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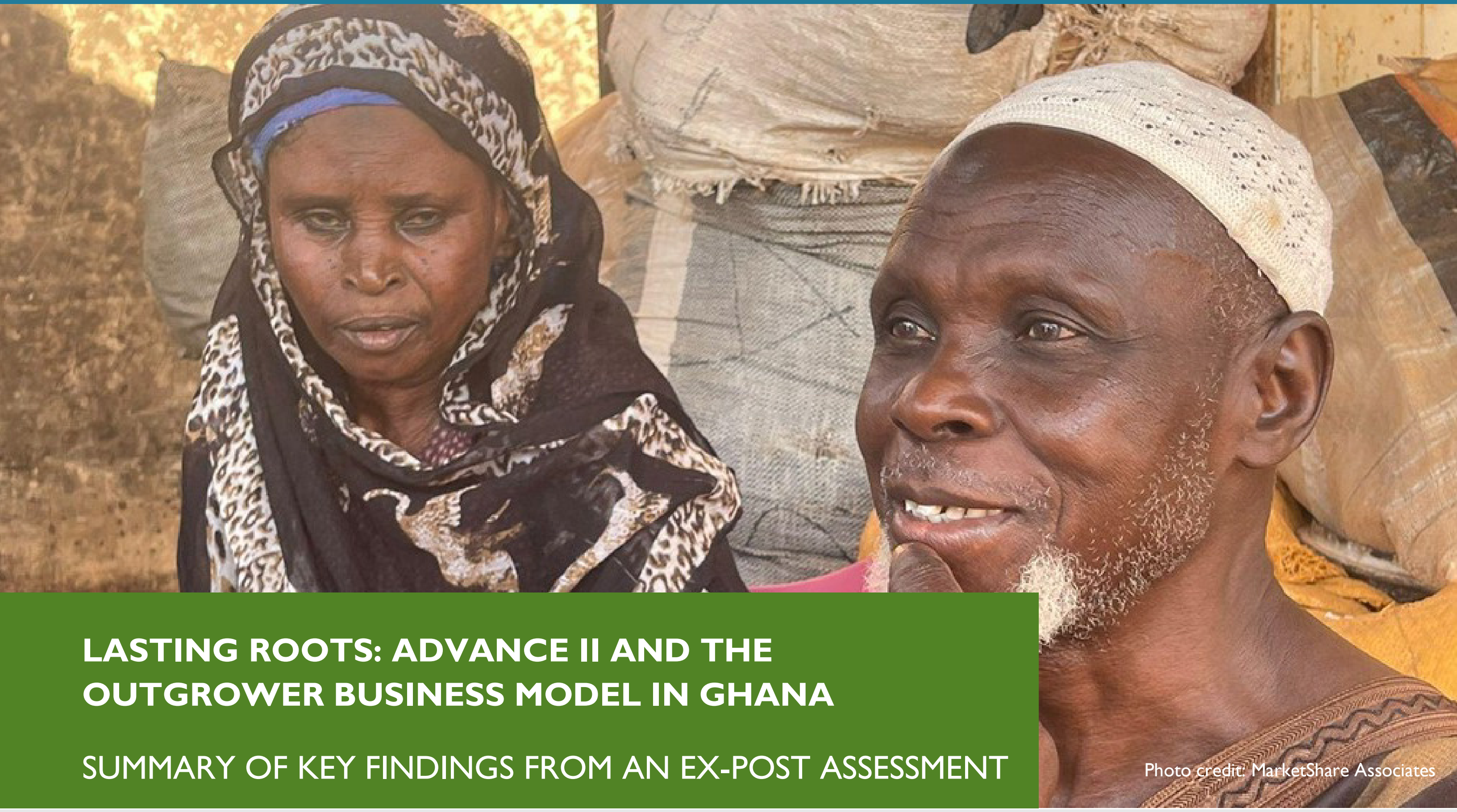

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LASTING ROOTS: ADVANCE II AND THE OUTGROWER BUSINESS MODEL IN GHANA

SUMMARY OF KEY FINDINGS FROM AN EX-POST ASSESSMENT

The market systems development (MSD) approach has significant potential to foster sustainable and inclusive economic growth. Yet monitoring and assessing contribution to systemic change is complex and ex-post studies are infrequent. This has limited the availability of formal evidence on the longer-term impacts created by market-driven programming. To expand the evidence base, USAID is supporting a global series of ex-post evaluations to ask:

What happens to the sustainability and scalability of (i) systems changes and (ii) the resulting outcomes, years after a program that adopted elements of the MSD approach ends?

This brief captures highlights from the second study in the series of ex-post evaluations, conducted in 2023, three years after the closure of USAID's Feed the Future ADVANCE II Activity. Using USAID's Disrupting System Dynamics (DSD) framework as an analytical tool for understanding systems change, the research examined the scale and sustainability of changes resulting from ADVANCE II's **introduction of the Outgrower Business (OB) model in Ghana.** The findings, summarized in this brief, show a relatively positive evolution since project closure, with three of the four intended systemic changes enduring over time. The full report and others in this series are available at Agrilinks.

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BACKGROUND

Ghana's agriculture sector is a critical component of its economy, employing 39 percent of Ghana's workforce, and maize, rice, and soybean value chains contribute significantly to the economic well-being of smallholder farmers based in northern Ghana. However, smallholder farmers in the north often suffered from a lack of access to inputs and mechanization services that hampered their productivity and income. Moreover, farmers also suffered from obsolete information on production and post-harvest practices that were inhibited by lack of market access.

ADVANCE II introduced the Outgrower Business (OB) model to address these constraints and provide improved access to information, inputs, mechanization, and buyers.

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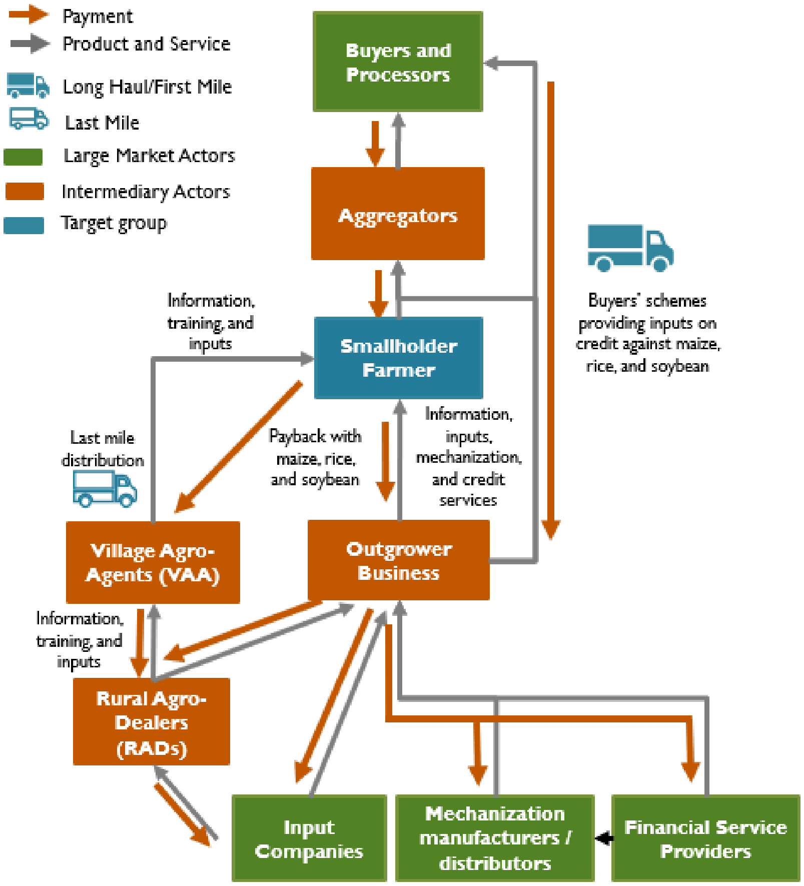
ADVANCE II AND THE OUTGROWER BUSINESS MODEL

ADVANCE II worked closely with ADVANCE I-trained lead farmers to develop the Outgrower Business model. The OB model was developed by supporting lead farmers to operate as micro or small enterprises that offered a range of services to smallholder farmers. These services include improved access to inputs, information, mechanization, and aggregation services for smallholder farmers. Figure 1 shows the flow of inputs and services the model offers to farmers, and the relationship of the OB with other market actors.

Before the Activity, most farmers did not have a linkage with supporting market actors such as input companies, institutional buyers and processors, financial institutions, and extension services. ADVANCE II intended to create systemic change through an intermediary with a local presence and the capacity to build business connections with formal market actors. As a result, the Activity introduced the OB model. According to the ADVANCE II final report, an OB (i.e., an individual enterprise) builds relationships with the public and private sectors that help provide services to smallholder farmers. Operating at the village level, the OBs serve as links between farmers and service providers while offering some services themselves.

Figure 1: Flow of services through OB model



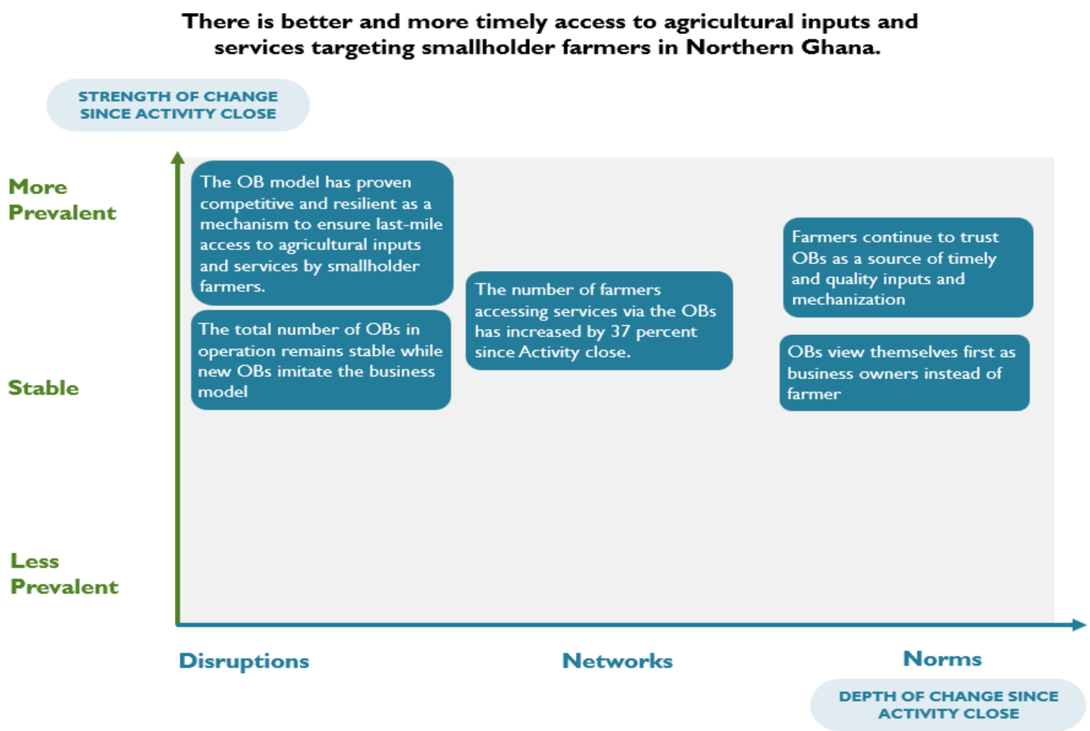
LEGACY OF CHANGE

The study examined four areas that demonstrated potential for systemic change at the end of ADVANCE II. Three years later, **three systemic changes had endured and thrived, and one did not achieve the desired changes.**

Systemic Change #1: There is better and more timely access to agricultural inputs and services targeting smallholder farmers in northern Ghana.

- Since the Activity's closure**, the total number of OBs in operation remains stable, while there are signs of imitation by new OBs** that offer services to farmers.
- **OBs view themselves first as a business owner instead of a farmer** and continue to invest in fixed assets to support their business activities. This suggests OBs' confidence in the business model's viability and their vision to continue providing services to the farmers in the future.
- **The OB model has proven competitive and resilient as a mechanism to ensure last-mile access to agricultural inputs and services by smallholder farmers.** OBs have increased the number of services offered and increased their average revenue from the sale of inputs by 80 percent in 2022 (USD 7,740) compared to 2020 (USD 4,300).
- **The number of farmers accessing services via the OBs has increased by 37 percent since the Activity closed.** The total number of OB farmers increased from 44,720 in 2019 to 61,422 in 2022.
- **Farmers continue to trust OBs as a source of timely and quality inputs and mechanization.** Ninety-four percent of OB farmers expressed satisfaction with threshing and shelling services, in comparison to 63 percent of non-OB farmers. Figure 2 shows the increase in number of OB farmers since the Activity ended.

This figure summarizes how aspects of systemic change #1 evolved between the end of ADVANCE II and the ex-post evaluation. More in the full report.



Systemic Change #2: Input companies and dealers see a profitable business case for promoting quality inputs to remote farmers in northern Ghana.

- **Input companies selling inputs in northern Ghana experience greater profits** as 75 percent of the input companies interviewed reported that their sales have increased in the north and attributed a large portion of the increase to working through OBs. Several companies started selling to OBs to increase their sales and grow/expand their businesses. In 2022, each OB worked with four input companies and dealers on average, compared to only two input companies and dealers in 2020.
- **48 percent of the input companies indicated investing to expand their business to new regions of northern Ghana** since the close of ADVANCE II. These companies used RADs and OBs as their distribution channels to reach new locations in northern Ghana. Input companies also benefited from rural agrodealers' investments in input distribution. The average value of these investments by agrodealers is approximately USD 3,100, and they mainly invest in storage and warehousing facilities.

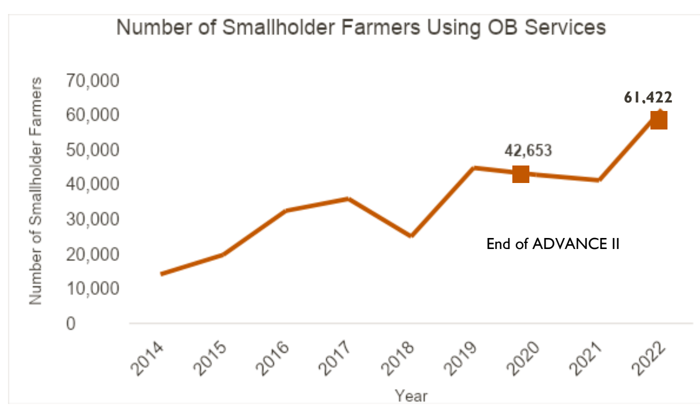
Systemic Change #3: Buyers and processors consider northern Ghana an attractive and consistent source of high-quality cereals.

- The farmers served by OBs have remained an important procurement source for buyers and processors in northern Ghana. **Cereal processors have continued to procure greater volumes of maize and soybean from the north through OBs** than in 2020 due to higher quality compliance.
- Buyers note several advantages of buying from the OBs. When comparing OBs to non-OB aggregators, **buyers and processors observed that purchasing crops through OBs tends to be faster and more efficient.** Non-OB aggregators often lack the same level of organization and struggle with arranging transportation for the products. However, buyers also acknowledge that OBs primarily work with smallholder farmers and thus cannot meet their required volumes.
- The relationship between buyers and the OBs has become less formal since 2020 and **they no longer engage in formal contracts.** While buyers indicated trusting the quality of crop procured through OBs, they did not trust OBs to honor their contractual obligations, as OBs and their farmers were more likely to side-sell to other aggregators at higher prices.

Systemic Change #4: The barriers to agricultural financing have not been resolved.

- The 70 percent **subsidy on farm equipment did not incentivize equipment financing through formal financial institutions.** No suitable financial model has emerged for potential buyers of medium and large machinery like tractors and combined harvesters. Equipment leasing models specific to the agriculture sector are virtually non-existent.

Figure 2: Number of Smallholder Farmers Using OB Services



GAINS TO TARGET POPULATIONS

OB farmers report consistently earning a higher gross margin than non-OB farmers. OB farmers have greater gross margins even after higher costs of production as compared to non-OB farmers. Maize and rice farmers' profits were more than 170 percent higher than non-OB farmers. Soybean OB farmers made only 18 percent higher margins compared to non-OB farmers due to the larger cost of production and marginal change in yields during 2022.

In 2022 the **OB farmers achieved better yields compared to non-OB farmers.** Farmers attributed the use of hybrid seeds, quality fertilizer, and pesticides towards higher yields.

Moreover, yields for OB farmers for all three cereals have improved in 2022 compared to their yields in 2013. This shows that there is a wider adoption of quality inputs and good cultivation practices among OB farmers.

Engagement of women within the cereal production and supply chain process has been critical for the success of the OB model. One of the OB networks explained the benefit of adding female farmer groups to the OB Network. These groups helped the OB network to reach more female farmers and engage them in new roles. For example, one of the group members became the first female tractor operator in Tamale after being trained by the OB.

IMPLICATIONS FOR PROGRAMMING

Trust is essential for enduring changes in market relationships.

- Trust levels between OBs and the farmers they served are strong. A core driver of this is that OBs displayed technical expertise and credibility, reliable delivery of services, and maintained an interpersonal bond with their farmers.
- However, trust levels remain weak between OBs and other market actors (e.g., input companies, buyers, processors, financial institutions). Even though buyers trusted OB technical ability, the OBs did not maintain reliable delivery services. This was primarily driven by OBs' failure to honor contractual terms with processors and other buyers.

Subsidizing transactions creates quick results, but rarely leads to systemic change.

- Subsidizing the transactions between market actors is much less likely to create systemic change than addressing the core drivers of market failures.

Enhancing OBs' business skills and revenue sources can mitigate the sustainability risks of microentrepreneur-driven business models.

- The strong emphasis placed by the Activity on building the OBs' business acumen seems likely to have played an important role in their continued operations.

Careful scaffolding of activities can support sustainable and systemic changes.

- In a thin market, the creation and enhancing capacities of market actors (such as OBs and farmers) in the business model may be necessary.
- As these interventions took hold, the introduction of the OB network and the development of OBs as trainers enabled farmers' continued access to information and capacity development. This approach of scaffolding of activities helped drive sustainable and systemic changes in practices.

Access the full report, *Lasting Roots: ADVANCE II and the Outgrower Business Model in Ghana,* at www.agrilinks.org/msp.

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