ZAMFARA

STATE

FRAMEWORK FOR RESPONSIBLE AND INCLUSIVE LAND INTENSIVE AGRICULTURE

# Out-grower Planning Toolkit

*Issued according to Executive Order No. 8 of 2023 titled: Establishment, Adoption, and Implementation of Framework for Responsible and Inclusive Land Intensive Agricultural Investment (FRILIA) Order issued on 20th December, 2023*

## 2ND DECEMBER, 2024

## INTRODUCTION

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

This toolkit guides investors and Out-grower s on how to:

§ Ensure compliance with all FRILIA principles:

Social, Land, and Environmental, by both Investors and Out-grower s

Structure the Investor Out-grower relationship enabling parties to sustainably contract with each other, and others in their value chain,

§ Ensure the investor's quality and production requirements are met,

§ Ensure that the growers are properly compensated for their produce and continuously upskilled by learning and extension:

- improving productivity by adopting modern techniques and equipment reducing impact on climate and environment
- continuously growing income.

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

## 1.1 *Out-grower Schemes*

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

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

Out-grower planning Toolkit for FRILIA – Zamfara State

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

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

## 1.2 *Key Players in an Out-grower Scheme*

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

*Figure 1.1 Key Relationships*


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

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

### *1.2.2 Out-growers role is partner and supplier*

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

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

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

### *1.2.4 Zamfara State government's role is enabler and regulator*

- Policymaker and provider of incentives
- Regulator and auditor

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

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

## 1.3 Putting FRILIA into practice through Out-growers

### 1.3.1 The FRILIA principles

The following FRILIA principles apply to Out-grower s:

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

*Other International Requirements*

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

***Box 1.1 Key Requirements for Successful Out-grower Schemes***

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

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## 1.4 Out-grower Organisational Models

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

### *1.4.1 Model 1 Individual Farmers*

Individuals, and often their families, farm small pieces of land, up to 1 ha, using traditional methods. The supply contract is between the Investor[1] and the Farmer through supply agreements, which are often unenforceable[2]. A variation on this model occurs when farmers form 'associations' to carry out activities such as harvesting and haulage.

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

Individuals, and often their families, farm small pieces of land, up to 1 ha, using traditional methods. The supply contract is between the Investor[3] and the VCDF through supply agreements. As the VCDF is a substantial and legally registered entity these contracts are enforceable[4]. The VCDF arranges credit for the supply of inputs.

### *1.4.3 Model 3 Co-operative*

Individual farmers are members of a cooperative. Farming is undertaken individually on small pieces of land, up to 1 ha, using improved traditional methods. The cooperative arranges for the supply of modern fertilisers and improved seeds, usually on credit[5] from the investor. The supply contract is between the cooperative and the investor. Some cooperatives also carry out first stage processing. For example, drying ang hulling of rice.

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[1] Properly the 'Offtaker', a term used in project financing to describe the party who buys the product being produced.
[2] Unenforceable because it is unseemly for an investor to pursue a smallholder farmer through the courts for a small amount of money. Significant problems arise for credit providers when thousands of small debts are not paid.
[3] Properly the 'Offtaker', a term used in project financing to describe the party who buys the product being produced.
[4] Enforceable by the Investor on the VCDF but probably not enforceable on the individual farmers.
[5] Either the Investor supplies inputs or provides credit to the cooperative or gives a guarantee to the cooperative lenders.

### *1.4.4 Model 4 Farmers Corporate*

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

***Table 1.1 Investor/Out-grower Business Models***

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

## 1.5 Investor / Out-grower Contracts

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

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

See **ZG TEMPLATE 1** for principles guiding Out-grower -Supplier agreement and

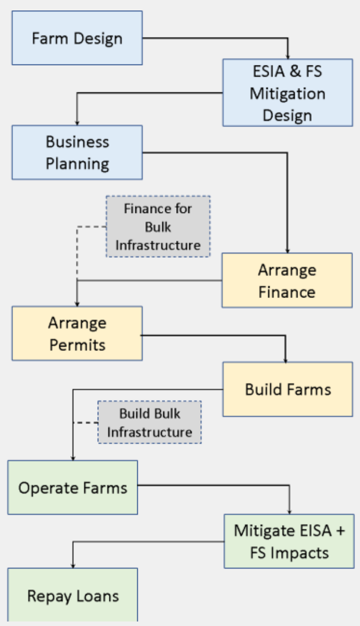
**GMOU Template 4** for a MOU template between investors and farmers. The differences that emerge from selecting the different Out-grower Models are discussed in detail in the Out-grower model template (**ZG TEMPLATE 2**). It is important

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

## 1.6 Generic Out-grower and Investor Processes

Below are given the steps to be followed by Out-grower s and Investors in setting up their businesses:

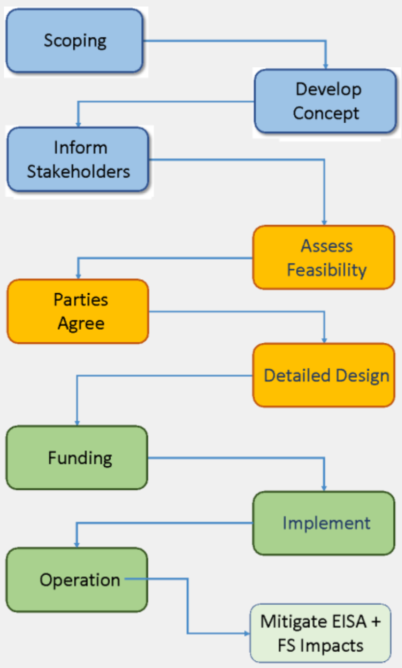
*Table 1.2 Process Flow for Out-growers*




| Process for OUT-GROWER S to Follow | Matters for OUT-GROWER S to Consider | |
|---|---|---|
| | Design Farm + Organization | Technical: Soils, Crops, Water, Nutrients |
| | | Organization: Groups, Governance, Sharing |
| | ESIA + Food Security | Impact: assessment and Mitigation Plan Environment, Food Security Mitigation |
| | Business Planning | Business: Income, Cost, Management |
| | | Finance: Loans, Interest, Collateral, Repayment |
| | Funding: | Sources, Conditions, Repayment. Donors, Dev Banks, Pvt Banks, Govt |
| | Permits: | Land, water, environment as Govt Requires |
| | Construction: | Building of Farms and Infrastructure |
| | Operate Farms | Farm Operations and Business Management |
| | Mitigation | Environment Impacts and Food Security Mitigations |
| | Repay Loans | Funders Loans and Contributions Repaid |

*Table 1.3 Process Flow for Investors*

| Process for INVESTORS to Follow | Matters for INVESTORS to Consider | |
|---|---|---|
| | Scoping | Objectives & Land Requirements Defined. |
| | Develop Concept | Preliminary Assessments & Concept Designs: |




| | |
|---|---|
| Inform Stakeholders | Introduction to Local Govt & Community |
| Assess Feasibility | Technical Design for Out-grower s |
| Parties Agree | Model Selection and OG Selection |
| Detailed Design | Business Plans; EISA & Food Security Plan. Funding Application |
| Funding | Funding Approved and OG Contracts Signed |
| Implement and operate | Final Design & Construction of Farms and Infrastructure<br>Training for Operations and Management |
| Mitigate Impacts | ESMP and Food Security Plan Implemented |

More details are given in the Out-grower -Investor processes template (**ZG TEMPLATE 3**). The strategy for ensuring food security in host communities in provided in **ZG**

**Template 4**.

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

## 1.7 Funding of Out-grower Investments

- Experience in Out-grower development in African countries points to the need for government and development finance institutions to support Out-grower projects in the form of grants and soft loans.

- Some Out-grower projects require bulk infrastructure such as roads, power supplies, and irrigation dams and main canals. Such infrastructure is best funded by the state with assistance from donors. The investors' role should be to contribute data and information to enable the design of facilities by the proper agencies.

- It is not recommended to rely on investors to fund the Out-grower development and operations. Investors contribution should be technical and organisational support.

- The different ways to fund / finance the components of Out-grower investments are shown here:

*Table 1.4 Types of Funding and Financing for Investor and Out-grower Development*

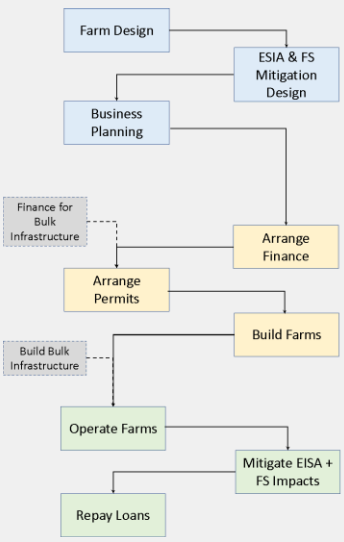
| Project Elements | Ideas for Funding and Finance |
|---|---|
| investor facilities: factory and nucleus estates | Investors equity + debt from commercial and development Banks |
| Private Infrastructure for investors facilities | Investors equity + debt from commercial and development banks |
| Public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

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

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

*Table 1.5 Options for Funding of Different Components of Out-grower Development*

| | Suggested Sources of Funding | |
|---|---|---|
| | Design Farm, Infrastructure & Organization | Investor Leads Process and provides base funding |
| | ESIA + Food Security | Additional Funds from Government and Donors eg IFAD |
| | Business Planning | |

| | | |
|---|---|---|
|  | Funding: Identify sources of funds and finance | Investor Leads Process and provides base funding<br>Additional Funds from Government and Donors e.g. IFAD |
| | Arrangement for and Payment of Permits: | |
| | | Debt collateralised by Contract with investor. |
| | Construction of Farms | Support from Government and Donors either as Guarantee or Equity |
| | Operate Farms | Government and Donors e.g. IFAD |
| | Mitigation<br>Repay Loans | Investor<br>Out-grower |

# 2 OUT-GROWER TEMPLATES

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

The following toolkits:

1. Stakeholder Engagement Toolkit
2. Environmental and Social Risk Management Toolkit
3. Land Access, Easement and Involuntary Resettlement Management Toolkit
4. Global Memorandum of Understanding Toolkit
5. Grievance Redress Mechanism Toolkit
6. Community Needs Assessment and Development Toolkit
7. Out-growers and Food Security Toolkit
8. Stakeholder Engagement Strategy

Having been prepared by the FRILLIA Technical Committee, it has been endorsed by the Chairman of the FRILLIA Steering Committee.

**APPROVED BY:**

16th December, 2025

His Excellency

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**Deputy Governor of Zamfara State**
**Chairman Steering Committee**