

Inclusive agribusiness

Review and Synthesis of 7 case studies in Madagascar

By Endeava and HERi Madagascar



On behalf of
Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)

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Endeava is a company of experts specialized in developing, sharing and applying business solutions to development challenges. To achieve this goal, we work with a wide range of partners, including companies, NGOs, donors, universities, and other intermediaries. Endeava looks at a longstanding and fruitful cooperation with GIZ, including through several publications on the development of inclusive businesses. Managing Director Dr. Christina Tewes-Gratl led the present study.

www.endeava.org

HERi Madagascar is a social enterprise that builds and manages a network of solar energy kiosks in off-grid rural areas without electricity, selling products and services of high societal value. A longstanding partner of Endeava, HERi has a strong background in the development of an inclusive business model with the Malagasy rural communities, with a good knowledge of the profile of these populations and strategic integration of commercial activities. Samy Rakotoniaina, Business Development Manager, led the research with Jean Jacques Andrianaivo, HERi's expert in agriculture.

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Preface

"Inclusive business models expand access to goods, services, and livelihood opportunities for those at the base of the pyramid in commercially viable, scalable ways"

IFC (International Finance Corporation)

Agriculture remains a key sector in Madagascar considering both the natural and human resources of the country. The livelihood of 78% of households depends on the sector in the short and medium term. In this light, moving from subsistence agriculture to commercial agriculture is a potential way to pull smallholder farmers out of poverty. Agribusiness offers indeed stable and sustainable market opportunities, through the promotion of high value products (fruits, spices, vegetables, meat, dairy products) and exports.

As a prerequisite for working with agribusinesses, smallholder farmers must meet the quality and quantity demanded at the specified time. To achieve this, smallholders require access to good production practices, inputs and equipment. If these are not available, the agribusiness company is often forced to organize this support to smallholder farmers itself. Some specific challenges for companies working with smallholder farmers include high illiteracy rate, bad communication networks and lack of strong farmer organizations. Still, some companies have established successful partnership models with smallholder farmers and succeeded by building networks and strong supply chains. This "inclusive business" approach can be an important differentiating factor in the market.

GIZ promotes agribusiness development, and we have developed several partnerships with private agricultural companies in Madagascar.¹ A qualitative study on contract farming practices was conducted in June 2014 (*"Contractual Farming in Madagascar: A Qualitative Study of its Determinants"*), followed by a training on the subject in September 2014.

This study, commissioned by GIZ, aims to share experiences on inclusive agribusiness models by documenting and analysing seven cases of agribusiness companies operating in Madagascar.

Main questions addressed by this report are the following: to what extent are the models developed by these companies truly inclusive? How do the studied companies ensure their commercial viability and long-term sustainability of the partnership? And finally, are these models replicable to reach a broader impact?

Our thanks go to Endeva and HERi Madagascar for their analysis and also to the companies that were willing to share their experiences.

Alan Walsch

Resident Director

GIZ Madagascar

¹ Two partnerships with the private sector have been established in the last 3 years in Madagascar in the field of agribusiness, namely: (1) A partnership with Lecofruit between 2012 – 2014, which aimed to expand agricultural productivity and economic diversification of smallholder farmers in the Malagasy highlands. Two key activities were initiated: first, micro-irrigation systems were introduced to increase water efficiency and productivity of the farmers; and second, the transition to organic farming and sericulture was supported to generate new income opportunities. (2) A partnership with Symrise/Unilever is ongoing in the Sava region, which targets small-scale vanilla producers to improve their productivity and thereby their living conditions.

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1. EXECUTIVE SUMMARY

Overview

In recent years, an increase in the flow of investment to agriculture has been recorded in Madagascar. Private companies have seen the potential to source agricultural products and established collaboration with smallholder farmers through inclusive agribusiness models. Contract farming is one way to include smallholders as producers in the value chain. This type of contract establishes a long-term agreement between farmers and an agribusiness company. The parties agree in advance on prices and supply conditions. Various support services can also be provided to farmers as part of the contract to ensure production, including, for example, the provision of inputs, financing, training or logistics.

The main purpose of this study is to explore the potential of inclusive agribusiness in Madagascar to contribute to smallholder wellbeing, as well as identifying common challenges and gaps that remain to be addressed. This study reviews seven case studies of agribusiness companies working with smallholders through contract farming in Madagascar with the objectives of (i) assessing opportunities and challenges facing the involved stakeholders, (ii) defining how inclusive, profitable and replicable the models are and (iii) making recommendations for promoting inclusive agribusiness in Madagascar. It is based on a literature review and data gathered during field work through extensive consultation with companies, smallholders, key institutional actors and development partners

The seven case studies, located in various Regions of Madagascar, are the following: (i) two lychee exporters (QualityMad and SCRIMAD) (ii) a fruit juice processor and exporter (HavaMad), (iii) a castor oil processor and exporter (PHILEOL), (iv) a dairy processing enterprise (Socolait), (v) an industrial group diversifying its activities in the production and export of black eyed pea (SOCOTA) and finally (vi) a rural development and applied research centre (FIFAMANOR).

Opportunities and Challenges

This review shows that inclusive agribusiness creates mutual benefits for business companies and for smallholders in Madagascar. On one hand, companies benefit from working with smallholders through guaranteed quantity and quality of supply, securing stable prices and quick access to land and production capacity. On the other hand, smallholders perceive benefits such as access to market at a guaranteed volume and price, access to inputs and technical support and training.

However, many challenges remain creating high transaction costs. Common challenges faced by the companies are low level of skills of farmers and technicians, limited infrastructure (road and irrigation), lack of access to inputs and low quality of the products. Furthermore, in the absence of formal and informal mechanisms to enforce compliance, smallholders tend to sell to whoever provides the highest price through side-selling, even though they may have received inputs or credits by the partner company.

Often, solutions are based on establishing collaboration with institutional and development partners, as well as community leaders. While in the end mutual trust is the basic and critical reason why contracts succeed or fail, a profit for both parties is crucial for creating a viable business that can sustain itself.

Inclusiveness, Profitability and Replication

As described by Ganguly², this study distinguishes four levels of inclusiveness as contract farming arrangements are at different stage of growth: (i) formation stage, (ii) consolidation stage, (iii) responsible business stage, and (iv) true partnership stage. In Madagascar, most of the cases studied are still between formation and consolidation stage. The concept of inclusiveness is therefore still under development in Madagascar and few companies have reached the phase of "true partnership".

With regards to profitability, access to a high value market is a necessary condition for an inclusive agribusiness to be viable, whether companies are exporting high-value crops for international markets or foodstuff to local markets. While the international market can provide long-term commercial viability, solid processes are required, including strong and effective contract farming structures that can guarantee specific qualitative and quantitative requirements.

² „Contract farming, can it be a vehicle for inclusive growth?“ Ujal Ganguly. 2013

Replicability of the contract farming models studied in this report seems possible, given that certain structural and contextual conditions are met. Adapting business models to the country's social and economic context is paramount to improving the inclusiveness of contract farming activities and maximizing their economic viability.

Recommendations

In order to combine inclusiveness and commercial viability, companies must invest in capacity building and access to inputs for farmers and establish fair contract conditions. Commercial viability can be achieved by encouraging partner farmers to join together in formalized structures (e.g. cooperatives), finding a reliable and sustainable market, and optimizing operating costs.

Partnership with Development agencies like GIZ or international NGO's can help to make these collaborations even more rewarding by both sides :e.g. by building the capacities of agricultural training centres, supporting farmer training or robust producers' association, developing innovative technologies and sharing best practices on inclusive agribusiness from around the world.

2. BACKGROUND

The study reviewed seven agribusiness companies in different regions of Madagascar, assessing advantages and disadvantages, opportunities and constraints of the various contract farming models and under which conditions the models could be best replicated. These companies integrate smallholders into their value chain mainly as producers, through a contract farming approach.

2.1 Inclusive agribusiness models and contract farming

The term “business model” is defined as the rationale for how a company creates and structures its relationships to capture value³. The more a business model involves partnerships with local smallholders or the community and the value is shared among the partners, the greater its inclusiveness. This includes both sourcing from and providing inputs to smallholders, as inclusive agribusinesses cover various stages of the value chain.

The present study focuses on contract farming models⁴ as one widely used way to include smallholders into the value chain of an agribusiness company in Madagascar.

2.2 Contract farming models

The GIZ Manual on Contract Farming⁵ defines contract farming as “a forward agreements specifying the obligations of farmers and buyers as partners in business. Legally, farming contracts entail the sellers’ (farmers’) obligation to supply the volumes and qualities as specified, and the buyers’ (agribusiness company) obligation to off-take the goods and realise payments as agreed. Furthermore, the buyers normally provide embedded services (input delivery, pre-financing, training, extension etc.).” Contract farming is one of the most widely used and most effective models in inclusive agribusiness. While companies benefit from a reliable supply of raw material, farmers in return gain technical and material support with guaranteed market access.

The various contract farming models

According to Eaton and Shepherd (2001), “Contract farming usually follows one of five broad models, depending on the product, the resources of the buying company and the intensity of the relationship between farmer and company that is necessary”:

- **The informal model:** involves informal production contracts between agribusiness companies and farmers, usually on a seasonal basis and involves greater risk of by-selling. It is a relatively speculative model insofar as both parties may fail to deliver. The services of the buyer tend to be limited to the supply of basic inputs and quality control.
- **The intermediary model:** in this model, the agribusiness company (buyer) subcontracts an intermediary - a middleman, aggregator or smallholder organization - to supply agricultural products. The intermediary, in turn, agrees on a deal with farmers, while providing the services necessary for production.
- **The multipartite model:** involves a partnership between three different actors, including, for example, the farmers, company and either a public institution / programme or financial institution. This model particularly applies to parastatal enterprises or community enterprises.
- **The centralized model:** this is the most common model where a centralized processor is buying from a large number of small farmers. It is vertically coordinated, and the agribusiness company is in control of the production chain, by providing inputs and controlling production and harvesting process.
- **The nucleus estate model:** In this model, the buyer sources both from own estates/ plantations and from contracted farmers. The estate system involves significant investments by the buyer into land, machines, staff and management.

³ See FAO. 2013. Review of smallholder linkages for inclusive agribusiness development

⁴ Other models include joint ventures, farmer-owned businesses, contract management.

⁵ Gradl, Kükenshöhner, Schmidt, Ströh de Martínez (2012). „Growing Business with Smallholders A Guide to Inclusive Agribusiness“. GIZ.

The various development stages of a contract farming model

According to a typology by Ganguly, the maturity of a contract farming business can be described by 4 stages, as shown in the table below.⁶

Table 1 : Stages of a contract farming according to Ganguly

Stage	Key characteristics of the stage	Time-frame
Stage 1: Formation Stage	<ul style="list-style-type: none"> ▪ Both parties are primarily eyeing immediate monetary benefits ▪ Contracts are either informal or are mostly one sided, drawn without mutual discussion ▪ The terms on product selection, practices to be adopted, quality parameters, volume commitments and pricing mechanisms are decided (generally unilaterally) by the contracting company ▪ Lack of transparency in procurement process ▪ Side-selling is common in case of market fluctuations 	2-3 years or 4-6 production and procurement cycles
Stage 2: Consolidation Stage	<ul style="list-style-type: none"> ▪ Both the parties are convinced of the benefits of the system and strive to make the system more robust with a long term perspective ▪ Producer's Association is formed and begins to get active ▪ Price determination and testing of quality becomes more transparent and fair with a degree of involvement of Producers' Associations ▪ A formal contract is drawn, and the terms are discussed with the Producers Association ▪ Both parties show more willingness to resolve the issues through mutual discussion ▪ Support systems like input supply, credit, insurance are put in place 	3 -5 years
Stage 3: Responsible Business Stage	<ul style="list-style-type: none"> ▪ Producer's Association is empowered to be able to negotiate the terms of the agreement with the company ▪ Systems and processes become much more transparent and fair with active involvement of Producers' Associations ▪ Active involvement of producers in price determination and procurement process ▪ Both parties are willing to consider environmental/social issues for a more sustained/long term association ▪ Company works with the producers' on soil and water conservation measures in project area 	5-10 years
Stage 4: Sharing of Risk and Return - The True Partnership Stage	<ul style="list-style-type: none"> ▪ There is complete trust and transparency between the producer and the company ▪ Companies are ready to share the profits with the producers ▪ Companies also compensate for the gradual erosion of the producers' assets like soil and water 	This is the ideal stage and can take decades to reach

⁶ "Contract farming: Can it be a vehicle for Inclusive Growth?", by Ujjal Ganguly, 2013.

2.3 Agribusiness in Madagascar

With almost 600,000 square kilometres, Madagascar is the fourth largest island in the World. Off the coast of Southern Africa, the “Grande Isle” enjoys a tropical climate, with a hot rainy season and a cooler dry season. Out of 41 million hectares of agricultural land, only 3.5 million hectares (8 %) are cultivated annually⁷ and 1.1 million hectares (3 %) are irrigated.⁸ The remaining area is covered by pastures and forest.

There are over 2,4 million farms in Madagascar. The large majority are smallholders, with farms smaller than 1,3 hectares⁹. Smallholder farming is characterized by fragmentation and lack of mechanization, a large variety of crops, limited equipment, infrastructure and poor water control, which ultimately leads to low yields. Most smallholders are subsistence farmers, harvesting barely enough to feed their families. Nearly 75% of Malagasy households earn at least part of their income from farming.

Food crop production is the most important agriculture sub-sector accounting for around 75% of the cultivated area.¹⁰ Rice is the staple food, covering 1.34 million hectares throughout the country under both rain-fed and irrigated systems. Other food crops include maize, cassava, sorghum, beans, groundnuts, sweet potatoes and vegetables. The main cash crops are cotton, vanilla, coffee, litchi, pepper, tobacco, groundnut, sugar cane, sisal, clove and ylang-ylang. The map shows production areas of the main crops.

Despite the agricultural potential of the country, most Malagasy farmers do not have access to a reliable and sustainable market for their products. Some companies, including processors, exporters, and supermarkets are thus creating links between market and smallholder through agribusiness activities. More than 450 agribusiness companies are legally established in Madagascar, including some major processing and exporting companies.



Figure 1 : Map of agricultural products localisation in Madagascar

⁷ FAO. Statistical Yearbook 2010, Resources Table 4 Land Use

⁸ FAO Aquastat

⁹ FAO. The state of food and agriculture 2010-11 Annex 3, Table A5.

¹⁰ FAO. Statistical Yearbook 2010, Agricultural Production Tables 1 to 9.

3. Case studies

Based on a previous GIZ workshop on contract farming in September 2014, seven companies were selected as case study. Selection considered the location of the company, the diversity of crops, the type of contract with smallholder farmers, as well as established contacts with the company. Companies who were willing to participate and be part of the case studies were then approached and contributed to the analysis of their inclusive agribusiness model. The list below provides an overview of the companies.

The seven case studies are the following: (i) two lychee exporters, QualityMad and SCRIMAD, who cooperate closely with a range of lychee producers and collectors in the east and south-eastern part of Madagascar, (ii) a fruit juice processing company, HavaMad, which supplies mainly to the European market and works together with farmers' cooperatives through a contract farming framework, (iii) a castor oil processing and export company, PHILEOL, which partners with smallholder farmers, (iv) a dairy processing enterprise, Socolait, which works directly with leader farmers to secure fresh milk collection, (v) a major and diversified industrial group, SOCOTA, which contracts smallholders to farm its land in the north-western region of Madagascar and (vi) finally, a rural development and applied research centre, FIFAMANOR, contracting with cooperative for the production of wheat seeds.

Table 2 : Overview of the seven case studies

Name	Activity	Agricultural products	Number of farmers included in the value chain
FIFAMANOR	Research	Wheat seeds	64
HavaMad	Processing and export	Pineapple	101
PHILEOL	Processing and Export	Castor beans	3000
QualityMad	Export	Lychees	+100
SCRIMAD	Export	Lychees	1000
SOCOLAIT	Processing	Milk	2500
SOCOTA	Export	Black Eyed Beans	+900

This study is based on literature review and data gathered during interview with company managers, smallholder farmers working with these companies, cooperative leaders as well as key institutional actors. A brief overview and analysis of the 7 case studies can be found below.

3.1 FIFAMANOR



Background and Description

FIFAMANOR or “Fiompiana Fambolena Malagasy Norveziana” is a rural development and applied research centre based in the central Highlands of Madagascar. FIFAMANOR was created in partnership with the Norwegian government, with the goal of increasing the productivity of farmers and ranchers through Research and Development activities. The centre promotes the milk sector and the production of tuber crops (potato, sweet potato, and taro), as well as a model of contract farming for the production of wheat seeds to supply a flour factory.

History

FIFAMANOR was established in 1972 through collaboration between the governments of Madagascar and Norway. A state-owned company from the beginning, the company obtained the status of a Public Service Operation in 1992. Madagascar’s political crisis in 2009 put an end to Norway’s support, forcing FIFAMANOR to self-finance itself under the supervision of the Malagasy Ministry of Agriculture and Livestock. Cooperation with rural seed producers began in 2013 as part of a program financed by the Swiss cooperation in the wheat sector, with the aim of meeting growing demand from flour Factory “Les Moulins de Madagascar (LMM)”.

KEY INFORMATION	
Founded in	1972
Legal Status:	Public Service Operation (EPIC)
Core activities :	Research and development on cattle breeding, particularly Red Norwegian Cattle for milk production, and on development of agricultural techniques for tubers and fodder
Products:	Seeds, milk, cattle
Human Resources:	110 employees
Number of smallholders included :	64
Number of cooperatives:	2 member of cooperatives : 2

Inclusion of Smallholder Farmers

FIFAMANOR works with smallholders to carry out wheat seed production, the collaboration being formalized through a contract with cooperatives. The centre pre-finances all inputs required for the production of crop seeds, and is also responsible for their collection. FIFAMANOR works with the Public Bodies for Intermunicipal Cooperation, which encourages farmers to produce wheat for LMM. LMM buys then wheat from farmers at a minimum fixed price per kilo. Smallholder cooperatives are also involved in the collection and delivery of wheat to LMM

Benefits of the Model

For FIFAMANOR, creating contracts with seed producer cooperatives allows it to ensure regular production with stable purchase prices and guaranteed quality.

As for the producers, a guaranteed market is the main benefit of the partnership with FIFAMANOR, in addition to technical support, input supply and monitoring services provided to the cooperatives. Moreover, pre-financing of the inputs allows farmers to have better profit margins. As a result, the standard of living of the households involved is clearly higher than the local average. In addition, demand from LMM represents a huge opportunity for wheat farmers in the region.

Challenges

Achieving financial autonomy remains the main challenge for FIFAMANOR activities, which limits the extent and application of its research. Existing infrastructure - equipment, buildings, laboratories - need to be maintained or upgraded.

The supply level of wheat seed also remains relatively low compared to existing demand. Growing wheat is also a rather unfamiliar activity in Madagascar, which limits its expansion.

Solutions

As a self-funded organization, FIFAMANOR uses all available resources to finance itself. The centre is also involved in several activities that can generate extra-revenue to ensure operations. For example, FIFAMANOR regularly handles calls for proposals from external organizations, in collaboration with national and international collaborators. Training and mentoring practices are also a key tool in developing activities with agricultural partners.



Figure 2: Illustration of wheat products

Outlook

FIFAMANOR is an organization working and striving for agricultural and rural development through research and agribusiness activities. It is currently collaborating with other international research centres in order to gain more experience and enhance its role within the field of agricultural research. The centre also strives to improve information dissemination mechanisms and ensure its contribution to public services. Through continued collaboration with the development programs and LMM, FIFAMANOR plans to produce 80 tonnes of wheat seed in 2015 with a continuously growing number of producers.

3.2 HavaMad



Background and Description

HavaMad is a young company that processes fruit juice, sold mainly in the European market (95% of production). HavaMad works with farmers' cooperatives based on contracts outlining the conditions of the agreement. Production areas are located in the Central Highlands of Madagascar. HavaMad holds BIO certification, reinforcing its policy of sourcing high-quality organic products from smallholder producers.

KEY INFORMATION
Founded in 2013
Legal Status: Free Company
Core activities : Collecting, sorting, washing, pressing, bottling, labelling fruit juice
Products: Pineapple (100% pineapple juice)
Human Resources: 70 employees
Number of smallholders included : 500
Number of cooperatives: 6

History

HavaMad, was launched in 2013 as an agribusiness focused on processing of local fruits. Through the guidance of the Support Programme for Rural Microenterprise Poles and Regional Economies (PROSPERER, funded by IFAD), HavaMad was quickly able to partner with highland farmers grouped in cooperatives through a contract farming model. The first production of pineapple juice took place in March 2014 and the company now intends to expand its product range to other fruits such as passion fruit and litchis.

Inclusion of Smallholder Farmers

HavaMad is an agribusiness model that integrates pineapple farmers in its value chain. The supply of fruit is handled directly between the company and the farmer cooperatives, which eliminates the need for middlemen.

Both the company and the farmers' cooperatives sign a formal contract outlining the conditions of supply, to be provided on a regular basis with a fixed price per kilo, as well as the quality and quantity required by export industry standards. Payments are transferred via the mobile money system (MVoLa).

Benefits

The contracts with farmers ensure a guaranteed purchasing price for HavaMad's raw materials, as well as a guaranteed supply. In addition, the contract ensures the quality required by the company, particularly with regards to organic farming practices and traceability. The company supports farmers and cooperatives to achieve these standards, mainly through providing training on the job.



Figure 3 : Pineapple field and a bottle of HavaMad pure juice

For small farmers, contract farming with HavaMad ensures an outlet for harvested fruits, with a more attractive sales price due to the absence of intermediaries. These farmers also receive mentoring and partnership, which enhances their practices and cultivation of pineapple.

Challenges

Ensuring commitment of the farmers in meeting supply terms remains a relatively difficult challenge to overcome, particularly in relation to traceability. Many farmers do not place high value on the signing of contracts and the commitments this entails. In addition to challenges in ensuring proper production methods, the lack of formal structures can also become an obstacle to scaling supply to other areas with high potential.

Solutions

By working in partnership with PROSPERER, HavaMad can ensure more efficient structuring of farmers as well as provide monitoring and supervision. Co-financing of gathering materials (nets, crates) was also initiated to guarantee the quality of fruit from producers. The company is currently expanding its intervention areas in a coordinated fashion to anticipate growing needs in advance.

The optimization of the payment system should also provide greater added value, including by coordinating cash availability at the MVola withdrawal points with farmers’ paydays.

Outlook

HavaMad would like to increase its positive environmental impact through a purification system for wastewater, as well as a project that transforms plant waste into compost. These alternative fertilizers would serve as additional inputs to the farmers, which can help reduce costs. In addition, an increase in the number of staff working on the technical monitoring is part of HavaMad’s strategy of growth and further professionalization, as well as expansion into new products such as mango, lychee and the passion fruit in 2015.

3.3 QualityMad



Background and Description

QualityMad has been exporting lychees to the European market for over fifteen years. As a member of GEL, the Association of Lychee Exporters, QualityMad works with ECOCERT-certified smallholder farmers based on individual contracts, as well as 30 collectors who ensure its fruit supply during the harvest. The company offers various forms of packaging and palleting (standard or customized) to its customers, in 2 or 5.5 kg boxes as required.

KEY INFORMATION
Founded in 2004
Legal Status: Free Enterprise
Core activities : packed lychees ready for export
Products: packed lychees ready for export
Human Resources: up to 400 employees during the lychee season
Number of smallholders included : 100
Number of cooperatives: 6

History

QualityMad was founded in 2004 after having long worked in a family business exporting lychees. The company expanded to onions and tomatoes in 2007, targeting the local and regional market. Today, QualityMad focuses on exporting lychees to France.

Inclusion of Smallholder Farmers

QualityMad integrates smallholder lychee producers in its value chain through contract farming.

During the lychee season, which usually starts in mid-November, the company buys directly from farmers organized in cooperatives. Nevertheless, the company works with farmers throughout the entire year. For example, farmers receive training on

cultivation methods from January onwards to improve the quantity and quality of production. All producers working with QualityMad are formally registered with the tax department, which addresses concerns over the traceability of production and overall professionalism of farmers.

The contract between the producers and QualityMad specifies the procurement conditions and practices needed to meet the export quality norms for lychees. These include health and hygiene standards, as well as farming techniques. The minimum purchase price is set at 800 Ariary/kg and varies between 900 and 1000 Ariary seasonally. Payment to the farmers is always carried out using mobile money (MVola).

Benefits

Through its contract-farming model, QualityMad assures the quality and quantity of lychees it requires per season, with relatively stable prices. The contract also provides a framework ensuring some compliance with quality standards.

For smallholder producers, the agreement with QualityMad guarantees a permanent market and steady annual income through growing lychees. In addition, farmers receive ongoing training on cultivation techniques.

Challenges

Despite the formal written contract, smallholders rarely conform to the agreed conditions of quality and quantity and often give priority to other buyers offering a higher price. This makes it challenging for QualityMad to fulfill its commitments vis-à-vis its buyers.

Buyers no longer accept the previously used method of treating lychees with sulphur due to food safety reasons. The absence of alternative solutions for preserving the fruit has become an issue.

Solutions

QualityMad already helps the farmers work more formally and professionally by requiring tax registration as part of the contract they sign. Regular training and support to smallholder farmers is also undertaken to ensure that they have mastered the appropriate farming practices necessary for certification. QualityMad also raises awareness among smallholders to calculate their own production costs and margins under their contract.

The company is part of a group of 30 exporters who each have a specific supply quota to two permanent clients, the exclusive distributors of Malagasy lychees in Europe. The objective is to ensure a fair and guaranteed price for both producers and buyers.



Figure 3 : Lychee tree and fruits

Outlook

Today, the fruit drying process is still in its early stages. However, QualityMad intends to invest in this activity, particularly to address the large amount of fruit rejected for export. Moreover, high demand from the market, especially from European and Asian buyers, has prompted QualityMad to explore new solutions for preserving the fruit that do not involve sulphur.

3.4 Phileol



Background and Description

The agricultural company Phileol exports castor oil, jatropha, moringa oleifera, prickly pear, neem, baobab, marula and sunflower oils. It exports 95% of its production (mainly to France), of which castor oil accounts for 70% of profit. Castor oil is also the only area in which the company operates through a contract farming model, partnering with up to 3000 small operators. The Phileol processing plant is based in Tsihombe in the region of Androy, in the Great South of Madagascar.

KEY INFORMATION	
Founded in	2008
Legal Status:	Limited Free Enterprise
Core activities :	processing of castor oil for export
Products:	Castor oil, jatropha
Human Resources:	35 permanent employees, 135 seasonal
Number of smallholders included :	5000
Number of cooperatives:	none

History

Phileol was founded in 2008, just prior to a period of political crisis in Madagascar that made economic conditions very challenging for new businesses. Based on the observation that the Malagasy production of raw materials could become a real business opportunity, the founders of the company began a diverse agribusiness, with contract farming for the production of castor oil and collection processes for other cultures. Today, the company conducts research on the use of organic inputs to reduce costs for chemical inputs.

Inclusion of Smallholder Farmers

Phileol has an informal (verbal) commitment with its partner farmers. After identifying suitable partner farmers, it provides the seeds for free inputs. The planting cycle lasts for a period of eight months. Phileol buys the castor grains at harvest time (between September and December) at a fixed price.

To supervise the smallholder producers, Phileol mobilized a team of 15 coaches (often community leaders) locally, each hired to manage a defined area. They are responsible for training smallholder producers on cultivation techniques, improved yields per hectare (currently 150 to 200kg / ha on average), and developing a more professional approach to farming. Most local farmers are relatively opportunistic and tend to grow requested products in a timely manner.

Benefits

Phileol's business model is based on procurement from pre-identified farmers, ensuring quantity for oil production. The absence of a written contract between the company smallholders also allows Phileol to gradually optimize its methods of production, as well as align the interests of the company and the smallholders, before formally agreeing to a written commitment.

For smallholder producers of castor, Phileol offers a market that can potentially absorb all of their production, providing a significant income during the lean period at the end of the year. Production costs are also low for the farmers as the exporting company provides the castor seeds for free. These farmers also benefit from regular technical support from the coaches.

Challenges

Default by the farmers is a main challenge for the company's operations. Phileol provides free seeds, but some farmers do not honour their verbal commitments to sell the supply to the company when another buyer shows up with a better price. In addition, total production remains low despite very large acreages throughout the island, and a significant demand in the castor oil market (100.000T for the current buyer).

Solutions

Phileol is enjoying support from an international NGO (GRET Madagascar) and recently GIZ as well, on improved seeds research. The idea is to achieve significant improvement in farmers' performance while

reducing input costs. Weather conditions also require Phileol to regularly adjust its harvest calendar and production techniques (especially the use of fertilizers). UNDP also contributes to the optimization of the Phileol's business model through technical support and engagement with the smallholder farmers.

Outlook

Other products are already becoming new alternatives for Phileol's commercial activities. The company plans to help structure the smallholder farmers it works with in the medium term to allow them to become truly autonomous economic actors and influencers. In addition, Phileol plans to invest in sourcing to new international markets, which would ensure an increased number of farmers and partners. Although the business model is financially sustainable, Phileol is still in the process of adapting its business model, in order to successfully provide private sector-led solutions to poverty.



Figure 4 : Castor oil plant (*ricinus communis*)

3.5 SCRIMAD



Background and Description

SCRIMAD (Trade, Representation, and Investment Company in Madagascar) is a founding member of the lychee exporters group (GEL). SCRIMAD imports and exports various products, including pepper, cinnamon, vanilla, cloves, and passion fruit. Since 1998, SCRIMAD has specialized in the export of lychees. The company's model is based on contract farming with groups of lychee farmers in the east and southeastern regions of Madagascar.

KEY INFORMATION	
Founded in	1993
Legal Status:	Limited Company
Core activities :	Export of tropical fruits and spices
Products:	Tropical fruits and spices
Human Resources:	35 permanent employees, 135 seasonal
Number of smallholders included :	1000
Number of cooperatives:	8

History

Founded in 1993, SCRIMAD works in import / export, commercial representation, investments and service delivery. Since 1998, the company has specialized in the export of fruits, vegetables, and spices under the brand name Premium Exotica. As a pioneer of fair trade promotion in Madagascar, SCRIMAD is heavily involved in the quality and fair trade processes for farmers, and is amongst the market leaders in this area. In addition, the company has had Global GAP certification since 2007, an international standard covering hygiene and food safety, product traceability, respect for the environment, and integrated crop management.

Inclusion of Smallholder Farmers

SCRIMAD works with 1,000 smallholder farmers organized into 8 producer groups. Based on contracts, the company buys directly from these groups during the lychee season. It also buys from lychee collectors to maximize the quantity exported (600 tonnes in 2014). These collectors must buy from fixed producers to ensure the agreed quality and traceability.

As part of their partnership with SCRIMAD, smallholder farmers receive technical support and on-the-job training starting in the month of February. All payment transactions for these smallholders are handled using mobile money (MVolat) upon delivery due to security reasons. Transaction costs are shared between producers and the company.

Benefits

The conditions required by the Global GAP certification contribute to the professionalization of smallholder farmers working with SCRIMAD. In addition to the technical support provided by the company at the beginning of the season, the producers also receive further support and training that enhances their know-how and attitude in relation to compliance with contractual commitments. Contract farming also guarantees a fixed outlet for smallholder farmers each lychee season, and ensures a certain income. This is important as lychee farms generate about 25 - 30% of their total yearly income during only 15 days of a season. In addition, producers are evaluated on their performance and can receive bonuses for quantity and quality.

The contract system is required in order for SCRIMAD to meet the quality standards required by the Global GAP certification, and thus ensures access to the international market. Working with farmer groups also enables traceability of the exported products.

Challenges

One of the main challenges is that smallholders are prone to not respect signed agreements. Another challenge is to improve the homogeneity of the lychee quality. The need to improve infrastructure is also critical, including the collection sheds and micro-irrigation systems. Finally, a serious challenge is to find new markets, as only 35% of Madagascar's annual lychee production goes to market.

Solutions

The company provides training to farmers to enhance their professionalism and reliability. The company also plans to search for new markets, especially in the Middle East, Eastern Europe, Asia and America.

Outlook

Today, a new fruit-processing unit is being built in Tamatave. Funded by the Dutch government as part of their Private Sector Investment (PSI) program, SCRIMAD will work in partnership with a foreign cooperative in a joint venture to supply the unit with exotic fruits (lychee, pineapple, passion fruit, papaya, soursop, guava, and coconut) or raw materials for international processing industries. The company plans to work with the same smallholder producers to secure the supply of raw materials.

As part of this project, SCRIMAD will implement local training programs for its farmer cooperatives, in partnership with international NGO's.

3.6 Socolait



Background and Description

SOCOLAIT, which stands for "Commercial Dairy Company" in French, is a food company specializing in dairy processing. Its product line includes goods produced from fresh milk as well as long-life milk products.

To source fresh milk, the company works directly with farm leaders of 11 collection centers, who are responsible for managing procurement from the farmers.

KEY INFORMATION

Founded in 1971

Legal Status: Limited Company

Core activities : Dairy processing

Products: made from fresh milk: yoghurt, drinking yoghurt, cheese and sour cream
Shelf products: Snack "Krumps," baby formula "Farilac," sweetened condensed milk, milk powder

Number of smallholders included : 250

Number of cooperatives: none

History

The company was founded in 1971 as a production plant for Nestlé, mainly producing instant milk flour (Farilac) and sweetened condensed milk. It became a nationalized company in 1983, and officially adopted the name SOCOLAIT in 1994. SOCOLAIT is a pioneer in dairy processing in Madagascar and offers a wide range of products, currently for local consumption.

Inclusion of Smallholder Farmers

The company collaborates with smallholder farmers throughout the year to ensure its milk supply, though no contracts are directly signed between the farmers and company. Instead, farm leaders are identified in

each regional area and a supply contract binds the company at that higher level. These leaders thus play an intermediary role between farmers and the company, as well as carrying out collection from farmers to achieve the supply quantities agreed in the terms of contract. Thus, each farm leader manages the collection centers in the particular region and delivers the milk from the smallholder farmers to the SOCOLAIT plants. Inspections are performed at the collection centers to ensure quality and consistency. In this agreement, SOCOLAIT specifies the price of the liter of milk, including a margin (+/- 10 %) for the farm leader. The leaders are responsible for receiving payments and dealing with the redistribution of income from each farmer after delivery.

Benefits

Farmers located in collection areas receive free training and guidance provided by SOCOLAIT technicians, both on good animal husbandry practices and on cultivating forage. The regional managers are responsible for identifying the most productive and reliable farmers, who are then invited to enter into partnership with the company. These farmers are able to sell their dairy products daily at a fixed price, while learning improved production techniques.

For SOCOLAIT, working through area managers ensures a daily supply of fresh milk for its plant, especially during the rainy season when production tends to decrease. At the same time, this approach is more efficient than managing all farms centrally.



Figure 5: Some of SOCOLAIT product range

Challenges

The lack of direct contracts between SOCOLAIT and farmers means that they do not regularly deliver their production to the collection areas and often turn instead to the highest bidder. In addition, some farmers resort to fraudulent practices such as diluting milk with water, in order to optimize the quantity delivered and gain more income. In addition, some of the dairy farmers do not adopt the production techniques taught to them by the trainers, preferring to use traditional farming techniques that seem more reliable and less costly.

Solutions

The company plans to expand its milk collection area to increase supply. The growing demand for processed milk products fuels the demand for more high-quality raw milk.

Outlook

Socolait launched the Ruralcap project in 2012, with the aims to be certified with ISO standard 22000 on food safety management and to be able to export finished products. The international market requires compliance with quality standards and traceability in the production of raw materials. The project foresees production of one million liters of milk during 2015. In this context, the production areas will extend to additional areas with strong potential for milk production.

3.7 SOCOTA

S O C O T A

Background and Description

SOCOTA - Société Commerciale Antananarivo - is a major diversified industrial group well known for its activities in the textiles sector. It is specialized both in the manufacture of fabrics (SOCOTA Fabrics) and clothing for export (SOCOTA Garments).

KEY INFORMATION
Founded in 1930
Legal Status: Free enterprise (in free trade zone)
Core activities : textile sector
Products: Fabrics for textile industries, Clothing, Fishery products and aquaculture and Black-eyed peas
Number of smallholders included : 950
Number of cooperatives: none

History

The SOCOTA Group was established in 1930 by an Indo-Pakistani merchant as a textile trading company in Madagascar. Today, Cotton Antsirabe (COTONA) is an integral part of SOCOTA Garments and SOCOTA Fabrics. The company was nationalized in 1975 and became a free enterprise in 1989, when it relocated its headquarters to Mauritius. The group's other activities include agriculture (SOCOTA Agriculture) as well as fishing and aquaculture through the OSO enterprise (Overseas Seafood Operations).

Inclusion of Smallholder Farmers

SOCOTA works with smallholders to farm land belonging to the group for the production of cowpeas (known as black-eyed peas) for export. This cooperation is structured through a management contract model whereby land is rented to local farmers for pea production, which is then sold on to the European market. Individual farming and production contracts are established between SOCOTA and the smallholder farmers, which are registered and recognized legally by local authorities.

For each farm, a smallholder leader is chosen to represent the farmers and become their direct liaison with SOCOTA. SOCOTA provides training on good farming techniques as well as financing of agricultural inputs. The purchase price of cowpeas now stands at 850 Ariary per kilo, which is an important additional income for those farmers who are not landowners. Farmers delivering excellent quality and quantity are rewarded with a bonus.

Benefits

Poor smallholders in the Sofia region gain a stable income throughout the year, subject to compliance with production techniques required by SOCOTA. As they also benefit from regular monitoring and technical support, farmers are able to grow their skills and acquire knowledge around new production techniques.

For SOCOTA, collaboration with the farmers ensures a steady supply of high-value commercial products to sell on the international market. Cowpea is a product in high demand, especially in the food industry. Based on the contract with farmers, the company can monitor production.

Challenges

The most significant challenge for SOCOTA is ensuring the commitment of smallholder producers in meeting supply terms. The adoption of proper production techniques remains difficult for smallholders who lack technical capacity. SOCOTA is also currently struggling to find qualified and experienced technicians specializing in agricultural best practices.

Solutions

Working closely with diverse actors in the region (municipalities, research institutions, microfinance institutions, etc.) has been a success factor for SOCOTA Agriculture and helped the company strengthen the partnership with local farmers.

The group is also planning to increase the purchase price per kilo of cowpea to 950 ariary to ensure an increase in farmers' income.

Outlook

SOCOTA plans to farm 3,000 hectares of arable land by 2017, as well as introducing additional crops that include indigo and cartam (for the production of natural dyes for export), and sesame and chilli. It also plans to produce fruits and vegetables in the Vakinankaratra region, and to introduce mechanized methods of plowing and sowing by the year 2016.

As part of the development of its activities, SOCOTA Agriculture could further invest in the use of new technologies for managing and monitoring production and communication at the farm level.

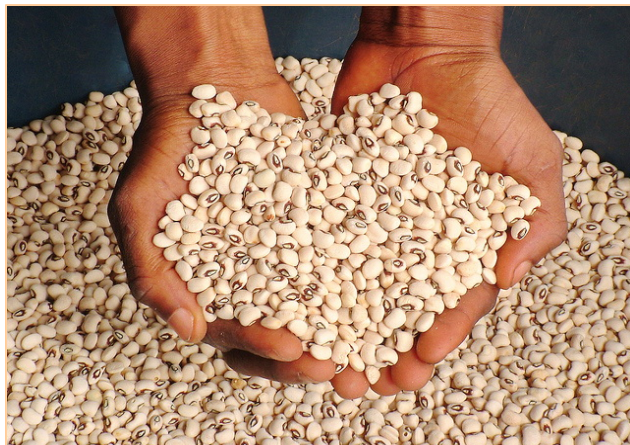


Figure 6 : Black eyed peas

4 Analysis

The studied cases displayed very similar characteristics around perceived benefits of the involved parties as well as common challenges. While many of the companies have already identified a variety of solutions, some issues remain unaddressed.

4.1 Mutual benefits

As any business relationship, inclusive agribusinesses are based on mutual benefits for partners.

The basis for a mutually beneficial business relationship is always a viable market. Companies in the sample either addressed an export market for high-value products (lychee, pineapple juice, castor beans) or a growing local market where demand exceeds supply (dairy, wheat). In both cases, companies are able to fetch good prices that allow them to invest in the development of suppliers.

Companies benefit from working with smallholders through:

- Guaranteed quantity and quality of supply: Quantities and quality of supply is determined in the contract. Companies can monitor compliance on production methods (e.g. organic standards)
- Securing stable prices: Prices are agreed with farmers beforehand in the contract
- Quick access to land/production capacity: Working with smallholders allows companies to take up or increase production without going through the lengthy process of acquiring land. It thus gives them greater flexibility to adjust production to demand.



Figure 7: Rice terraces of Antsirabe

Photo credit: Christina Tewes-Gradl

Smallholder producers perceive the following benefits:

- Access to market, including at a guaranteed volume and price. Prices can be higher than on the market as middlemen are cut out.
- Access to inputs: smallholders often receive inputs from the partner company, thus limiting their own need for capital and reducing their risks.
- Technical support and training: smallholders receive training by companies, often not only on agricultural practices but also on business skills.

4.2 Common challenges and solutions

Despite their diversity, the studied companies all face similar challenges and have found a variety of solutions to address them.

Organizing farmers

The high degree of fragmentation is a challenge for companies working with smallholders. As companies need to source high volumes, dealing with a multitude of individual stakeholders creates high transaction costs. As a result, companies need to find a way to organize individual smallholders into more manageable groups like cooperatives.

A number of companies collaborate with NGOs to organize farmers. HavaMad, for example, works with the IFAD-funded PROSPERER (Support Programme for Rural Microenterprise Poles and Regional Economies). Research centre FIFAMANOR works with existing cooperatives for the production of wheat seeds.

Others work with representatives or leaders of farmers in a specific area. These „leaders“ usually also play a role in training their peers. For example, SOCOTA uses a management contract model to have smallholders cultivate black-eyed peas on its land. For each farm, a smallholder leader is chosen to

represent his peers. Dairy company Socolait establishes its contracts with area leaders, who collect the milk from other smallholders on behalf of the company, in return for a margin.

Pre-financing inputs

Smallholders in Madagascar are extremely cash constrained and risk averse. If a company wants them to engage in a specific adopt proper techniques or employ specific inputs, it needs to provide the required inputs. Hence, pre-financing is required for companies that introduce new activities and practices to farmers. Phileol provides the castor beans seeds for free, SOCOTA the seeds for black-eyed peas, and FIFAMANOR basic wheat seeds. The companies can recuperate their expenses by subtracting the input costs from the payments to producers for their supply, often with an interest rate agreed upon in advance (2.1% per month in the case of FIFAMANOR for pre-financing of fertilizer). However, side-selling becomes a major issue here. Smallholders tend to sell to whoever offers the best price, with or without a contract. Companies that pre-invest into production are thus at a disadvantage, because they cannot match the price of competitors, who will then reap the benefits of their investment.

Training farmers

Skill levels of smallholders in Madagascar are usually low. Farmers use traditional practices and tend to stick to them to honour their ancestors. To achieve the desired quality, all companies in the sample provide training to smallholders. Training always focuses on improving agricultural practices, but also often includes improvement of business skills in order to professionalize farmers as business partners. QualityMad, for example, teaches their smallholder partners how to calculate their production costs and margins.

Companies collaborate with various partners to provide trainings. Scrimad plans to work with a local radio station and an international NGO (AVSF - Agronomists and Veterinarians Without Borders) to broadcast agronomic information to smallholders. Phileol identifies leaders in the community and qualifies them as coaches for their peers.

Ensuring quality

Export companies need to establish and maintain internationally recognized quality farmers in order to be able to sell products abroad. Companies use a variety of standards, including Global GAP (Scrimad), ECOCERT (QualityMad, HavaMad), and product specific standards, as is the case for lychee. SOCOLAIT aims to be certified with ISO standard 22000 on food safety management to be able to export dairy products to other countries.

In order to ensure that quality standards are kept by the multitude of producer partners, companies establish their own monitoring system. Systems include regular visits through the company or a partner (PROSPERER in the case of HavaMad). SOCOLAIT tests the quality of milk at the collection centres. Here, it can also register fraud by smallholders who wet their milk.

Paying farmers

Dealing with cash can cause problems, both for companies and their smallholder partners. Keeping and carrying cash can attract thieves. In addition, this is often neither cost- nor time-effective, and handing down cash via intermediaries allows for fraud.

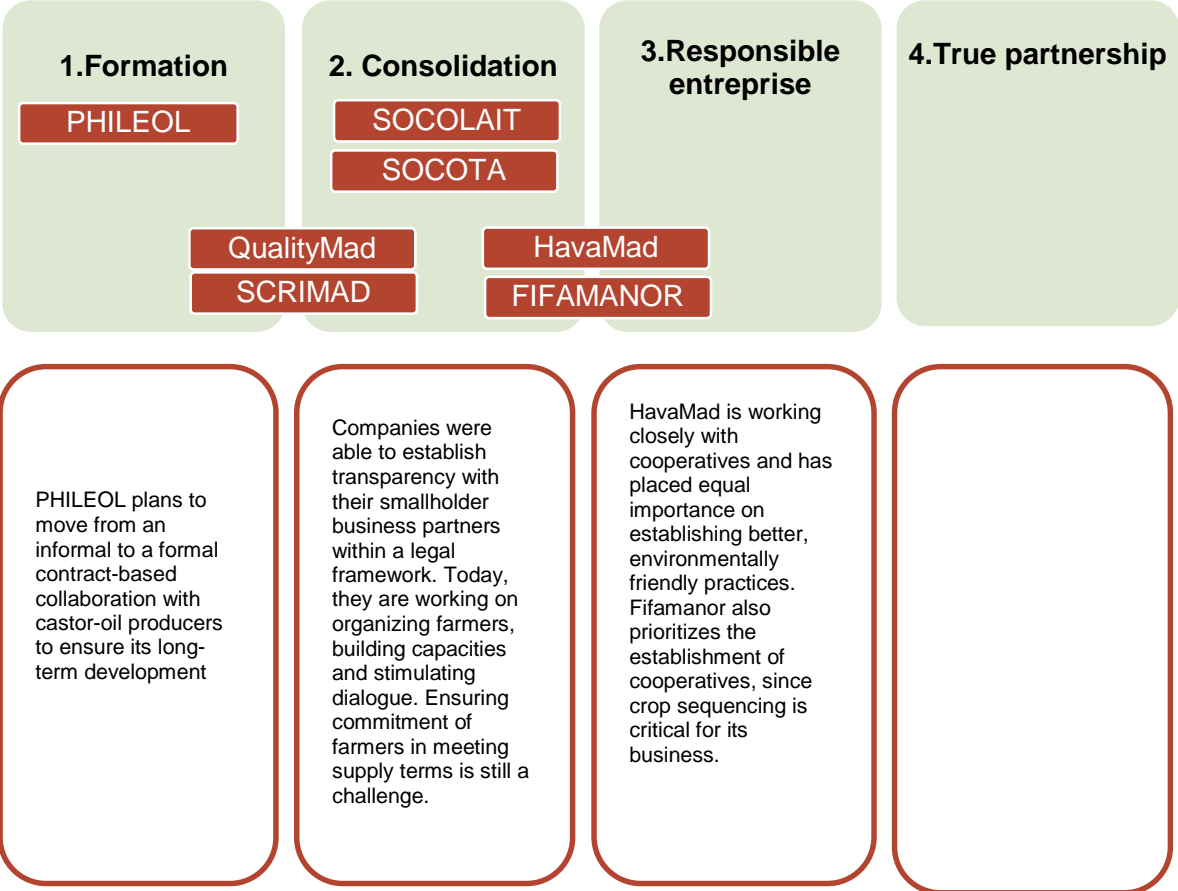
A number of companies in the sample therefore use mobile money services to pay farmers. MVola is a mobile banking service by Malagasy mobile operator Telma, which allows users to send and receive money electronically, and retrieve cash from specified agents. HavaMad, QualityMad and SCRIMAD use MVola to pay smallholder farmers. Using mobile money also requires some coordination to make sure local agents have enough cash for the pay-outs at hand.

4.3 Development Stages

This part reviews the development stage of the companies studied, followed by some remarks on improving the inclusiveness, commercial viability and replicability of inclusive business models.

Following the typology by Ganguly introduced above, most of the cases studied are still between formation and consolidation stage and some are beginning to adopt a responsible enterprise model. However, gaps remain in the legal framework for collaboration with small farmers and require strengthening both with respect to transparency and mutual trust between the partners.

As illustrated below, the “ideal stage” or true partnership stage has not yet been reached by any of the companies. Complete trust and transparency between the producers and the company is indeed not achieved. Nor do the companies really share profits with the producers or compensate for the gradual erosion of the producers’ assets like soil and water.



Inclusiveness

The agribusiness companies studied refer to inclusiveness as the integration and remuneration of smallholder farmers in their value chains. However, fair distribution of revenues is not always measured. Including smallholders results in high transaction costs, largely due to poor accessibility of production areas, low technical capacity smallholders, and/or lack of organizational structure.

Three of the companies, HavaMad, SCRIMAD and QualityMad, have adopted a centralized model. The centralized model allows for more control over the production activities, which ensures a relatively high level of quality of production. In this model, smallholder farmers are organized, which potentially improves integration into the value chain as well as negotiation power in determining the contractual terms.

The case of PHILEOL stands out because it is an informal model, which produces significant positive impacts for smallholder farmers. Their castor production mobilizes nearly 2,500 farmers in a rural enclave of Androy, where the majority of the population lives in precarious living conditions. Given the lack of organization among farmers, PHILEOL has found a pragmatic and effective solution for the collaboration with these vulnerable households through oral informal contracts.

Commercial viability

Commercial viability remains a challenge when cooperating with smallholders. Companies must build on high-value markets, whereby high value creation is the main success factor. HavaMad, for example, produces high-quality fruit juice with organic certification, thus providing an attractive product for the European market. But local markets also offer attractive opportunities, especially those with growing demand and limited local supply, as in the case of flour producer "Les Moulins de Madagascar". Local

wheat production is very low, and Les Moulins de Madagascar imports all raw materials needed to produce quality-baking flour. The factory processes up to 90,000 tons of wheat annually to meet the demand of its customers. FIFAMANOR is working to produce wheat seeds, which can prove a good future source of income for producer groups.

In order to ensure the quality of production, the studied companies have tended to adopt the centralized model, which allows more control over the entire value chain including intervention costs. SOCOLAIT and FIFAMANOR employed the intermediary model successfully, by establishing farmer groups as a reliable interface between company and smallholders, and directing coordination costs away from the company.

Replicability

In general, a business model is replicable if it is relatively independent of the local context and has a viable business plan. For example, the centralized business model applied by HavaMad can be particularly useful when the market demands a specific quality and quantity. The nucleus model implemented by SOCOTA in the Sofia region is replicable in cases where access to arable land is an important limiting factor and if there are ways to minimize side-selling. While many of the business models can be replicable, what works will depend critically on the context, the type of products and the available resources of smallholder farmers and the agribusiness company.

5 Recommendations

While companies and smallholders are generally satisfied with their collaboration, there is still room for improvement. In order for companies to scale up the engagement of smallholders, collaboration processes need to become more efficient, as well as less burdensome and risky for companies.

Side-selling

Side-selling remains the most widespread challenge in the inclusive agribusiness models of the seven companies today. In order to ensure the required quality and quantity, companies need to pre-invest into the production by smallholders, because these are not able to shoulder the risk and cost themselves. When farmers then do not honour the contract but sell to the highest bidder, companies lose this investment. So, despite formal contracts, companies still face significant risks regarding the volume they can procure at harvest time.

Some companies try to address the issue through education and training, with limited results. Training can change the widespread perception of farmers that they are being cheated. For example, QualityMad offers training sessions to its partner farmers, allowing them to calculate their returns on investment and understand the factors influencing the sale price. Still, poor conditions of farmers push them to get the best price, especially where there are no consequences for the business relationship. In a pressure to increase volumes, companies are often not in a position to sanction default appropriately, e.g. by excluding farmers from future business.

Other companies use bonuses for better quality and quantity to incentivize farmers to stick with them. This mechanism works well to maintain loyalty from the best farmers, but farmers who perform just average still drop out. A transparent pricing mechanism is also highly appreciated by farmers and ensured mutual commitment by the two business actors and strengthened the linkage between them, as was reported by smallholders and companies during interviews. .

Building on social capital could be one way to get out of the side selling trade off. Many inclusive business models employ social capital to replace formal ways of contract enforcement. Micro-credit, for example, typically works through groups of borrowers who act as guarantors for each other. In rural Madagascar, where neighbours rely heavily on each other and social status is critical, employing social structures to enforce compliance could be effective, e.g. by making lead farmers responsible for delivering the agreed-upon quantity.

Finding technicians

Training plays an important role in the examples of smallholder-company collaboration reviewed. Some companies find it difficult to recruit skilled technicians to work in remote areas. Again, identifying local

leaders can be part of the solution. PHILEOL for example trains local leaders to become coaches. In this way, technicians can focus on training local representatives, who then train their peers. Local research and training centres can also help develop more technicians, raise interest and add value to agricultural professions towards young people. Companies could collaborate with these centres, and, for example, sponsor the education of technicians who don't have their own resources.

New technologies

Doing business in remote areas of Madagascar is always associated with significant logistical costs. Roads are poor and getting to villages can take days and may not even be possible for part of the year. Transaction costs for trainings, monitoring, collection and payment are high as a result. New technologies can help in reducing transaction costs. MVola is already used by several companies to make payments via mobile phones. Mobile phones could also be used to provide information on good agricultural practices. Another solution could be radio broadcasting, an idea SCRIMAD is pursuing, or videos shown in the village cinema (usually a TV running on a generator). New technologies may also help with monitoring of farmers, and with enforcing contracts (e.g. by making information about past performance easily accessible to company staff and cooperative members).

Partnerships and the role of development agencies

Companies in the sample are keen to continue working with smallholders and, in most cases, plan to expand their collaboration. Development agencies like GIZ or international NGO's can help to make these collaborations even more rewarding by both sides :e.g. by building the capacities of agricultural training centres, supporting farmer training or robust producers' association, developing innovative technologies and sharing best practices on inclusive agribusiness from around the world.

6 Conclusion

Though inclusive agribusiness activities in Madagascar are mostly in their initial stage, there are islands of promising cases which offer hope. By developing a long term vision, providing nurturing and handholding support, creating fairness and equity in the contracting arrangement and addressing the environmental issues, inclusive agribusinesses can be an effective tool for becoming a vehicle for inclusive growth and contribute to improve the incomes of smallholders. It can also address some of the chronic issues of agriculture in Madagascar and take it to a path of accelerated growth.

The idea about which business model is most inclusive or commercially viable will vary from case to case and from community to community: there is no blue print. Arrangements based on collaborative business models are multifaceted and their performance and likely benefits are highly dependent on: (i) the specificity of the commodity; (ii) the type and size of the companies involved; (iii) the regional context; and (iv) the level of support provided by partners such as development agencies.

The seven case studies presented in this paper suggest however that a company's genuine interest in working with local farmers and communities is key to the success of establishing smallholder linkages leading to inclusiveness. It is also helpful to have international partners to facilitate the move from initial stage to true partnership stage. Thus, public and private-sector partnerships are essential to such an integrated framework.

An analysis of 7 cases of agribusiness from Madagascar in this study, has given an indication of key factors affecting each business model. However to get a more holistic understanding of inclusive agribusiness and the factors influencing its evolution, it is suggested that a handful of other cases are identified to do in-depth studies. This could also help to define a road map/interventions for taking these partnerships to higher stages.

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