

## The Chithumba Model

This is the fifth out of seven articles published by ACE to mark 15 years of operation and celebrating the regulatory license recently acquired from the Registrar of Financial Institutions.

In 2015 the Government seed input subsidy programme (FISP) was on the verge of collapse. It had been taken hostage in a disagreement between Government and Development Partners on funding and distribution of fertilizer. Government announced that it would not fund seeds that year. That would have been a disaster, as years of healthy growth in the seed manufacturing sector, would not only be put on pause, it would have been set back several years – you cannot just pause seed multiplication.

The Malawi Oilseed Sector Transformation (MOST) project was assessing how they could ensure wide seed distribution if Government efforts were going to fail. MOST contacted ACE to find out if they could utilise the network of ACE rural warehouses to distribute seed. The answer was a big, “Yes!”. This was the time where the ACE trade facilitation services was failing to scale as much as the warehouse receipt and finance services were. If seeds were going to be distributed from ACE certified site, then they were likely to be planted near an ACE certified size and these farmers would in all likelihood be the farmers with excess production and therefore the farmers ACE needed to be in contact with.

Luckily, the disagreement between Government and Development Partners was resolved and funding for seed subsidy was secured, so there was no need for a rushed alternative seed distribution mechanism. **However, one seed had been sown and that was the idea that ACE should look at seed distribution as a catalyst service to integrate farmers into structured trade. ACE and MOST kept brainstorming and came up with the Chithumba pilot in 2015.**

In essence, Chithumba is still an alternative seed distribution method. A way for seed companies to access a retail market as an alternative to the FISP programme. Chithumba is also an innovative access to input finance/hybrid contract farming scheme where the farmers pay for the input by delivering commodity after harvest to an ACE certified warehouse. The main problem for contract farming in Malawi is side-selling, Chithumba mitigates that risk by only contracting a small proportion of the harvest. The farmers are free to do what they want with the remaining harvest. Of course ACE promotes that farmers use structured trade and an essential element for Chithumba is to see to what extent Chithumba farmers adopt ACE services.

The Chithumba model includes three core services:

**Pre-Harvest Finance for Farm Inputs:** Selected participants received agricultural inputs on credit based on screening criteria. For example, clients must be affiliated with a preselected organized cooperative, have a minimum land size, and express the desire to enrol. While no deposit payment is required, clients must register with Chithumba prior to input distribution times in order to qualify. The entry package included soybean seed and inoculant. Upon harvest, clients repay input loans in kind with bags of grain produced. A set repayment volume is defined at the onset of the season based on the value of the inputs package received and the expected selling price of the repayment volume. The current repayment ratio of 1:5 covers the cost of inputs in full (i.e. not subsidized) but does not include other services like GAP training.

**Agricultural Extension Services:** To ensure that the producers efficiently use the inputs provided on credit, all enrolled producers received training on Good Agricultural Practices (GAP) using training days, field visits and/or demonstration plots. In addition, customized agronomic extension SMS

messages were sent using the ACE messaging system. The training modules were delivered by Chithumba staff members, ACE Rural Marketing Advisors (RMAs) and champion farmers selected from participating clients who receive specific in-depth training. In addition, a meeting with the clients to review the model and discuss their performance occurred at the close of each season. Currently, the cost of these services is not embedded into the repayment costs, and the current model depends upon some subsidization. The justification for providing this level of training was to build social trust with farmers and at the same time responding to low farmer productivity that could impact repayment ability.

**Market Assistance:** Since Chithumba is a non-traditional contract farming model, farmers were required to repay the calculated repayment volume based on the value of the loaned inputs. While farmers have the option to sell their “surplus” volumes through ACE after loan repayment, there is no known buyer at the onset of the season. This level of flexibility was deliberate after previous farmer feedback and historic results suggested that the risk of side selling is significantly reduced when producers remain free to choose how to market their commodity. Clients also accessed the ACE Marketing School (AMS), a 3-day training with modules on ACE services, market information, collective marketing and aggregation, trade facilitation, an introduction to the warehouse receipt system, and how to develop and follow a marketing plan. This intensive training is supported with ongoing engagement from ACE Rural Marketing Advisors who provide ongoing advice and support to Farmer Organisations, helping turn the newly acquired knowledge and skills into improved access to markets and higher prices for their commodities

**Chithumba has achieved some amazing repayment rates above 85% for soya, which really makes the model promising.** Chithumba is designed to be sustainable, from the first year the farmers are paying for the full value of the actual inputs, it is only the trainings which are subsidised. The assumptions behind the financial model is that farmers access higher value input packages and their need for training reduces as they progress through the years. Their repayments will then gradually support both inputs and trainings making the model sustainable.

However, Chithumba is experiencing problems with these assumptions. Farmers are not particularly loyal to Chithumba as they often move to cheaper (subsidised and unsustainable or lower quality seeds) input schemes. It is therefore hard to build a track record and Chithumba is therefore not able to increase the value of the input packages which is a requirement for the training component to also be a sustainable part of Chithumba. This is also why Chithumba has not tested the inclusion of fertiliser and irrigation equipment in the package yet.

There is no doubt the synergies between Chithumba and ACE structured trade services are there. When ACE has collected all the repayment, ACE will host an auction to get the best possible price. In all years, the Chithumba stock has attracted the best price of the season. **In 2019 Chithumba stock was even exported to Zimbabwe at a USD 50 premium per MT compared to local prices.**

Even with the impressive results on selling the repayment and communicating the prices to the farmers, ACE is still not seeing farmers bring their excess stock to the warehouses with the repayment. They are selling at considerable discount to rural traders. Again, this is a reflection of the “cash is king” mentality, where immediate cash needs are prioritised and therefore immediate cash settlement is preferred over delayed settlement, despite the higher price potential.

Chithumba has many incredibly promising elements, but it certainly also has its challenges. ACE has not been able to provide the dedicated funding needed to scale and further develop the Chithumba model. ACE is just managing to keep it going for now. ACE is very interested in identifying partners to

assist developing the model - are you a future Chithumba partner? The vision is that Chithumba becomes an entity of its own, but remains an integrated part of the ACE Ecosystem. Please find a detailed Chithumba Case Study on the ACE website [here](#), by Anne-Cécile Delwaide and Luke Coulson.