financing (budgets) and assets to run the business;
  - (25) Provides satisfying business services to members;
  - (26) Has adequate business contacts and contracts.

**Each of the development stages** needs adapted support measures (for details see Annex 2) to promote the FBO to the next higher development stage. Basically three different types of service blocks are involved in these measures:

- **Unorganised farmers** need a very basic OD (organisational development) to mobilise and motivate farmers and their leaders and to link to extension services; this basically corresponds with the PRA approach;
- Farmer groups in the **Start-Up, Development, and Consolidation Stages** need a combination of extension service and OD with income generation focused extension service in the lead, and the OD whenever needed to render possible certain development steps (process oriented approach).
- In the **Business Stage** the income generation focused extension activities for improving agricultural practices have to go on for the individual FBO members. At this stage the FBO can become additionally a sponsor for the extension service to overcome produce volume or quality problems at farm level. The OD part for the FBO in this stage, however, becomes specialised business support, which cannot be met any more by the extension service but has to be taken over by a professional business service and / or OD specialist.

This means that for the stages “unorganised farmers” to “consolidation stage” we propose an extension service, which combines agricultural extension with first OD activities. Starting with the “business stage” the

extension service will promote continued extension services for FBO members supplemented at FBO level with professional business support and higher-level OD services.

The bullet points in Annex 2 under “training / advisory modules for FBO development” are first ideas to elaborate adequate support measures. In the framework of preparing the measures for each development stage it has to be seen how these bullet points can be aggregated into handy training / advisory modules.

The FBOs will only try to reach higher development stages when they see clear advantages. Therefore, it is indispensable that a **coherent incentive system** is developed, **communicated to** the FBOs in a **transparent way**, and observed by as many donors, projects, credit institutions, and governmental agencies as possible. We are aware that the above presented classification system can be still improve / simplified. Therefore, we are eager to receive **proposals for improving** it in the process of harmonisation with major players.

The first and most important incentive for individual farmers and hence for their FBOs is that they experience **higher income levels** at each development stage. Therefore, the combination of extension service with OD is very important. Perspectives for higher income is the very driving force for the farmers to gradually develop their FBO to higher organisational stages. As marketing plays a role for achieving higher income levels, the link to the market plays a role in this context, should be, however, used as explained in Chapter 5.1.1, point 7 above.

OD should never be explained to farmers without making apparent the reasons for OD, such as saving costs, marketing chances, finally ending up in higher income. For this end profitability is an important and always accompanying training module and advisory message. Each production messages should be explained in relation to its effect on profitability. Only by permanently injecting farm economic messages gradually the farmers will learn to see farming as a business. For this reasons, one of the major training tools Comp. 3 is developing is the **Technical Card**, which combines technical details with net income<sup>4</sup> calculation (see Annex 3). Being aware that many farmers are illiterate the challenge for this training module will be its visualisation. Despite all the difficulties connected to this question it is found important to make farmers **aware of the effects of applied techniques on the net income of each farm enterprise**. For perennial crops the Technical Card tool has to be adapted, possibly one for each tree development stage is required.

Built on the basic incentive to gain more income the combined agricultural extension with OD training and advisory modules would be only offered for FBOs for a specific development stage if the respective criteria for this development stage have been fully reached. Specific service would be offered only from certain development stages onwards such as support in accessing credit from the “consolidation and business stages”, access to improved and sustainable markets from “development stage” onwards with gradual differences with respect to requirements for the FBO, and advanced business development services only for the “business stage”.

Donors should agree to subsidise FBOs only at the “business stage”. For all other stages before the risk is too high that subsidies will be simply consumed instead of using them for improving the business. This should be communicated also to EDIF, which is in search of criteria for subsidies. According to EDIF’s own analysis too many subsidies did not fulfil its objectives and were not used according to foreseen purpose.

One disincentive might be that from the “development stage” onwards the farmers should pay at least a symbolic fee for extension / OD services. According to experience good and coherent services, which will lead to higher income, will by far counterbalance this disincentive. Of course it has to be observed how the target groups will perceive the need for the service fee. When starting newly with a FBO in the development stage or the consolidation stage, in the first year no fees would be charged in order to demonstrate the effectiveness of the extension / OD services. From the second year onwards the fees would have to be paid. In the business stage FBOs have to pay services either according to market prices for services or according

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4) The term and concept of gross margin is avoided at farm level as only very few fixed costs are relevant and as it would unnecessarily complicate the profitability messages.

to other criteria, which somehow are based on the value the services have generated and which are easy to measure.

The fact that farmers or FBOs have to pay (it does not really matter how much) strengthens ownership of the clients with a positive effect on the need focus as well as on the quality of training and advice. At the same time the service payment functions as a screening system, winnowing those FBOs out of the promotion system, which do not really want to develop further but only to enjoy free of charge training from time to time.

## 6.2.2 Establishment of Sustainable Support Services for FBOs

### Work Environment

To recapitulate the conclusions above, a long-term working agricultural extension combined with basic OD is essential to achieve impact at farmer level (to train and advise more / new groups, to extend advisory activities beyond project lifetime, to systematise promotion of groups up to the business level). This extension service should be responsible to the farmers within the political framework set by MOFA.

It should be based on the public-private partnership as requested by FASDEP II. The idea should be discussed in July / August 2010 in the framework of the two-days Consultative Workshop chaired by the Minister of Agriculture with major stakeholders in the area of extension (public and private – NGOs, projects). It is hoped that during this workshop a working group will be established with leading stakeholder (including MOFA) to further elaborate the approach.

The basic idea developed by Dr. Kwame Amezah (Directorate of Agricultural Extension Services) is to prepare an agricultural development plan in selected pilot districts jointly with major stakeholders in the districts by considering also the strategic directives of MOFA. This development plan would then be the basis for the work division between the public and private extension services on the basis of a work or coordination plan. The district MOFA would serve as a platform for mutual information and for monitoring activities and achievements.

For meeting the requirements mentioned above a new type of extension service is needed, which is either freed from major administrative burdens of the present MOFA extension service or completely private. The question, if at all, and if yes, how to develop respective pilot services, whether out of the existing governmental extension service or privately, whether through MOFA obligations to private service providers or through restructuring the governmental extension service, or a combination of it, is left at present up to the discussions with the MOFA and other stakeholders. It is important that MOFA agrees to the work approach. As such questions have to be developed by considering all consequences for, and impacts on MOFA's policy, in a separate paper scenarios will be developed in preparing decisions. Here only some ideas are developed how such an extension service with the working title "Farmer Organisational Development and Agricultural Advisory Service" (FODAS) could look like.

### The Basic Idea: "Farmer Organisational Development and Agricultural Advisory Service" (FODAS)

Whatever way FODAS will be established and to whom FODAS finally might belong to, FBOs (most probably only the ones, which reached the business stage) should be able to influence FODAS' work strategy and approaches. These kinds of extension organisations also not necessarily must have exactly the same structure, work procedures, governance, and ownership. Different donors and owners can develop a diversity of systems according to the specific features of envisaged market for extension and region. However, it would be advisable that these extension organisations jointly develop agreed **guiding principles**. This will later on facilitate networking and cooperation and possibly the establishment of a joint national level umbrella for providing needed services for local extension organisations.

As contribution to the discussion, from our point of view the general extension service should meet following **features**, of which some might be used for the agreed guiding principles:

1. The extension organisation should be **apt to be used by different organisations** (also governmental organisations) without diverting the working strategy in direction of a donor-driven organisation. The interests of their clients (farmers) must be in the foreground. If a project or MOFA wants to use its services for projected targets the staff of FODAS must be conceptually strong enough to defend FODAS vision, mission, and working system. In case no overlapping areas are identified between donor and FODAS, FODAS should be able to refuse an offered contract. This makes the difference to NGOs who normally are not specialised on agricultural extension and OD and who are mainly donor driven.
2. Larger farms can receive individual advisory services. However, for reaching smallholders, the most important target group, the working system of FODAS should particularly be designed to work through **farmer groups**. The group approach is required to make advisory services more cost-efficient and also because farmers need to organise themselves as pre-condition to have access to inputs, loans, markets etc. for reasonable prices. Informal farmer interest groups are normally the partners, which in the beginning have nothing else in common than attending training and advice. Such groups are established in the framework of PRA exercises, during which farmers are motivated and guided to form groups (see training / advisory modules in Annex 2 under “unorganised farmers”).
3. Farmers need a number of services simultaneously in order to improve production and increase income. It is insufficient for an extension service to be only specialised in providing technical advice. Necessarily the advisory service must be able to also mediate other needed farm services, such as input supply, credit services, veterinarian services. This **holistic approach** translates into a training and advisory system, which is offered to farmers and other clients, which takes into consideration the characteristics of the **farming system** of the clients, i.e. including subsistence needs, risk diversification aspects, social aspect, etc.
4. It is obvious that FODAS will not be able to cover costs from clients' income in a foreseeable future (see below). Therefore, soon after establishment, FODAS would **work on a contract basis** for projects, processing companies, MOFA, EDIF or others. FODAS would have to offer such contract partners the entire **advisory cycle** (one production season for annual crops, including pineapple; for perennial crops it will be different), combined with OD messages (see attached chart). In the following under this point we want to provide some ideas how such an advisory cycle from the pure extension point of view could be organised.

As in Ghana the advisory cycle basically can start in any kind of the season, depending on the crop and possibly also the delivery time schedule to buyers of the produce, the start and end of the advisory cycle has to be agreed upon with farmers and buyers. Important is that the advisory cycle comprises a period, which allows FODAS to achieve concrete results on farmer fields.

Before the actual production period starts the extensionists have to plan with the farmer group the targets they want to achieve in thin production period. On this basis the advisory service plans the necessary working steps and prepares contract offers to donors / contract partners who pay for the part, which cannot be covered by the farmer clients.

In this preparatory time the farmer groups (FBOs) are trained on **background knowledge** subjects related to the targets for the next production season (soil fertility, etc.). Also the so-called technical cards should be prepared for the crop / livestock production lines targeted by the advisory activities. These **technical cards** represent a combination of technical specifications and timing of individual production operations, the planning of material and labour inputs, and cross margin calculation. It represents already an essential part of a business plan for a credit application, is, however, at the same time a plan of operations and tool for monitoring the production process for the farmers. The technical card will be at the basis for the farmers to **organise important inputs** and apply for **credit** in time.

During **production season**, early in the time window for a specific production operation, the FBO champion farmer with assistance of the extensionist invites the group members for a **field day** on his/her fields / stable. He/her carries out the production operation and the other group members get trained and advised on technical / practical issues. After the field day the other group members carry out the production operation on their own fields / with their own animals. This system of learning fields / animals is an important method to achieve actual results on farmer fields / with farmer animals and to increase income within one production cycle.

Conventional field days normally use demonstration fields, which are prepared under conditions artificial for farmers, e.g. special inputs they do not have access to. These field days normally take place just before harvesting time of the crop. The farmers receive on this day a lot of information, which he/she should apply in the next production season half a year later. When the time finally comes to apply the learnt the farmers already forgot three quarter of the knowledge and do not have access to the inputs required. Therefore, such conventional field days might be impressive, for some purposes also useful, but they have very limited direct impact on farmers' income.

The advisory cycle is finalised after harvest by an evaluation of the farmer group itself to assess the success and lessons learnt of the advisory cycle. Afterwards a new advisory cycle starts with group sessions to determine new targets for the next advisory cycle.

5. For production techniques, which are not proven to be successful under local conditions, the advisory service could carry out so-called **participatory technology development** (PTD) activities for testing these techniques on farmer fields. At the same time such PTD exercises are a tool to interest farmers in innovations.
6. The training and advisory **services** should be not free of charge for the clients but generally **paid**. With the exception of initial periods (normally the first advisory cycle) the beneficiaries have to pay for advisory services, starting with rather symbolic amounts. With the time along with the increasing income at farm level, the share of farmers to cover extension costs can gradually be increased. This has to be seen on the psychological background that generally only services involving costs have a value. Paid services are also a tool to ensure that services are offered, which respond on real demand. In addition, it forces the advisory organisation to permanently improve the services, as the farmer clients demand good and needed services for their money. Last but no least, paid services contribute also to gradually develop sustainable advisory services, long-term even independence from donor money.

Advisory services should not be regarded as permanent subsidy to the poor as this normally leads to inefficient, ineffective and costly organisations, which are not sustainable. All over the world advisory services are needed businesses to develop businesses. No doubt to advise rural poor with marginal resources need subsidised advisory services much longer than advisory services for resource rich, literate farmers. Nevertheless, even the one for rural poor should be commercial (client) orientated, even though the money mainly comes from donors / the government, in order to develop the economic potential of the rural poor. If absolutely no economic potential is seen for a certain target group then social measures and tools should applied to guarantee the target group sufficient income and living standard. **Advisory services are not the right tool for target groups with no economic potential.**

Trying to cross-subsidise advisory services by other businesses such as input supply or credit services distorts interest and action of the advisory service towards the business, which generates income. Soon the organisation will neglect the advisory tasks and focus on "the business, which brings the money". In addition, such cross-subsidies weaken the businesses, such as input supply and credit service, as they urgently need their profit for investing in their business to remain competitive instead of subsidising advisory services with their profit. **Therefore, for professional advisory services the advisory business itself has to be the business for advisory services.**

A professional agricultural advisory service also cannot survive professionally long time in isolation. A good advisory service lives from transporting information about the development stage from farm level to knowledgeable specialists who in turn are able to adapt worldwide knowledge (research results) to local conditions and to transport this knowledge back to farm level. This **vertical integration of agricultural advisory services** with the related flow of information is an essential aspect, which does not allow to have isolated advisors or advisory services. The idea to train advisors one time and let them work forever does not meet reality. Advisors need support in specific questions; they cannot know everything. The farming systems develop and advisors' knowledge and skills have to keep pace with this development in order to be able to provide innovations to farmers. This means advisors need regular retraining and also support in developing regularly new development targets and strategies for their specific target group. The more advanced a farming system becomes the more necessary and more frequent this is needed. It finally needs an advisory support system at least at regional level, if not at national level, which can guarantee this flow of

information, professional backstopping and retraining of advisors. This support system must have intensively used links to research to ensure that research focuses on those subjects, which are really relevant for the farm level.

### **Market Development for Advisory Services through Result-Oriented Contracts (improved use of subsidies):**

Most NGOs and associations but also governmental organisations request donors for a budget to carry out certain activities, which in turn should produce certain results at target group level. The service providers then report the results to the donors. In few cases the donors actually evaluate or even measure the results in practice. Depending on the seriousness of the NGO / association the results at target group level might vary. However, all in all, the results are too often not satisfying and show an inappropriate input – output relation. In many cases they are not sustainable, neither for target group nor for the service provider. This in turn entails that the next donor is needed to provide a budget to continue services.

The financial sustainability of associations and non-commercial service providers, such as agricultural advisory services, is one of the key questions when establishing / restructuring agricultural extension (advisory services). We do not recommend to initiating such services with full payment (budgets) from project side for many years. Experience shows that organisations, which are used to have budgets for paying expenses are very difficult to convert into client-oriented organisations. So-called exit strategies to make an organisation sustainably working without project money towards the end of the project period normally fail.

Therefore, we recommend that the Project treats such organisations right from the beginning as if they would be commercial organisations “selling” their services. After a brief start-up period the partner organisation has to develop and sell adequate products (i.e. services). The Project “buys” these products in the framework of a result-oriented contract system. This role of service product buyer should gradually be taken over by the beneficiaries (possibly by adapting the payment system). Depending on the economic potential of the target group the subsidy period might be shorter or longer. But the principle should remain that the advisory services have to reach defined and measurable indicators, as far as possible results on farming enterprises of the target group. Thus the projects are simulating the market for such advisory services.

This has the advantage that the supported organisation does not focus main efforts on justifying costs and budgets towards donors but on providing marketable products. The organisational structure and activities will be focused on, and streamlined for, producing such outputs (services / products), which finally will be apt to be paid by the beneficiary (target group).

In comparison to budget-oriented working systems such result-oriented contract systems considerably increase the chances that the beneficiaries of the services gradually will be willing and able to pay themselves for the services. In addition, such a systems are necessarily considerably more client-oriented and different donors can use them more easily, either at the same time or in a sequence. It does not really matter, which donor pays for the service outputs. Important is that the output is interesting for the target group. This flexibility with respect to subsidy sources contributes to the sustainability of the advisory organisation, as it is not any more connected to the lifetime of one project.

According to the result-oriented system the NGO / association prepares a proposal (business plan) for a certain outputs (results), which contains SMART (see explanations below) indicators. These indicators would have to be achieved in practice and measured by the donor or independent parties. This contract proposal in addition contains a calculation, which assumes the required actions and the related costs (personnel, materials, transport), possibly including a profit margin for the advisory organisation. On this basis a unit price is calculated per indicator achievement. The payment of the donor could be done in two or three instalments, e.g. first instalment as start-up money by signing the contract between donor and advisory organisation, second upon a mid-term evaluation (measuring the achievement of the indicators), and third upon final evaluation at the end of the contract period. The payment by signing the contract is the risk of the donor organisation, the other two instalments the risk of the advisory organisation.

An indicator has to be SMART, i.e. **s**pecific to represent the achievement of the objective, **m**asurable, **a**ttainable, **r**elevant, and **t**ime-bound. Thus, an indicator also has to contain time horizon (time-bound: what is the period of work, when to expect the achievement of the indicator), quantity of indicator units to be envisaged, quality of indicators to be reached, the location the indicators are expected to be realised, and the definition of the target group.

The business plan also has to show when it can be assumed that the service becomes self-financing, i.e. without donor subsidies. Already the elaboration of this business plan is an exercise, which often changes attitudes.

Basically there are two methods of defining payment according to result indicators:

- In cases of low level of experience of the advisory organisation, of high insecurities, or in cases real results on farm enterprises take too long intermediary results can be taken as indicators such as “on xy ha new variety of pineapples introduced”. In this case in addition a bonus could be foreseen in the contract when a minimum yield level is achieved.
- In cases of long experience of the advisory organisation with related ability to consider major development constraints in a relative complex advisory system real results on farmer fields / with farmer animals can be defined as indicators by sharing the risk between donor and extension organisation.

For the second examples of such indicators could be:

1. By December 2010 12 FBOs in XY District of Central Region, who have reached the “start-up development stage” from an organisational development point of view, have increased their pineapple yield by 20% as compared to farmers in the same village and with the same pineapple variety.

In case a processing plant is financing the advisory contract the indicator could even go as far as

2. From August 2010 till October 2011 12 FBOs of XY District of Central Region deliver 4 tons per week of pineapples, in total 240 tons, with the following specification: ...”.

To achieve such far-reaching indicators the advisory organisation must be able to carry out a number of activities: (1) to agree upon with the concerned farmers groups about these targets (this should be done before signing the contract), (2) to train the farmers on the indispensable theoretical knowledge, (3) to help farmers to identify needed inputs and to buy these inputs in time, if necessary to help farmers to qualify for credit, (4) to help the farmer within one FBO and possibly among different FBOs to harmonise planting and harvesting according to delivery plan, (5) to train farmers’ skills before and during each main field operation, (6) to monitor the fields and to report problems in time to the FBOs to avoid damages or negative impact on the contract with the processing plant, (7) to motivate farmers to sell to the processing plant and not to practice side-selling, (8) to help farmers to organise harvesting in time, conditioning of the produce and transport to the factory, (9) to help farmers to receive their payments from the factory, to properly distribute it to the FBO members by deducting an agreed service charge for the FBO level.

For concluding the contract for such an activity the advisory organisation would have to compile all the costs involved in these activities throughout the contract period and to add the profit margin. The total cost would be divided by (in this case) 240 tons to calculate the unit price per indicator. The total amount for achieving 240 tons pineapple delivered according to time schedule would be offered to the donor for negotiating about the share paid as initial instalment and the follow up payments. In this case it would make sense that the advisory organisation is paid the amount remaining after deduction of the initial payment on a monthly basis depending on the quantities of pineapples delivered. Normally the initial share is the risk money for the donor (the processing company in this case) as this money is not result-bound, however, the subsequent instalments would be only paid upon achievement of the indicator. This risk-sharing system is very convenient for the parties financing service contracts with the advisory service, particularly for processing plants. The advisory service needs considerable training to match with such a system.

### Introduction of Paid Advisory Services

As mentioned above training and group advisory services, if at all, should be free of charge only for a clearly defined introductory period of time. After this period for each training or advisory session each participant should pay an adequate and affordable fee. This is important to serve only clients who seriously want to learn, establish or improve a business. It is also important to encourage participants to claim services, which are relevant for their business. Paid services have also a positive impact on the service quality as participants will use and pay for the services only if profitable for them.

In the context of enabling local organisations and service providers to work sustainably it has to be considered that a sufficiently large market for their services is available. E.g. for a group-based agricultural advisory service one advisor can serve up to 15 to 20 groups, depending on the conditions and support from farmer group leaders. Assuming each group consists of 10 members each advisor could serve 150 to 200 farmers. If each of the farmers would pay only 1 USD per month the advisor could generate an income 150 to 200 USD per month. As, however not all farmers will use the advisory services (normally considerably less than 30% of the farmers – depending on the stage of introduction of advisory services) for a service area at least 500 to 700 farmers, better of 1,000 to 1,500 farmers, are needed to sustain one advisor. The market potential for advisory services is considerably more important than following administrative borders.

These kinds of considerations have to be made for any kind of service if the target is to make the service sustainable.

Another factor, which often counteracts sustainability, is the assumption that business services are needed and, once offered, used. Consequently services are developed on the basis of service needs assessments assuming they will be used. This often fails, particularly when the clients should pay for the services. Fact is, that in many cases there is no demand for paid services.

The reasons are manifold. Particularly in Africa people advisory services and training used to be delivered free of charge. Smallholders think they should invest their little money rather in fertiliser than in advisory services. Medium enterprises do not believe that advisory services can be really profitable. In addition, the target group often neither knows the services, which could be offered nor their potential to develop their business. One exception is the market for credit. The demand for cheap credit is evident – although in some cases with a wrong understanding of what credit is. Respectively well developed is also the market for preparing business plans as ticket for receiving a loan (well-understood not the development of the business but the preparation of the business plan).

The unwillingness of farmers and other potential clients for advisory service to pay for these services is definitely also a product of projects and donors, which offer them free of charge. Of course this undermines the market of the advisory services. And this will not change unless sufficient donors, projects, and NGOs decide to introduce paid services, despite all connected difficulties. The Government should also have an eye on it because the advisory sector is an important factor for economic, particularly agricultural development with dominating smallholders, and is a long-term task, which should in the long run not be dependent on donors. Donor money can be used more efficiently for other purposes.

These are the reasons why a ready market for most services should not be assumed. The development of most business services needs prior massive market development activities for these services. This in turn is the precondition for the establishment of sustainable service providers.

### 6.2.3 Enforcing FBOs' Bargaining Power - Linking to the Market

Linking FBOs to the market is one important task of MOAP. It is evident that smallholders have no bargaining power towards wholesalers or processing plants, which makes them dependent on intermediaries. Of course, these intermediaries have their function for smallholders in the marketing chain. Without them farmers access to the market would be more difficult. On the other hand the intermediaries tend to develop monopoly positions with all kinds of means, which is a normal behaviour in a market economy. This, however, is particularly risky for smallholders who are often illiterate and whose livelihoods

depend to a great deal on the access to the market. It easily can end up in complete dependency of farmers on intermediaries and respective exploitive marketing structures without competition.

In addition, intermediaries have their profit margin, which farmers could earn on their own when bulking their produce on the basis of a self-help organisation. To market through intermediaries or through self-help organisations, such as FBOs, is a question of comparative profitability calculations. Farmers finally will use the marketing channel, which promises the highest profit. However, smallholders have also other criteria than profitability when choosing the buyer, such as immediate payment or payment even before harvest, i.e. using the payment for credit purposes. Trust to a buyer also plays a big role. In any case farmer associations (FBOs) are indispensable to provide farmers a choice for marketing. They are important to develop competition to intermediaries.

To compete with intermediaries all the advantages intermediaries offer also have to be offered by the FBO. In addition, to have a chance as a competitive marketing channel FBOs need to have sufficient marketing volumes to make use of economics of scale and to have sufficient bargaining power on the market. Sufficient trade volume is also needed to be able to pay for a professional manager. He/she in turn is needed to meet the requirements of the market. FBOs need to professionalise not only agricultural production but also marketing.

In addition to volume, FBOs need to make efficient use of other competitive advantages, such as their potential to coordinate production and delivery according to a time schedule proposed e.g. by a processing plant. If the FBO has sufficient income through membership dues and (mainly) through market profit margins the FBO can also make use of other competitive advantages such as binding farmers to market their produce through the FBO by providing them relative cheap inputs, supporting them to have access to credit, providing a base for training and advice, etc.

All this is only possible on the basis of a sufficiently large trade volume. The major question actually is how to reach this volume, which in turn depends on the commodity, its market and the production pattern among farmers. E.g. dried chilly pepper might be a high value crop, which can be a sound economic base for an individual FBO with sufficient members. For smallholder pineapple or mango farmers the volume of one village based FBO will be not enough. For these cases we propose a secondary level of FBOs.

To establish such a secondary level of FBOs it needs a number of village-based FBOs in one area at similar development stages, which can be networked. Through negotiations among these FBOs common interests will be defined and agreements concluded on collaboration in defined fields. Through such kinds of cooperation gradually sufficient trust will be established among the individual FBOs to form a formally registered secondary FBO level. On this basis a real professional trade business can be established.

In many cases the FBO development work will not lead to expected results if this secondary level is not established.

The professional and organisations challenges for the farmers to meet the delivery requirements of the processing plants are huge. Therefore, we generally recommend to linking only such FBOs to processing plants, which are in the consolidation and business stage, i.e. which are quite advanced in organisational development. This, however, does not exclude to link FBOs at a lower development stages to less demanding buyers. The guiding principle is that it has to be very carefully considered whether the respective FBO will be able to deliver according to requirements in a long run. By considering this guiding principle the perspective or the actual link to processing companies can be also an incentives for the FBO members to further develop their FBO to reach a higher organisational development level. The OD advisors and the extensionists have to be aware that these are very critical periods, which need particular intensive advisory services.

## 6.3 Organisation Development of Processing Companies & Exporters

### 6.3.1 Establishment of a Working Group

Potential buyers of the FBOs are processors and wholesalers. They also need support to improve their business and they need to be encouraged to use the FBOs for their raw material supplies. Therefore, MOAP is working also with processors who promise to be a stable buyer of FBOs' produce. Possibly later on also with wholesalers could be envisaged to be supported (see below).

The Project has already a long history of cooperation with the most relevant processing companies for the commodities supported by MOAP. An informal working group was already established, however, is not any more active for the time being due to a number of reasons. We need to more intensively study these reasons to avoid repeating mistakes.

Nevertheless, we believe that such an informal working group would represent a good tool to find out common problems of the processing plants, their common needs for services, their needs for raw materials, etc. It could also be the base for developing services for this target group, which can be used by all of them by avoiding subsidising individual companies with the risk to distort the market for such services. Such services are e.g. professional consulting services. The task of Component's 3 task is to linking the processing plants to FBOs for raw material supplies.

Therefore, we propose trying to revive the working group of fruit processing companies again, possibly with adapted methodology. Part of this methodology should be that each meeting must be interesting for them. In addition, it needs some incentives, such as a study tour abroad, participation on international fairs or similar events. In any case the discussion with them must be on a high professional level.

### 6.3.2 On-going Data Collection

A number of limited data on processing plants were collected during baseline (see above). They still need to be harmonised with the data MOAP Component 1 has compiled in the framework of support activities for the processing plants. Nevertheless, the database has to be increased to be able to established need-oriented services for the processing plants. Fact is, however, these companies are not very open when it comes to sharing concrete data and information – for understandable reasons in the field of competition. We believe that more trust can be established by intensifying and systematising collaboration with these companies in the framework of a working group – and trust is pre-condition for sharing sensitive company data. Therefore, we propose to collect gradually more data from these companies during the collaboration process.

### 6.3.3 Establishing Sustainable Services for Processors

Supporting the processing companies individually by project resources might be justified in the actual situation prevailing e.g. in the chilly pepper or fruit processing sector in Ghana; this means in a situation when hardly any viable processing business is emerging. However, at least in some areas a competitive situation is being developed. For these kinds of situations MOAP's strategy has to be adapted. The development of services for processing plants should be in the foreground with free access for all companies, which are ready to pay for these services. Subsidies should be used for upgrading existing service quality and to strengthen providers' capacities. For supporting market development for such services subsidies could be also used during a limited time span to introduce such kinds of services and to convince the clients that these services have their value. In these cases subsidies could reduce the costs for the clients during introductory period. But for processing companies no service should be completely free of charge.

Services, which might be provided best by professional consultants or consulting companies, are advice, strategy and concept development in the areas of marketing, branding, technical aspects, packaging, and organisational issues. For services such as quality control, quality standard requirements of different markets, personnel management, financial monitoring, management training, cheap joint purchase of inputs

and similar subjects and issues associations of processors could have advantages for providing these services.

#### 6.3.4 Linking with FBOs

We are aware of the fact that linking processing companies to FBOs bears a number of risks on both sides, processors and FBOs. The risk of failure on FBO side, we assume, is particularly high (see above). However, also the processing plants can fail to buy the quantities as promised or as pointed out in the contract between them and FBOs. The plant might be unable to buy the quantities due to all kinds of company-internal difficulties of illiquidity. Or the plant is not able to pay the price the farmers expect or as agreed in the contract. Such difficulties on either side seriously and sustainably damages trust between the two parties and has therefore to be avoided whenever possible.

For this reason and because the processing companies are so important for increasing and stabilising the market for farmers' produce it is important to support not only the FBOs but also the processing plants to fulfil their contracts to purchase raw materials.

### 6.4 Considerations on the Trading Sector

MOAP's activities to link farmers to the market would be finally incomplete without considering also the trade, which delivers farmers produce to local markets or to fresh fruit exporters or, as intermediary, to supplying large processing plants. This wide field still remains largely to be elaborated by MOAP. On the other hand MOAP is not able to work on every constraint in the value chains at the same time. The present focus on processors as market outlet is well justified by the fact that, at least for the fruit commodities, the processing plants seem to develop more demand than farmer can deliver. This is why also Component 3 concentrates on processors for the moment.