

# Linking Smallholder Farmers to Commercial Sector Activities: The Case of Eastern Africa with Special Attention to Niche Commodities

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## Abstract

Based on a number of fact-finding missions, years of R&D projects in the field, and participative interviews with major stakeholders, a blueprint for the development of small-scale enterprises based on broad stakeholder involvement is proposed. SWOT analysis defined major bottlenecks and the issues to be addressed. An enabling policy environment, multisectoral stakeholder involvement, and adequate investment seem to be key in fostering the desired outcomes. The proposed blueprint was developed in collaboration with the International Fund for Agricultural Development (IFAD) and highlights intervention strategies for niche commodities for increased income generation.

**Keywords:** farmer groups; market reforms; niche commodities; policy; production networks; rural development; trade; value chains

## Abbreviations:

- CLUSA - Cooperative League of the United States of America
- Faida MaLi - Faida Market Link Company
- FAO - Food and Agricultural Organisation of the United Nations Organization
- FO - farmers' organization
- IFAD - International Fund for Agricultural Development
- NGO - nongovernment organization
- TRACE - Training and Consultancy Centre
- UNDP - United Nations Development Program

## Introduction

The majority of the population in Africa lives in rural areas and depends on small-scale agriculture for their food and income. Faced with limited prospects for rural industrialization, smallholder agriculture will remain the major engine of rural growth and livelihood improvement. Improvement of rural incomes in Africa will require some form of transformation from the semi-subsistence, low-input, low-productivity farming systems that currently characterize most of Africa.

Annual agricultural production growth rates of about 6% are required in sub-Saharan Africa to fuel economic growth (Maatman et al., 2007). It is generally acknowledged that this will require sustainable agricultural intensification through the increased use of modern technology and external inputs, in combination with solutions based on local knowledge systems.

Low rural household incomes result from low farm income and low levels of nonfarm employment (even though most small-scale farm households have at least one family member who works outside in a salaried job or who would like to but is currently unemployed). If the small-scale farm sector was to be properly linked to commercial sector activities, it is expected that this would create off-farm employment opportunities in product transformation and commerce.

Although the main focus of this paper is on crop production, the problems faced in animal husbandry are no less important. If crop production and farm income are to be improved, animal production must also be addressed and farming considered as an integrated set of activities that are mutually promoting. To look for investment opportunities for small-scale farmers, it is important first to understand their methods of agricultural production and the marketing and agribusiness environment for the produce they have grown as both of these aspects must be developed in conjunction.

In order to sustain small-scale farmers' livelihoods, an increase in production and productivity must go hand in hand with improved marketing and institutional development. Both aspects are linked with each other and can be best analyzed through product-related value chains.

A smallholder or small-scale farmer is defined as a farmer who cultivates up to 5 ha of land, grows food crops and some cash crops, and uses primarily family (and communal) labor. The major part of the food crop is consumed by the farm household.

## Research Method

The purpose of this study was to propose a blueprint for action to link small-scale farmers (with a focus on southern and eastern sub-Saharan

Africa) to commercial sector activities. Two countries, Tanzania and Zambia, were chosen as case studies. The study was constructed upon information gathered through a literature review in Belgium and a number of field visits to Zambia and Tanzania over a ten-year period (1998–2008) where information was gathered from projects and organizations visited, and open-ended, semistructured interviews with numerous resource persons working for international, multilateral, and bilateral organizations and government representatives.

## **Results and Discussion**

Agriculture in Zambia and Tanzania, and by extrapolation sub-Saharan Africa, is characterized by many smallholder farmers, low farm productivity, and low production. Low production is a result of the following: (1) low labor productivity, (2) lack of appropriate farm management, (3) low levels of agricultural (basic) inputs and investment, and (4) soil fertility problems.

When looking at the current state of agribusiness and agricultural marketing, the following problems become evident:

### **Poor organization**

Both farmers and the private sector are poorly organized. Most primary cooperative societies have only a few members, and most do not represent the majority of farmers; nor do they serve the best interests of the farmers. As farmers are poorly organized, they deal individually with input suppliers and downstream market intermediaries; thus, they seldom obtain the more advantageous prices that larger groups can achieve, resulting in low farm-gate prices.

Due to the movement towards a more open market economy, many private operators have entered the market, but they too are poorly organized. Chambers of commerce have been established to promote the rights of the business community, but they seldom provide the support structures needed by private entrepreneurs who require assistance in preparing feasibility studies and business plans, sourcing finance, and establishing contacts with potential clients or producers of raw material. Examples of organizations catering to these needs are Faida and Technoserve (both operating in Tanzania). However, such organizations are very limited in number and serve only a limited area. Phytotrade (Zimbabwe) is a service provider that helps develop proper market linkages for its farmer group members, ensuring that each one is equipped with the necessary skills and resources to do business in a global market.

### **Alternative marketing channels**

Until the early 1980s, there was only one channel from farmer to market: through marketing boards, under primary cooperative societies. After market liberalization, farmers could enter into agreements with individual buyers and bargain for price. Besides these advantages, liberalization also brought disadvantages as secure marketing channels disappeared and farmers were no longer protected from poor world market prices. When considering the development of appropriate marketing strategies, the most important outlet for smallholder farmers is still household consumption: food security for the family. Then comes the need for cash in order to cover the family's other necessities and pay the various taxes, school fees, etc. On the next level, farmers sell their surplus within their village to neighbors or small traders/agents. Most farmers do not venture beyond this level, and for those that do, farmers may enter into production contracts or agreements with institutional buyers.

While farmers can choose different strategies to maximize their farm income, the key driver is the desire to achieve higher prices. A true primary cooperative society or farmers' organization can demand a better price for its members' produce because of larger amounts of product offered to the market and/or better grading. Rather than sell immediately after harvest, it often pays to wait for prices to rise, especially with rice, beans, and maize. However, this strategy is possible only when farmers organize themselves into groups, start grain banks, or get access to credit. Another important strategy is to add value to the product through grading or processing and selling abroad (Fold, 2008). Due to a long history of only selling raw material, it will take a major effort to show farmers the potential of this strategy.

### **Infrastructure**

One of the major constraints for the commercialization of agricultural produce and market development is the lack of infrastructure, both on-farm and off-farm. On-farm, there is a lack of adequate storage facilities, processing technologies, communication facilities, and farm implements, which all result in suboptimal production. Off-farm, one of the major problems are the poor and underdeveloped roads that isolate communities and prevent access to a wider range of goods and services.

While the liberalization of agricultural markets in many African countries has presented new opportunities, most smallholder farmers have yet to benefit. In fact, many have been greatly hurt by changes for which they were not prepared. Efficient market linkages and vertical marketing arrangements are not well-developed and are inaccessible or unprofitable for individual smallholders because of the small quantities they produce and the absence of any economies of scale. Yet there are two important approaches that have already shown some potential to deal with many of the production and marketing problems experienced by smallholders: (1) contract farming,

otherwise known as outgrower schemes (Glover and Kusterer, 1990; Glover, 1990; Key and Runsten, 1999), and (2) cooperation through formal cooperatives, farmer groups, or associations, which are also termed farmers' organizations (FO) (Kimenye, 1994; Coulter et al., 1999).

From the literature and field research, it is evident that contract farming is the best means to organize and assist farmer groups if one wants to stimulate market-oriented production of agricultural products. It offers the best opportunity to formally organize farmers and production. It also goes beyond the mere stimulation of production, as it allows institutional and capacity building at the grassroots level.

As farmers are poorly organized, they mostly deal individually with input suppliers and downstream market intermediaries, and thus, they fail to avail themselves of the opportunity to secure more advantageous prices. The current marketing system has many intermediaries, which means that the farm-gate price in many cases is quite low. Together with the fact that most smallholder farmers are forced to sell immediately after harvest due to financial problems, the farmers' income is less than it could be if farmers were able to pursue collective marketing strategies (Van Damme, 1998; van Engelen, 2000).

Bingen et al. (2003) found that programs focused on developing community-level management skills and human capacity can increase the opportunities for small farmers to benefit from market participation. Using a framework that links the concepts of collective power and agricultural development, Bingen et al. (2003) identified three alternative approaches to capacity building: (1) contract/business programs such as outgrower and cash-crop schemes facilitate smallholder farmer's access to goods and services required for production and marketing of the target commodity; (2) project/technology programs, usually mediated by nongovernment organizations may then focus on the promotion of improved technology; whereas (3) process/human capacity investments can facilitate technology adoption and marketing but should focus initially on the development of foundation skills and social capital, including assistance for collective self-help, literacy programs, marketing activities, and decentralized development planning. Although the latter programs tend to be slower in producing tangible results, the skills emphasized often determine the ability of the community to access inputs and markets well beyond the life of the project.

## **A Blueprint for Action**

To tackle the problems related to low organization level and thus improve the resilience of farmer communities and failing marketing infrastructure, Dirckx and Van Damme (2002) propose a "blueprint for action" (Table 1).

**Table 1.** Suggested interventions to improve linking of small-scale farmers to commercial sector activities according to priorities along different actors

Suggested actions/Interventions	Govern- ment/Public resources	Private sector	International organizations	Bilateral donors	International NGOs	Local NGOs	Community- based orga- nizations/ Traditional structures
<b>Infrastructure</b>							
- Roads (+ rail transport)	+++ <sup>a</sup>		++	+			
- Storage facilities		++	+	+	++	++	+++
- Creation of physical markets/facilities	+++	+	++	++	+	+	+
- Information (prices, markets) dissemination	++++	+++	+++	+++	+++	+++	++
- Communication facilities	+++						
- Offices for cargo grouping							+++
- Rural electrification, sanitation facilities	+++						
<b>Information dissemination</b> (prices, markets)	++++	+++	+++	+++	+++	+++	++
<b>Training farmers</b>	+++	+++	++	++	++	++	+
<b>Research</b>	+++	+++	+	+	++	++	+
<b>Organization of business and trade organizations</b>		+++	+	+	+	+	
<b>Support structures/services for private sector</b>			++	++	++	++	+
<b>Developing actively marketing structures</b>	++	++	++	++	++	++	++++

a: +++++ = institution most appropriate to implement intervention, + = institution with lower priority for intervention

**Table 1.** Cont.

Suggested actions/Interventions	Government/Public resources	Private sector	International organizations	Bilateral donors	International NGOs	Local NGOs	Community-based organizations/Traditional structures
<b>Policy, control mechanisms</b>							
- Tax collection (timing)	+++						
- Control and certification institutions	+++						
- Enabling environment, attracting investors, boost confidence of private sector	+++						
- Avoidance of bureaucracy and corruption	+++						
- Policy protecting contract farming	+++						
<b>Financial services</b>	+++	+++++	++	++	++	++	+
<b>Gathering statistics</b>	+++						
<b>Setting up organizations for seed production/exchange</b>	++	+++	+	+	++	++	+++
<b>Technology and processing information</b>	+++	++	++	++	++	++	+
<b>Setting up grain banks/inventory credit</b>					++	+++	+++
<b>Organic farming</b>							
- Program for alternative biological control measures	++	++	++	++	++	++	+

a: +++++ = institution most appropriate to implement intervention, + = institution with lower priority for intervention

Table 1. Cont.

Suggested Actions/Interventions	Govern- ment/ Public Resources	Private Sector	International Organiza- tions	Bilateral Donors	International NGOs	Local NGOs	Community- based Or- ganizations/ Traditional Structures
- Certification	+++	++	+	+	+		
<b>Promotion of contract farming</b>							
- Facilitating linkages	+++	++	++	++	++	++	+
- Remote farmers			++	++	++	++	+
- Institutional support	+++						
<b>Promotion of farmers' organizations</b>	++	++	++	+++	+++	+++	++++
- Capacity building	++	+++	+++	+++	++++	++++	++++
<b>Sharing of information and lessons learned</b>			++++	++++	++++	++++	++++

a: +++++ = institution most appropriate to implement intervention, + = institution with lower priority for intervention



Gabre-Madhin and Haggblade (2001) conclude that few African countries have accorded agriculture the priority it deserves, either in policy development or investment, to sustain agricultural support institutions capable of generating a steady stream of innovations. This persistent underinvestment in frontline agricultural research and related support institutions appears puzzling at first. However, after spending some time in various African ministries of finance, it quickly becomes apparent that a narrow tax base coupled with enormous debt loads and donor-imposed priorities on social spending leave little room for debate on the relative role of productive investments in agriculture.

Governments wishing to intensify smallholder agriculture under circumstances where the markets are absent or poorly developed should leave market activities to the private sector. It is the role of government to foster market entry, investment, and technological progress via interventions that promote institutional development (such as appropriate legislation, improved transport and social infrastructure, and administrative and legal services). Here, an important choice is to be made between a market-led agrarian reform package that has gained prominence worldwide or state-led approaches. This neoliberal policy framework advocates voluntary transactions between “willing sellers” and “willing buyers” and the removal of various “distortions” from land and agricultural markets. Related policies aim to secure and formalize private property rights.

Emerging evidence from across the developing world suggests that such policies are incapable of challenging the political and economic power of large landowners and are unlikely to meet the needs of the rural poor and landless farmers. In key areas such as land transfer, farmer development, and financing programs, market-led agrarian reform is falling short of its objectives. It is being actively challenged by national and international peasant movements that are calling for more direct intervention by the state in order to restructure patterns of landholding and provide the necessary support for smallholder farmers, many of whom produce primarily for their own consumption. The future of agrarian reform, it is argued, lies not in a return to the top-down, state-run policies of the past, but in new forms of partnerships between progressive political forces and peasant movements that go beyond the confines of the market to redistribute land and create sustainable livelihood opportunities for the rural poor and landless (Lahiff et al., 2007).

Public policy and development initiatives that encourage linkages between farmers and agribusiness include both direct and indirect support to smallholder market linkages and more general support to the smallholder sector. Direct support measures include the promotion of grassroots cooperation and facilitation by specialized nongovernment organizations (NGO) that will increase the business and technical skills of groups and develop good working relationships between groups and agribusiness.

Major donors such as World Bank, UNDP, or FAO have an important role to play to help farmers' organizations enter the policy dialogue with government and other stakeholders so that an enabling environment (legal context for cooperatives and associations, taxes, regulations, and input quality control) can be created. They can also facilitate the linkages/interactions between producers and other stakeholders, such as input suppliers.

Donors should ensure that funding for capacity building in farmers' organizations, advisory services, communication, and networking is available at decentralized levels and that decisions to allocate funding be in the hands of the farmers' organizations. Funding should be available not only for services but also for improving local infrastructure to support input supply and marketing, such as storage facilities.

Although strong farmers' organizations are the key to agricultural development, some agribusiness companies have expressed disillusionment with working with groups. Many believe that it is a waste of effort, for it is forcing something onto rural areas that is not appropriate at this stage in their development. Many believe that the focus should be on individuals rather than groups, with effort expended to strengthen the entrepreneurial base in rural areas. This, they argue, will have more impact than trying to force groups into existence. Therefore, the establishment of farmer associations should only be promoted if that is the wish of the people.

Gabre-Madhin and Haggblade (2001) state that although some observers remain skeptical that NGOs can replace government extension services, many respondents in their survey cite cases in which NGO projects have provided extension support to understaffed and underfunded government extension services. Ultimately, the thorny issue of public salary levels, recurrent transport budgets, and adequate staffing for government extension services remain closely linked to the debate over the relative role of NGOs in African agriculture.

NGOs like Faida MaLi, TRACE, CLUSA, or CARE often concentrate substantial resources on a small number of villages, often in difficult areas. This favors the development of innovative and empowering approaches, but at unit cost levels well beyond the reach of the public sector. Wide-scale reliability should be a key design criterion for any future approaches developed by NGOs or specific projects.

It is often observed that there is a distinct lack of information sharing between international and local nongovernment organizations implementing projects to enhance rural development and marketing strategies for small-scale farmers or organizing farmers into groups. It would be of great value to identify mechanisms for information sharing among such organizations as much can be learnt from one another's experiences and the impact of certain activities could be improved.

To conclude, donors and NGOs working together with government have an important role to play in linking smallholder farmers to commercial sector activities. By acting as brokers, NGOs can ensure that smallholder farmers' rights are protected in relationships (e.g., contract farming) with private agribusinesses that are in the early stages of privatization. Guidelines for the best way to intervene are provided in Dirckx and Van Damme (2002). Contract farming often requires farmers to be organized into groups, but the promotion of such groups should only be taken up when they are felt necessary by the farmers themselves and, in a way, when farmers feel confident. Through contract farming, farmers' organizations can grow and learn to undertake marketing activities by themselves. The final objective should always be to create independent farmers' organizations that are free to but also capable of making their own marketing decisions, without being tied to an agribusiness company that has the power to abuse farmers' rights. There are different crops or commodities that can be developed to become important cash crops for farmers, but selection should be made only after extensive marketing studies have been conducted.

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