

Project Profile: Richmond Pepper Outgrowers as at October 2010

Project Origination

This project was initiated as a result of the participatory economic action planning that PPT conducted during the Gijima KZN programme. A group of approximately 25 subsistence farmers in Nkumane and Inhlazuka near Richmond identified an opportunity to grow cherry peppers as a cash crop to sell to a Richmond-based company, Moyeni Pickles, that processes and exports cherry peppers. The growers identified barriers to this income-generating opportunity as lack of access to capital to fund inputs, difficulty establishing a working relationship with Moyeni Pickles, a need for improved farming expertise in respect of peppers specifically, and lack of a means of transport for the crop. PPT approached Moyeni Pickles which indicated that it would be willing to purchase from outgrowers because its own capacity to produce peppers was limited.



Project funding

PPT used R95,000 donated by Angela Mai for this project (this being one of five projects benefiting from a R500k donation from this funder). In addition, R1,094,700 in co-funding was leveraged from the Shared Growth Challenge Fund (SGCF) which funds market-led projects driven by private enterprises, not dependent on government decision-making in any way, which would have a significant positive impact on a low-income population.

Roles of PPT and other stakeholders

- PPT established a revolving credit facility to the value of R25,000 for the outgrowers to purchase inputs, including seedlings, fertiliser, land preparation, pesticides and transport, and provided business support to the outgrowers.
- Moyeni Pickles purchased and distributed inputs to outgrowers, with the agreement that monies owed to the revolving loan would be deducted from money earned from sales to Moyeni, who would then pay the balance to the growers. In this way Moyeni Pickles was the *de facto* manager of the revolving fund, because this arrangement created the least cost to the fund and therefore the outgrowers.
- The outgrowers participated in planning their farming and business activities and in some cases learned new farming techniques to produce their crop.
- The SGCF partially funded the project.

Project Activities / Progress

In the first season (2008/ 2009) growers produced R5,000 worth of peppers, but it was agreed by all stakeholders that with additional support from PPT and Moyeni Pickles, this yield could be significantly increased and that the market demand for increased yield existed.



In the second season (2009/ 2010) the additional funding leveraged by PPT from the SGCF allowed Moyeni Pickles to provide much more field support to the farmers, which in turn improved land preparation, management of crops and harvesting of crops; it also allowed PPT to provide significant support to outgrowers in respect of business planning and resolving institutional issues such as the use of the fund and various opportunities to work together collectively but informally to increase efficiency and decrease costs.

At the start of the 2009/ 2010 growing season, a government led economic development initiative identified the project for support and established 10 co-operatives of growers, offering funding and business support to Moyeni Pickles and the co-operatives. PPT and the SGCF noted strong concerns regarding the trend of failure of co-operatives established in this manner. At this point the government initiative was terminated unexpectedly for reasons unknown. There was significantly negative impact on the project as conflicting information and unfulfilled promises caused considerable confusion and resentment amongst the growers and Moyeni Pickles, and planting had been delayed for three months while co-ops were being established. All stakeholders were involved in making the decisions required to address these issues.

This season has seen 85 active growers of whom 74 made sales to Moyeni Pickles. Total sales exceeded R91,000. The majority of the farmers sold less than R1,000 worth of peppers; however, the remaining growers exceeded sales of R1,000 as follows:

- 10 growers made sales of between R1,000 and R2,000
- 3 growers made sales of between R2,000 and R3,000
- 4 growers made sales of between R3,000 and R4,000
- 4 growers made sales of between R4,000 and R5,000
- 2 growers made sales of between R5,000 and R6,000
- 1 grower made sales of more than R10,500



PPT's role now will include assisting farmers to plan for the next season, with emphasis on encouraging small producers to work co-operatively but informally to pool their crop for sale to Moyeni Pickles, as it is not economical for Moyeni Pickles to purchase small amounts of peppers worth less than R1,000. PPT will also work with the growers to improve the value of their crops by means of planning harvest operations more efficiently.

Challenges

Moyeni Pickles has experienced considerable difficulty in managing the project according to the requirements of the SGCF, and PPT has provided some support in this regard. Part of their difficulty is poor management of cash-flow which has led to delayed payment to the growers and PPT, and as a result the SGCF has suspended further payments to the company until these payments are made. The lack of payment has put severe strain on the relationship between the growers and Moyeni Pickles, and PPT has been instrumental in facilitating communication and agreements between the parties, including the funder.

Main Lessons

- Projects of this nature require a significant time period, preferably a minimum of five years, to become properly established and functional.
- This project has great potential for replication as a model for agrarian reform projects, as it is entirely market based and therein lies its success.
- Outgrower farmers need access to credit for inputs for such a scheme to be workable. It is important that growers have access to credit rather than grants, as grant funding or grants in-kind distort the market-based nature of the project. It is preferable that a rolling fund such as this one is not capitalised with outside funding but rather comprises grower's own savings, as research shows that this is more likely to result in a high level of debt repayment.
- It may take more than one growing season for a farmer to produce a profitable crop, and the project planning and the credit facility should build this possibility in its operating model.
- The presence of savings and credit groups already established in the area is likely to have prepared outgrowers to (a) make use of credit and (b) plan and manage their businesses.
- While it is very important that agricultural expertise is provided to outgrowers, institutional issues such as managing the revolving credit facility, informal co-operation with other growers, and effective communication with the commercial partner are vital to the durability of the outgrower model. In this case the commercial partner did not see the value of addressing the institutional issues until the relationship between the outgrowers and the commercial partner became very strained to the point where the project came close to collapsing.
- Careful consideration must be given by funders to the institutional arrangements of projects such as these, in order to ensure that all stakeholders have the necessary commitment to development as well as business success, as well as to ensure that stakeholders have sufficient capacity to implement the project.



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