


MARKET SYSTEMS RESILIENCE MITIGATES COVID-19 IMPACT ON SMALLHOLDER FARMERS

Lessons Learned from InovAgro in Northern Mozambique

MAY 2020

 Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra



INOVAGRO Phase III
Case Study by Bill Grant and Morgen Gomo



MARKET SYSTEM RESILIENCE MITIGATES THE IMPACT OF COVID-19 ON SMALLHOLDER FARMERS – LESSONS FROM INOVAGRO¹

INTRODUCTION

The World Health Organization declared COVID-19 a pandemic in March 2020, and by March 22, Mozambique had confirmed its first case. Like elsewhere in the region, the government's strong response caused major disruptions to the economic activities of farmers and their supporting input providers and output marketing agents. The private sector and farmers will need to work together to meet each other's needs and ensure the country's agricultural market systems remain resilient in the face of this crisis.

The Swiss Agency for Development and Cooperation's [Innovations for Agribusiness \(InovAgro\)](#) project has worked to support relationships between market actors in Northern Mozambique since 2011. InovAgro leads initiatives to develop stronger, more inclusive, commercially driven and competitive market systems for agricultural input supply (especially seed sales and crop protection products to smallholder farmers (SHF) and output marketing (the efficient sale by SHF of their production). These lead to improving farmer productivity and incomes. Over the past 6 years, support initially driven by InovAgro and later complemented by some other donor projects, have helped the market systems for agricultural inputs and output marketing to evolve greatly, expanding in numbers of participants, volumes of sales and purchases and improved relationships. As COVID-19 restrictions change the ways businesses and farmers must operate, Mozambique's deeper and more diversified market systems are demonstrating their resilience and their ability to continue to service smallholder farmers who would normally fall out of the system. InovAgro's targeted support to build stronger market systems is allowing many agribusinesses to operate in conjunction with their private partners to continue to deliver their services for the benefit of smallholder farmers, without the need for outside assistance.

BACKGROUND

In 2014, the input marketing system in Northern Mozambique was characterized by very few participants, high levels of fragmentation, limited relationships between core market actors, very little information transfer, and weak purchasing power. The few seed companies were small and weak and did not sell directly to smallholder farmers in the region and only a few agro-dealers offered high-quality, certified seed.

The output marketing system was dominated by *Bangladeshis* (buyers of Asian origin), working as agents of large exporters, mostly in more accessible, peri-urban communities, but with less direct exposure in rural areas. Farmers were forced to sell to predatory local traders or move their harvests to peri-urban communities, incurring costs and limiting negotiating power. Low levels of trust exacerbated weak relationships between market actors and prevented the agricultural market system from functioning efficiently.

After trying top down approaches (with limited success), InovAgro identified challenges at the farmer level having confidence and satisfaction with the existing marketing system through the *Bangladeshis*. In search of better, more transparent and trusted relationships, InovAgro identified a cadre of Mozambican Commodity Aggregator Traders (CATs) who were very interested in playing a strong marketing role, building stronger community-level relationships. These small, locally owned trading companies were based in more rural areas and purchased production from the farmers, providing an important point in the last mile procurement. But the CATs had weak buying networks and weak relationships with larger exporters, and struggled to access financing to purchase crops.

Creating stronger market systems

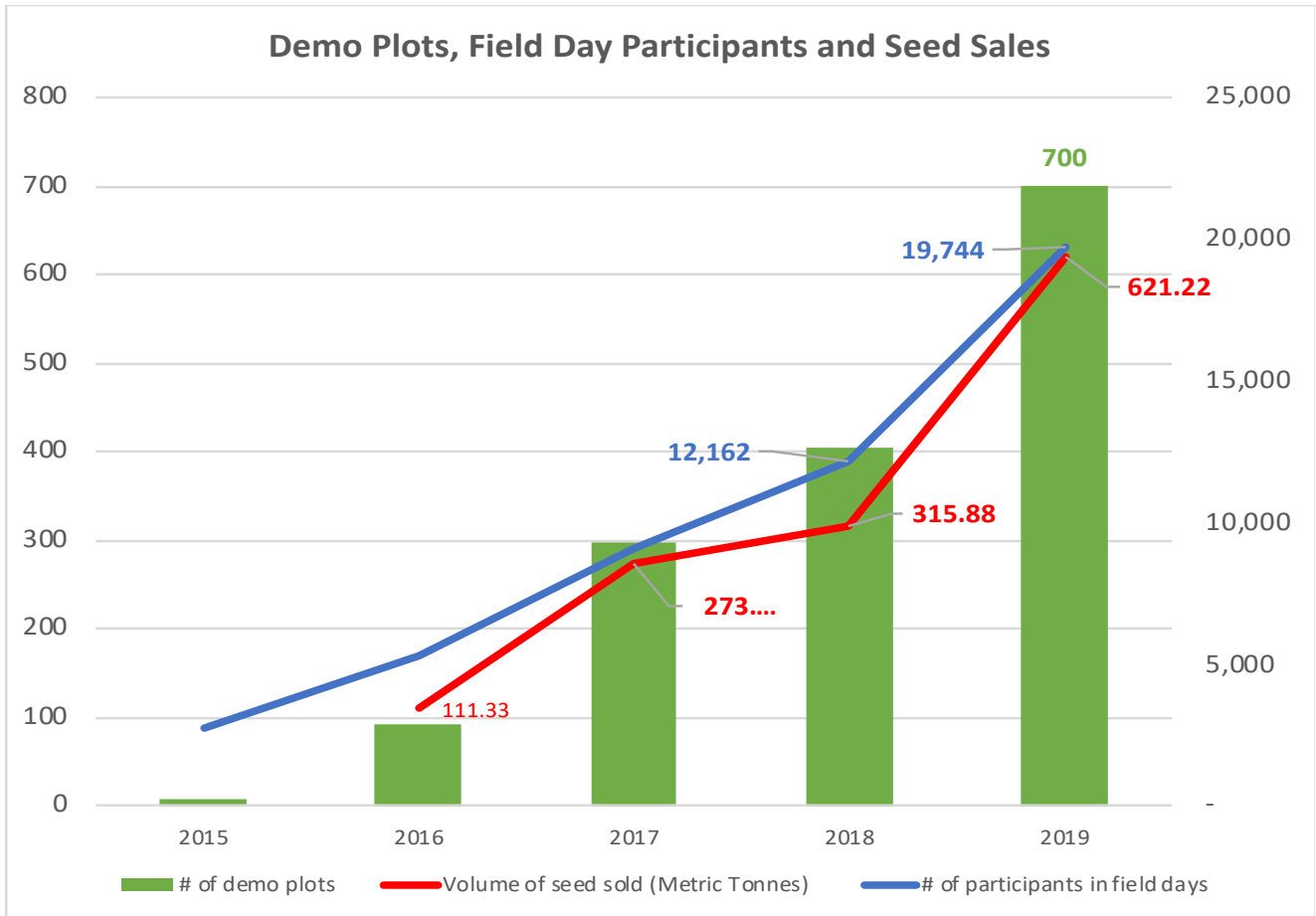
Since 2014, InovAgro has encouraged new entrants into the seed industry and output marketing and assisted private companies to adapt their marketing strategies to enter the market in Northern Mozambique. InovAgro helps

¹ *InovAgro is a Swiss Agency for Development and Cooperation (SDC) funded market systems development project (MSD), implemented by DAI. As the first MSD project in Mozambique it has been developing agricultural input and output marketing systems since 2011 in Northern Mozambique. **Morgen Gomo** is the project's Team Leader and **Bill Grant** is the Technical Director and oversees its Knowledge Management component.*

these companies build relationships, distribution channels, and buying networks to increase trust between each other and smallholder farmers.

On the input marketing side, InovAgro facilitated new entrant seed companies to establish relationships with distributors, agro-dealers, and lead farmers and to promote new agrodealers and shops. The project helped companies and agro-dealers launch demonstration plots and field days through lead farmers to build farmers' awareness of their products and the value proposition of using improved seed to increase sales. Figure 1, below, demonstrates how private companies have steadily adopted the use of demonstrations and field days, leading to greater engagement with their customers and significantly increasing sales of certified seeds directly to SHF.

Figure 1



Today, a more vibrant network of seed companies, distributors, and agro-dealers is engaging directly with smallholders to promote sales and disseminate information. Networks of nine seed companies, four distributors, and 54 agro-dealers now drive agricultural input distribution. Their efforts have increased sales of certified seeds from almost nothing in 2015 to more than 621 tons in 2019. The doubling of sales in 2019 from the previous year shows the acceleration of the integration and the results of a stronger market system based on the greater number of participants and better working relationships with each other.

On the output marketing side, InovAgro supported Mozambican CATs to strengthen their buying strategies, improve relationships with large end buyers, and get better access to working capital to purchase more product closer to farmers' villages. Over the past five years, 30 CATs have established and upgraded 423 decentralized buying posts at the village level, making them much more integrated into farmer communities. Figure 2 demonstrates how the CATs have steadily expanded their networks as well as the value of the farmer produce that they are purchasing from the rural areas, replacing some of the less integrated *Bangladeshis*.

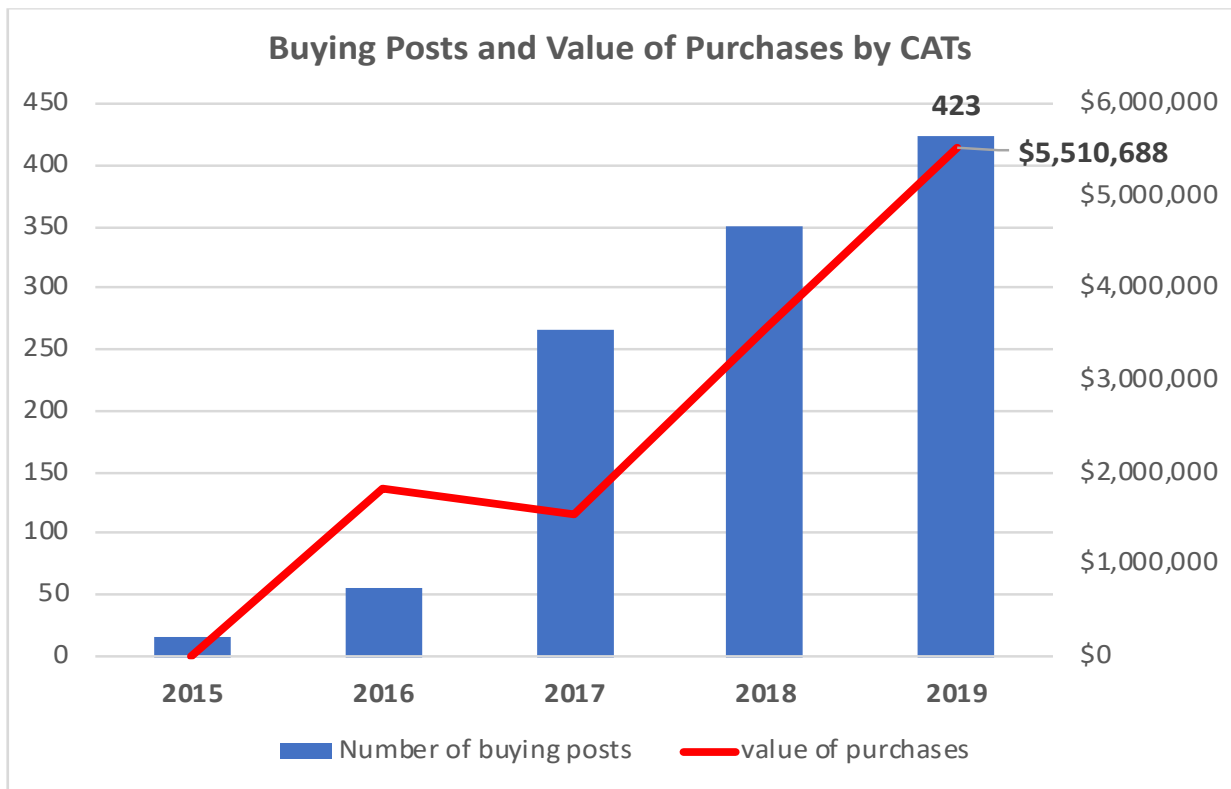


Figure 2.

At the same time, InovAgro supported marketing policy reforms from the Department of Industry and Commerce (DPIC) through the introduction of the *Cadernetas de Comercialização* (marketing passbooks). These reforms formalized CAT registrations, streamlined processes, reduced licensing costs, and built stronger regulated formal relationships between CATs and the DPIC. CATs using the marketing passbooks have fewer hassles from control agents. In 2019, CATs purchased more than US\$5 million of product from farmers close to their villages, up from US\$3.1 million the year before.

Characteristics of a resilient market system

Deeper and more resilient market systems are characterized by effective cooperation and good competition which stimulates innovation. Value chain actors trust and mutually benefit from one another as they sell to, and buy from, the rural poor. A resilient market system also has a large and diverse population of market actors, with more overlap of abilities to carry out different functions, but also greater specialization of roles to deliver the service most appropriate to the business. In a resilient market system, it is not expected that every market actor remains in a time of crisis; in fact some will fail and fall out of the system but the ones with the best relationships will continue to operate and be able to meet demand.

In Northern Mozambique, the numbers of market actors have increased significantly in the input and output marketing sectors. Many new entrants, especially in the seed sector, are working to continue to deliver services. The market actors in both the input supply and output marketing systems have become better coordinated and many in the the range of market actors have built trust based on win-win relationships in recent years.

Thanks to these developments, value chain actors can now respond to joint threats, such as the restrictions enacted to combat COVID-19, and opportunities, such as selling more directly to smallholder farmers. These mutual benefits incentivize collaboration and create long-term, interdependent relationships with embedded services and joint marketing, leading to steady growth in sales. Market actors have also developed strong relationships with local community leadership and government agencies, increasing their social license to operate in target communities and districts.

Constraints caused by COVID-19

The COVID-19 pandemic is changing the way the world operates. In Mozambique, the government has passed social distancing regulations and is restricting gatherings to no more than nine people. Government internal

transport controls are delaying the movement of goods and people across districts, with traders encountering more regular and longer police hold ups.

Border closings and lockdowns in some neighboring countries are preventing seed companies and agro-dealers from resupplying imports, increasing costs and reducing product availability. The restrictions are also affecting the agricultural sector by limiting access to information, access to input distribution channels, and how agricultural production is marketed.

The timing of the pandemic hit at the peak of the agricultural cycle. Seed companies and agro-dealers were busy sponsoring demonstrations and readying to hold field days to highlight the results of the application of improved seeds and good agricultural practices as many key crops were coming to maturity. It is also the beginning of the marketing season, where traders are engaging with farmers to purchase the output, and all farmers to start their planning for the next year's production.

The government's limitations on gatherings have forced companies to cancel training field days for farmers and forced villages to suspend their village markets and seed fairs. Without field days and seed fairs—where farmers are exposed to and purchase new seed technology—seed sales were slowing. Sales through retail shops are continuing, but some farmers are afraid of travelling to the urban centers where the shops are located.

Information about COVID-19 has been scarce in deep rural areas, and there is much inaccurate information. Feedback from CATs, staff and agro-dealers are highlighting that many rural residents worry that interacting with people coming from urban centers, including nearby district centers, will bring COVID-19 to their villages. Rural farmers may be suspicious of outsiders, reducing their engagement with people from outside their communities and limiting their trips to buy inputs and sell their harvests. Some farmers incorrectly assume their local retail shops are not operational.

The situation highlights the challenges outside development agencies face in continuing their work under COVID-19 restrictions if they are not working directly through market actors. With village markets closed and field travel suspended, international development agencies suspended voucher programs that help farmers purchase seeds. This demonstrates the differences between direct project implementation and a Market Systems Approach such as InovAgro is implementing.

MARKET RESILIENCE REPOSSES BY THE PRIVATE SECTOR

The impacts of COVID-19 are testing the private sector's ability to respond to a major crisis. Fortunately, improved relationships and recent changes in practices have made for a more resilient agricultural market system in Mozambique. While some market actors are responding better than others, those that have built strong relationships and introduced new solutions and innovations have been most successful in weathering the storm. In general, Mozambique's market system is responding to COVID-19 in ways that would not have been possible six years ago when there was no market system.

Input supply system response

Market actors in Mozambique have found creative ways of working together to adjust to COVID-19 restrictions. Their efforts highlight the increasing depth of the country's input market system and its ability to adapt. As this is a critical time in the season for seed companies to demonstrate the results of their demonstrations and to explain the benefits of certified seeds to smallholder farmers during field days, InovAgro engaged them to review the partnership deal notes. This has led them to search for alternatives, based on their relationships within the system. Input supplier responses have included introducing innovative training models for farmers, new distributor strategies, engaging more local partners, and sharing information about COVID-19 prevention. These adjustments have come about through consultations with InovAgro as a way to respond appropriately in compliance to government regulations:

- **Farmer training.** Instead of holding large-scale field days, seed companies, distributors, and agro-dealers together with InovAgro, came up with a solution to train lead farmers to run smaller field days at their demonstration sites in local villages. Lead farmers, received training on COVID-19, with partners using material and pamphlets developed by InovAgro with the seed companies to display and bring awareness to their communities. The lead farmers are required to enforce social distancing and hygienic practices during these engagements, which are based at the rural level and closer to farmers.

- **Distributor strategies.** Distributors are providing agro-dealers with training and more technical information. Distributors are also putting out advertisements on radio to let farmers know that retail shops are open.
- **Engaging local partners.** Agro-dealers are using village-based agents (VBAs) and lead farmers to determine what inputs are in demand, and then making centralized deliveries to villages using mobile retail teams. This innovation is a model that will continue into the future as it reduces the cost of last mile distribution.
- **Information dissemination.** Seed companies, distributors, and agro-dealers are sharing COVID-19 awareness materials developed and shared by InovAgro.

Case Study: PROMA

PROMA is a new entrant to agricultural input markets in Northern Mozambique. Their response to COVID-19 provides an example of the market system's ability to adapt.

PROMA developed its business model around relationships built on trust. The company strives to pay its suppliers on time and to communicate any challenges upfront. PROMA attributes this attitude to the mentoring the firm received from InovAgro as a new business, which emphasized robust commercial relations built on trust, consistency, and mutual growth. PROMA has since secured favorable terms with major suppliers SeedCo, CureChem, and Snow, helping them to address value chain finance challenges. The company now receives 90-days credit terms.

On the customer side, PROMA developed relationships with agro-dealers. They are branding ten agro-dealers and supporting them to set up technical and business management systems. Having agents on the ground keeps sales going despite COVID-19 restrictions.

PROMA is developing radio advertisements through community radios to advise farmers that its shops are operational and that its products are available at agro-dealer partner stores. These initiatives are replacing sales that would normally have gone through the now-suspended village seed fairs.

However, not everyone in the market system is faring well. While successes are evident, firms that have reneged on their payment requirements (such as distributors to seed companies or agro-dealers to distributors) or cheated on relationships, against InovAgro's training and mentoring advice, are now finding themselves with strained relationships. These businesses may be left working alone and unable to face big challenges; many may disappear.

Output marketing response: CATs

For many CATs who have expanded their networks of transparent buying posts deep in rural areas, and built a strong social license to operate, operations since the end of March remain "business as usual". With local buying posts, SHF are better able to market their product safely, close to their homes and not risk exposure travelling to the peri-urban markets. This is especially important for females, who ordinarily do not travel to distant markets, worse now with the risk of COVID-19. Some CATs have even expanded their networks to get to more villages.

The main dangers could be if there is an increase of Covid-19 infections that forces the central government to enact more restrictive control measures that limit movement, or if local police arbitrarily try to restrict movement, this could severely strain the output marketing business. This would have devastating effects for smallholder farmers, the CATs, and even large buyers. The introduction of the marketing passbooks, discussed above, provides formal registration and protection that give traders the authority to trade and move their goods has been one tool to alleviate such restrictions. InovAgro has supported the DPICs to orient the traffic police and district regulators to ensure the facilitate, rather than impede trading processes.

Case study: Two Successful CATs

Constantino Calisto and Assane Mungate are CATs who have greatly expanded their networks and relationships in recent years. They are trusted businessmen in the communities, based on their values of transparency and integrity. They have developed deeper relationships with suppliers and buyers, to make them more resilient, allowing them to weather the effects of the COVID-19 pandemic control measures so far. Both CATs are using the marketing passbooks which make it easier for them to move through roadblocks and be recognized as legal by police.

Good relationships with farmers have increased their social license to operate. Their use of transparency enhancing technology at the buying points, especially digital scales and price boards, has seen farmers' increasing trust in them, increasing their sales. This has allowed them to expand and conduct their business activities with no restrictions to setting up buying points and their trucks moving inside the villages to collect produce. Both have instructed their buying point agents to ensure that farmers at the buying points should not exceed nine people at any time and should maintain social distancing.

The two CATs have built long trust relations with the big buyers, who can rely on them for quantities and quality of supply, ensuring the CATs with good markets. The big buyers also provide them with working capital advances based on trust enabling them to respond to demand. In 2020, Constantino already has increased his buying points to 45 (up from 31 in 2019) with plans to increase to 50 during the sesame season. Assane has increased from 5 to 20 buying points this year. At a time when many other businesses are shrinking, the two CATs are expanding and providing reliable and safe services to their suppliers and their buyers, keeping agricultural products flowing safely across Mozambique.

CONCLUSION: ENSURING RESILIENT MARKET SYSTEMS

Northern Mozambique's deepening market systems have enabled the private sector to respond to the COVID-19 pandemic in ways that would have been impossible six years ago. Good competition is stimulating the numbers of market actors in general. Good collaboration and coordination between those market actors to achieve mutual benefits are making the agricultural industry stronger, more adaptable to challenges, and better able to withstand negative impacts of the health response. Farmers are also benefiting from this improved system, which is providing them with vital information on COVID-19 and closer access to marketing outlets and input suppliers. Most importantly, market actors are adapting in ways that limit the need for outsiders—who may be carrying the disease—to travel to rural communities.

Despite the major economic impacts of COVID-19, InovAgro has continued to deliver ongoing support to Mozambique's agricultural sector by working through the market actors. This success is the result of six years of interventions that have helped local market actors to thrive, and have built InovAgro's relationships with them. InovAgro has served as a trusted advisor to input supply companies, output marketing companies, and the regional government, whose livelihoods are now on the line. These strong relationships have made interventions to support the market actors easier for InovAgro to collaboratively design, implement and have ensured the project can help address companies' ongoing core challenges in the face of a global pandemic.