Partnerships between farmer organisations and businesses

Experience-sharing report no. 1

Partnership between CGA and EAML

Helping farmers sell their sorghum for beer production

Subject: Mobilisation and supervision of farmers concerning the sale of sorghum to a Kenyan brewing company

Sector: Sorghum

Region: Kenya's main sorghum-producing counties (Migori, Homabay, Kisumu, Siaya, Busia, Meru, Tharaka Nithi, Kitui and Makueni)

Actors involved:
Farmer organisation: Cereal Growers Association (CGA)
Company: East African Malting Limited (EAML)

Start: The partnership became official in 2018, after several years of collaboration between CGA and EAML in Kenya's sorghum sector

Number of farmers involved: Roughly 40,000 to 50,000

English version. French version available online: http://bit.ly/CapiSP1_FR

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In 2018, East African Breweries Limited (EABL) set up a $145.5 million facility in Kisumu, in western Kenya, with the objective of buying 30,000 tonnes of white sorghum annually from small-scale farmers. In order to optimise the facility's supply chain, East Africa Malting Limited (EAML)—a subsidiary of EABL—asked an experienced organisation called Cereal Growers Association (CGA) to mobilise and supervise a large number of widely dispersed farmers.

Red marker: Kisumu, where EAML set up its malting facility in 2018.

(Source: Google Maps)

1. Presentation of the actors involved

Cereal Growers Association

This farmer organisation was founded in Kenya in 1996 under the name Wheat Growers Association, to defend the interests of large-scale wheat growers. In 2002, the organisation decided to expand into other areas to meet the needs of small farmers (in terms of consulting and advocacy) and became the Cereal Growers Association (CGA).

Active in 24 of Kenya's 47 counties, CGA has two types of members:

- Individual farmers: 191,000 small-scale farmers (less than five acres), and between 300 and 500 medium-scale farmers (50 to 500 acres) and large-scale farmers (over 500 acres). Farmers can become members individually or as part of a group.
- 92 associate members: service providers (pre-production and post-production), including EAML (*see 3.4 EAML: an associate member of CGA*).

CGA has the following missions:

- Mobilise small-scale farmers within groups based on commercial interests for collective action;
- Provide advice and assistance in best agricultural practices, post-harvest management, farm management, quality standards and the management and governance of groups;
- Technology transfer through demo sites, test platforms and experience-sharing events;

- Ensure that farmers have access to inputs and markets;
- Offer professional representation for agricultural policies that benefit farmers, at both national and county level.

CGA is currently working to expand its representation at county level through its sections. The Kenyan government decided to entrust issues concerning agricultural development to the counties (90% of agricultural functions were entrusted to the counties after the promulgation of the 2010 Constitution). CGA is assisted by Fert[1] in making its strategy operational, particularly with regard to its structure and the development of its services in five different counties.

Learn more about CGA: http://cga.co.ke/

East African Malting Limited

East African Malting Limited (EAML) is a subsidiary of the Kenyan company East African Breweries Limited (EABL), in which the British multinational alcoholic-beverages company Diageo owns a 50% stake. EAML supplies malted barley and sorghum to EABL's brewing units in Kenya. The company has two malting facilities, in Kisumu and Nairobi.

EABL has a long-term vision when it comes to buying locally. It has started to focus on sorghum in Kenya. Sorghum is a crop with high potential, given that it grows in semi-arid areas and has no other significant market outlet.

EABL created a "partnership with suppliers document" that defines minimum compliance standards for suppliers, which are applied contractually by EABL (grain quality, minimum price and minimum volume to aggregate for selling to the company). The company is committed to helping farmers meet those minimum standards. In certain cases, for instance, EAML buys seeds and distributes them to farmers through its network of aggregators (local buyers). The seeds are considered as credit for inputs, which is recouped later through sales of the product.

Learn more about EAML: https://www.eabl.com/en/our-business/our-companies/east-african-maltings-limited-eaml

[1] **Fert** is a French agri-agency and a member of the AgriCord global alliance, and is supported by Groupe Céréaliers de France. Fert works with professional agricultural organisations in developing and emerging countries to develop sustainable services to meet their members' needs. *Learn more about Fert at: www.fert.fr*

2. Background

In 2009, East African Breweries Limited (EABL) began buying sorghum from small farmers in Kenya for beer production at its facility in Nairobi. Farmers at the time had little interest in growing sorghum, as it was not very profitable. When this market opened up, however, they began to see sorghum as a cash crop. EABL's arrival on the market led to a 500% increase in the price per kilogram of sorghum, from KES 5 (EUR 0.046) to KES 27 (EUR 0.25). The amount of sorghum grown and sold by farmers to EAML continued to increase until 2012.

CGA was already working with farmers in the sector (production and grouped sales, training in best agricultural practices) and put them in contact with EABL. But the partnership between CGA and the company was not yet official.

In 2013, the Kenyan government imposed a 50% tax on the sale of sorghum beer, causing sales of this inexpensive beverage—which is popular among low-income consumers in Kenya—to plummet 75%. The sorghum market collapsed as falling demand led to an 80% decrease in the prices paid to sorghum farmers. EABL cancelled all of its contracts with farmers that year.

CGA—whose mission is to defend the interests of farmers—teamed up with EABL and other actors in the sector to organise a joint lobbying campaign: meetings were arranged with policymakers (including lawmakers), media coverage (radio, TV, press) was secured and awareness-raising tours were organised. CGA coordinated the lobbying activities.

In late 2013, they got what they wanted: the government announced an amendment allowing for a 90% discount on excise duty for sorghum beer. Demand for sorghum for beer production increased once again, and EABL announced that it would renew its contracts with small-scale sorghum farmers.

In 2018, the parent company (EABL) set up a new malting facility in Kisumu and needed to mobilise more farmers in order to increase the amount of sorghum available. EAML—a subsidiary of EABL in charge of managing the malting facility—proposed a partnership to CGA in which CGA would be in charge of mobilising sorghum farmers within groups to facilitate sales to the company, and offering them training in best agricultural practices to boost their productivity.

3. Overview of the partnership

3.1 Objectives of the partnership for both sides

In order to supply its malting facility with locally produced sorghum, the company needed farmers who were organised in groups capable of supplying the facility with a large volume of high-quality white sorghum through grouped sales. But there were several challenges:

- Most sorghum farmers operate on a small scale. There are many of them, they are widely dispersed and there is little organisation among them. Dispersion was a barrier to aggregating products for sale.

- The company wanted to buy more sorghum than was being produced. It was therefore necessary to work with farmers in order to boost production and productivity in the sector by improving agricultural practices. Post-harvest management also needed to be improved in order to prevent losses and avoid altering the quality of the products.

- The brewing companies want white sorghum, but farmers have always preferred to grow red sorghum, which is less prone to pests. The farmers needed support making the switch to white sorghum, despite the threat of pests, in order boost their income by selling to EAML's malt house.

The company was not in a position to have staff in all of Kenya's sorghum-producing counties to supervise and train a large number of widely dispersed sorghum farmers. CGA, however, already had staff in all of those counties—thanks to other projects that CGA was involved in, funded by various funding agencies—and was able to carry out the mission.

This partnership did not directly represent a financial interest for CGA, as the organisation was not paid by EAML for its work mobilising and supervising farmers. Still, the partnership is fully in line with CGA's mandate to facilitate access to the market for its farmers. The partnership with EAML also indirectly allows CGA to support its farmers in other ways, such as by facilitating access to inputs and financial services, so that it can fulfil its mission to help farmers boost their income. The contract that the farmers obtain from the company makes it easier for them to obtain loans from partner financial institutions to buy inputs *(see 3.5 "An integrated business model").*

3.2 How the business arrangement works

CGA is not directly involved in the business arrangement. The organisation mobilises the farmers within groups, and those groups sell the sorghum to EAML. There are two possible scenarios:

1) If the group of farmers is big enough to supply 10 to 12 tonnes of sorghum: it sells directly to EAML;

2) If the group is smaller: it sells to an intermediary, who then sells to EAML.

Those intermediaries (aggregators) are small companies working in the value chain for sorghum, and are often input providers. They handle grouped sales to EAML. Some of them also provide other services to farmers (inputs, mechanisation, storage).

Secretary of an aggregation centre for the grouped sale of sorghum to EAML.

(Source: Fert, Kenya, 2015)

The aggregators are selected by EAML based on a number of criteria: collection capacity (ability to store goods); services offered to farmers (some offer consulting services, particularly input distributors); financial position (aggregators must be able to pay farmers before the products are purchased by EAML). There are currently more than 100 aggregators.

Each farmer signs a sales contract individually with EAML, even if that farmer is part of a group that sells directly to the company. The contract states the level of quality required and the price: KES 37/kg (EUR 0.34/kg) if they sell directly to EAML, KES 32/kg (EUR 0.29/kg) if they sell to the intermediary.

But not all sales to EAML are subject to a contract. CGA is working to encourage its farmers to enter into contracts before production.

CGA is not involved in contract negotiation between the farmers and the company. It can, however, act as a trusted third party to reassure the farmers and the buyer.

3.3 CGA's role

A memorandum of understanding was signed in 2018, and the partnership between CGA and EAML became official.

CGA needs to help remove a number of barriers to the sale of sorghum for beer production between the groups of small farmers and EAML (dispersion of sorghum farmers; little use of improved agricultural techniques; high post-harvest losses; weak business-management skills within the groups).

CGA is involved in the following four areas through its partnership with EAML:

1) Mobilising and profiling sorghum-farmer groups. CGA is able to provide EAML with information about the location of groups in each county, how many members they have, how much land they cultivate and how much they produce.

2) Advising and assisting those groups in best agricultural practices, post-harvest management, quality standards and the management and governance of groups.

3) Monitoring crops.

4) Coordinating the aggregation of products for sale (particularly keeping records at sorghum storage facilities).

3.4 EAML: an associate member of CGA

Before the partnership with CGA was made official in 2018, EAML participated in and funded some activities organised by CGA.

CGA maintains strong relationships with a number of businesses. In addition to the farmers who are CGA members, the organisation has 92 "associate members": companies of varying sizes in the agricultural sector involved in both pre-production and post-production work (input providers, financial institutions, crop-insurance providers, processing companies, marketing companies, etc.). The associate members include: Bayer East Africa, SEEDCO Company, Syngenta East Africa and Toyota Tsusho.

Associate members get publicity at a reduced price in publications and at the national agricultural exhibitions that CGA organises seven (07) times a year. CGA connects those companies with its farmers. It also gives those companies the opportunity to work with farmer groups for comparative input testing on their test platforms.

Because it has a strong relationship with those companies, CGA is able to negotiate reduced prices for its members even though it is not an intermediary.

Associate members help fund the organisation through their annual dues (USD 400, or EUR 367.42). But they have no decision-making power within the organisation, and they do not sit on the board of directors. CGA had considered the possibility of allowing them to participate in governance bodies, but the organisation ultimately decided that it should remain a member-based farmer organisation. That possibility, however, has not been totally ruled out for the future: it is important for CGA to maintain strong ties with those businesses so that the organisation can stay informed about new developments with regard to them.

EAML has participated, as sponsor and exhibitor, in various events organised by CGA (exhibitions, demo sites, etc.). In 2016, the company officially became an associate member of CGA.

In December 2019, EAML will help organise an event on crop-rotation programmes with CGA, BASF and Syngenta East Africa Ltd. Some 2,000 farmers and 50 exhibitors are expected to attend.

3.5 An integrated business model

The partnership between CGA and EAML is part of an integrated business model overseen by CGA, which mobilises all actors in the sector.

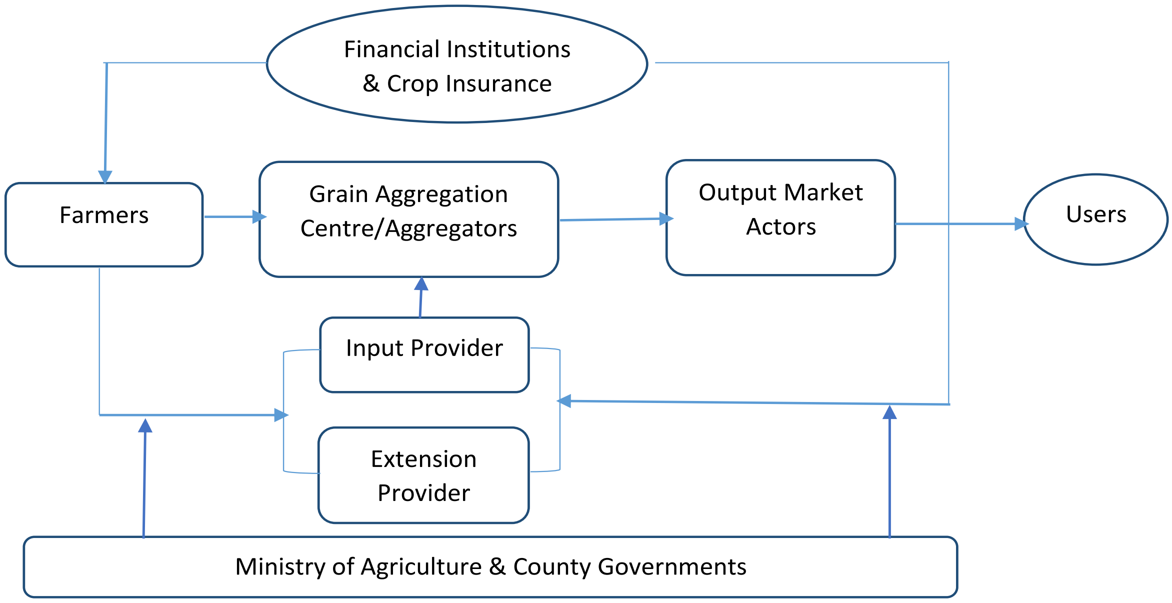

Diagram: An integrated business model in the sorghum sector, CGA, 2019.

In this integrated business model, CGA advises farmers and coordinates the other actors. A number of input providers supply seeds, fertilizers, phytosanitary products and storage solutions. CGA also works with financial institutions (IMF and banks) and crop-insurance providers (particularly ACRE Africa). In 2013, CGA created a savings and credit cooperative called CG-SACCO. CGA centralises expressions of need from farmer groups regarding inputs. CGA negotiates prices for the groups based on the needs expressed. It puts the groups in contact with financial institutions (IMF or banks), which provide loans for inputs directly to the input provider. Collection centres centralise sorghum in order to sell it to EAML. County governments and the Ministry of Agriculture are asked to ensure that the policy environment is favourable to all actors in the value chain.

3.6 Synergies with other projects addressing structural aspects of the sorghum sector

Other projects are working to address structural issues in Kenya's sorghum sector, such as the regional project Farm to Market Alliance (FtMA) launched in Kenya in 2017. The project is funded by the World Food Programme and private actors, such as Syngenta East Africa and Yara. It brings together all actors in the value chain to connect farmers with markets through business contracts, including, over the long term, a package of services negotiated with providers of products and services (seeds, inputs, financial services).

The project hopes to benefit 100,000 farmers (mainly sorghum farmers) by June 2021.

CGA and EAML are involved in the FtMA project, with EAML being the sole buyer for the sorghum sector. CGA is pushing for the project to include a greater diversity of businesses so that the farmers can have a choice regarding products and services—which CGA is also trying to do within its own organisation by increasing the number of associate members.

4. Results

As the partnership between CGA and EAML became official only recently (2018), it is worth noting the results of the collaboration between the two actors in the sorghum sector since 2009.

Higher income and better living conditions for farmers

Three years ago, sorghum was not considered an income-generating crop. But thanks to business with EAML, farmers are now able to generate income and improve their living conditions. Most sorghum farmers used to depend on corn for their food and income. But whereas corn prices are generally around EUR 0.18/kg, sorghum sells for EUR 0.29/kg.

Sorghum is also a safer crop for farmers with regard to climate risks. In semi-arid zones where corn (grown for food) grows poorly, sorghum is better adapted to the soil and climate conditions and provides a guaranteed source of income and food. In conservation-agriculture systems, sorghum has been integrated into rotations with leguminous crops grown for sale (beans, mung), offering better soil management than the standard corn/beans association.

According to information gathered by CGA, the income generated through the sale of sorghum allows farmers to send their children to school, build a home and diversify their diet by buying wheat flour, cornflour and beans.

Better access to services

Sorghum farmers used to buy inputs individually. The contracts obtained by the groups now allow them to buy inputs as a group at lower prices. Grouping farmers together also allows them to pool equipment for post-harvest management (e.g. threshers) to ensure the quality of the product.

The need to aggregate production before selling it to EAML also allows farmers to make use of collective storage services. This gives them access to other remunerative markets (grouped sales to the World Food Programme for mung beans, for instance).

Increase in the volume of sorghum produced and sold

Since 2009, the volume of sorghum sold by small farmers to EAML rose from 2,800 tonnes/year to between 15,000 and 20,000 tonnes/year. The level of production is still below the capacity of the Kisumu facility (40,000 tonnes of sorghum in 2018). There is room for growth to increase the volume of sorghum produced and sold to EAML, especially as projections predict an increase in demand for a volume of 45,000 to 50,000 tonnes in 2022.

More small farmers involved in the business arrangement

In 2009, the number of farmers growing sorghum for sale was under 10,000. In 2012, there were about 15,000. In 2018, the number of farmers growing sorghum for the market was estimated at 40,000. That number may have risen to 50,000 in 2019.

CGA estimates that some 30,000 farmers sold their sorghum to EAML in 2019.

A little over 100 aggregators made grouped sales of sorghum to EAML. The number of aggregators increased over the past five years, thanks to stabilisation in the sorghum sector. In 2013, there were only 35.

Impact of the partnership on CGA

Recognising the potential of sorghum as an important source of income for farmers, CGA went from simply supporting and advising farmers to providing other services: links with suppliers of improved inputs, links with financial service providers (particularly SACCO), links with the market.

CGA's partnership with EAML has led CGA to change its approach. CGA is more methodical when planning and monitoring production and sales. In the counties where it is present, CGA collects data on the number of farmers trained, the volume and value of products sold and the number of women and young people. It uses that data to design initiatives to boost crop yields, integrate more women and young people and improve the aggregation of products for sale. Over the long term, that data will also be used to assess CGA's work and support its mission to defend the interests of farmers.

5. Factors of success and difficulties encountered

5.1 Strengths

Market stability

The partnership with EAML provides farmers with reliable outlets and negotiated prices, provided the quality standards are met. This is an important advantage, given the current instability in grain markets.

Coordination between farmers and access to services

Most sorghum farmers operate on a small scale. They need to band together (farmer organisations, aggregation centres) to gain access to the market. Banding together allows them to not only sell their goods, but also receive other services from CGA and the government, such as technical advice, equipment and access to inputs and financial services. Without that coordination, operations in the sector (access to services for farmers and supply for buyers) would be more expensive and riskier.

Adoption of smart agricultural practices in response to the climate

Sorghum is a drought-resistant plant that can be grown in semi-arid areas where corn does not grow well. By encouraging farmers to grow sorghum to sell to EAML, CGA believes that it is making those farmers more resilient to climate change.

Through the seed company Seed-Co, CGA facilitates the distribution of seeds for sorghum varieties that are adapted to the agroclimatic conditions and that meet EAML's processing criteria.

The technical assistance that CGA provides to farmers also encourages them to adopt smart agricultural practices in response to the climate, particularly conservation agriculture and companion planting. Sorghum for beer production can be grown with legumes (bean, mung), which also thrive in this region and which have good market outlets.

5.2 Difficulties encountered

Managing quality

Farmers sometimes have trouble meeting the level of quality required by EAML for brewing. In such cases, they cannot sell their sorghum to the company. They have to sell their goods on the local market, for human or animal consumption. But the local market is not lucrative.

The support and training that CGA provides to farmers concerning post-harvest management and quality standards aims to improve quality management so that those farmers can sell their goods to EAML. But CGA has noted that the training provided does not always result in the adoption of best agricultural practices by the farmers.

The lack of post-harvest equipment is also an obstacle to achieving the quality required to sell goods.

Greater productivity

In 2009, the yield was 0.5 tonne/ha. Between 2012 and 2018, yield per hectare stagnated between 0.54 and 0.8 tonne/ha for small farmers. Those yields are low because of frequent droughts in Kenya, limited availability of certified seeds, inadequate access to inputs (fertilizer) and bad agricultural practices. CGA is working to remedy those difficulties.

Payment periods for farmers

Farmers who are not directly under contract with EAML, but who are required to group their sales through an intermediary, may sometimes face long payment periods. This issue is not the responsibility of EAML, but it does affect the proper functioning of the partnership. If farmers complain repeatedly about the payment period, then the intermediary may be blacklisted by EAML.

Non-compliance with projected volumes

Sometimes farmers do not supply the volume they promised to supply. There may be several reasons for this:

- The farmer decided to grow something else that season.
- Although sorghum is a drought-resistant plant, it can still be affected by climate-related incidents. Plus, there is a high risk of disease and bird infestation. The variety produced by Seed-Co is currently being tested and should offer better protection against attacks by red-billed queleas.

Most long-term delivery contracts, however, are signed right before the harvest: the volume and date of delivery can be estimated. If the producers do not reach the volume objective, they can buy from other producers to reach the volume, or sell to an aggregator.

6. Outlook: risks and opportunities for the continuation of the partnership

6.1 Risks

Financial sustainability

This partnership is dependent on external funding, as EAML does not fund the technical and organisational assistance that CGA provides to the sorghum farmers. CGA therefore needs to mobilise project funds received from other funding agencies to carry out this work. Ultimately, EAML is benefitting from work funded by funding agencies.

CGA believes that the above situation threatens the financial sustainability of the initiative: if the projects come to an end, CGA will no longer be able to mobilise or supervise the farmers.

CGA believes that the funding model for the initiative needs to change for the partnership to continue. CGA intends to negotiate with EAML to receive a commission based on the volume of sorghum sold to the company by the farmers that it supervises, to compensate all of the work performed by the organisation. CGA is therefore working to show the company the added value of its work.

Nevertheless, it is hard to imagine that CGA would be fully compensated for its services in this sector. CGA's projected commissions in the wheat sector (large amounts, for a smaller number of farmers) could help cover a large portion of CGA's work and allow the organisation to continue its mission to defend the interests of small farmers by reducing its dependence on funding agencies, which are sometimes too prescriptive.

EAML's monopoly position

EAML has a monopoly on the sorghum market in Kenya. The lack of alternative buyers creates a risk of downward pressure on the prices paid to farmers.

The company should be able to absorb all of Kenya's sorghum production, given that the volume supplied (15,000 to 20,000 tonnes/year) is less than the EAML facility's capacity (30,000 tonnes/year). On at least one occasion, however, the company decided that enough volume had been purchased, even though the farmers had not sold all of the projected volume. EAML's aggregators may stock up on external markets (Uganda, Tanzania), where production costs are lower. The aggregators then sell that sorghum to EAML, who receives a tax reduction for purchasing sorghum on the local market.

Cost of data production

Producing data on the profiling of farmer groups (location, number of members, amount of land cultivated, volume produced) is expensive. For the time being, CGA provides that data free of charge to EAML for business needs. But as the number of farmers involved in the initiative grows, the cost of producing that data increases for CGA. CGA therefore believes it is important to eventually be paid for that data.

6.2 Opportunities

The flour-blending policy

The Kenyan government is currently developing a food-fortification policy involving sorghum. Once that policy is implemented, farmers will have an alternative market for sorghum, eliminating the risks linked to EAML's monopoly position. It should also incite EAML to pay CGA a commission in order to make sure the organisation mobilises the required number of farmers for its market.

CGA is part of the Ministry of Agriculture's technical working group, and is therefore involved in discussions on the "flour-blending policy".

Boosting production

The gap between EAML's demand for sorghum (45,000 to 50,000 tonnes/year by 2022) and the amount of sorghum currently produced by small farmers (15,000 to 20,000 tonnes/year) is still high. There is still a lot of room for improvement with regard to increasing farmer productivity with CGA's assistance. The organisation could also get more farmers involved in the business arrangement with EAML in the future.

Greater recognition for CGA

This partnership brings CGA recognition for its skills in the grain sectors. CGA has shown that it can mobilise and coordinate farmers. That recognition gives the organisation more power to act and negotiate.

The advocacy campaign for the sorghum sector in 2013 gave CGA the legitimacy to take action on policy issues affecting the grains and leguminous-crops sector. The Kenyan government considers CGA as a participant and major contributor to the growth and transformation of the agricultural sector in Kenya. CGA belongs to technical working groups at national level dedicated to corn, wheat and sorghum.

Sources

This experience-sharing report is based on:

- a series of interviews conducted by Inter-réseaux with Christopher Mutisya, head of business development and partnerships at CGA;
- documents and information available online, particularly on the websites of CGA and EABL;
- additional information provided by Fert, an Inter-réseaux member that has been assisting CGA since 2016 with regard to its structure and the development of its services at county level.

This report is part of a series of experience-sharing reports produced by Inter-réseaux about partnerships between farmer organisations and businesses. The goal is to provide concrete examples showing companies (both national and international) working alongside farmer organisations in various production chains and African countries. What new forms of partnership are emerging? What issues do they raise? What best practices can we learn from them?

This experience-sharing initiative is part of a cycle of reflection and work undertaken by Inter-réseaux on the private sector's involvement in African farming. All of Inter-réseaux's work on this theme is available at http://bit.ly/cycleSP.

Do you have an experience you want to share about a partnership between a farmer organisation and a business? Feel free to write to us at inter-reseaux@inter-reseaux.org.

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