

Inside Inclusive Business

Business Innovation Facility

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Inclusive agribusiness: linking smallholder farmers to markets

How can sustainable, inclusive linkages be formed that meet the needs of both the farmer and the market?

In my experience, the critical recurring issue in inclusive agricultural projects is how to link farmers to the end buyer or processor. It has to be understood that the linkage between the farmer and the market is not just purely the buy/sell transaction of the crop, but that the linkage is the conduit for the flow of information, skills, finance and inputs. These factors are the vital elements of the system that facilitate the cost-effective movement of the crop from farmer to market, to meet the needs of both parties.

If a strong market linkage is created then it can lead to development of the value chain; it can stimulate an increase in the productive base of the smallholder, allowing increased volume and quality of crop to be available to the buyer. An effective market linkage increases opportunities for value addition which can benefit the value chain and the buying company, as well as the smallholder.

The Business Innovation Facility is a pioneering programme in inclusive business. Within its global portfolio of projects around half are agribusinesses. We believe that important knowledge can be drawn from our work, to help existing and emerging practitioners understand inclusive agribusiness market linkages. This "Insider" aims to clarify our understanding of the characteristics and drivers of inclusive market linkages so that forthcoming projects can be better informed and guided. The document is designed for businesses or for development practitioners.

A word from the author...

Whilst working in agricultural development in Malawi I find that the same two questions keep on coming up again and again:

"I want to source crop directly from smallholders, how can I do this?"

"Smallholders are getting a raw deal. How can they sell directly to companies and get better market prices?"

This objective is clear – smallholder farmers need to be linked to formal markets, but how to do this, and make sure it is an effective, beneficial and sustainable linkage that is formed, is far more challenging. Many attempts have been made with most ending in failure and yet the need is as great as ever. Of the 104 BIF projects, around 40 involve a smallholder linkage and so we are tackling the issue head on. This "Insider" looks at why smallholder – market linkages are needed, what drives them and the lessons that can be learned from the real success stories from the Business Innovation Facility portfolio.

G. R. Turner.

Georgina Turner

Business Innovation Facility, Malawi

The 'Inside Inclusive Business' series is based on the real-world experiences of companies who are actively expanding opportunities for people at the base of global economic pyramid through their core business activities.

Each edition explores one aspect of inclusive business. The aim is to share practical ideas, challenges and solutions, as they emerge, in ways that are relevant to other business and development professionals.



What shapes a market linkage?

From the business perspective:

In most cases there is an existing supply chain with which the company must engage. Sometimes the company is a new actor in the chain, other times the company is changing its existing role within the chain.

What the company **wants to achieve** by engaging with the smallholder producer base, and how **important this achievement** is to the company, determines their role in the market linkage and thus its characteristics.

The key factors influencing the market linkage from the company perspective are:

> Strategic importance:

Is the smallholder-market linkage of significant strategic importance to the wider business plan of the company? How much risk are they willing to take?

> Financial investment:

Does the company have the means and the will to invest in the smallholder-market linkage in order to make it effective and successful?

> Supply volume:

How critical is it that the volume of crop needed by the company is secured via the smallholder-market linkage?

> Supply specification:

How critical is it that the crop received via the smallholder-market linkage is of the correct quality, specification, or delivered in a timely way?

> Company ethos:

Does the company have an overarching policy/ethos to engage with smallholder farmers to try to reduce poverty in the supply chain in which it engages?

> Skill base:

Does the company have the in-house skills to support the smallholder-market linkage in order to make it effective and successful? How do company skills complement the skills and services available from others?

Two examples from the BIF portfolio that show how strong business drivers relate to the smallholder-market linkage that is created are Malawi Mangoes and AACE Foods. As is described in more detail on the opposite page, Malawi Mangoes are undertaking full, direct engagement with farmers; providing all the necessary services to ensure the high production volumes of mangoes to meet their purchasing needs. AACE have a strong company ethos to provide pro-poor benefits. They therefore buy and sell directly with producer cooperatives and farmer groups.

In the diagram below, several examples from the BIF portfolio are highlighted to show the significance of different business drivers that impact on the way the company engages with smallholders.

Definitions

Market

A set of arrangements by which buyers and sellers are in contact to exchange goods or services through the interaction of demand and supply. In the scope of this "Insider", by market we mean a formal, registered private sector buyer, whether a processor or trader

Linkage

The relationship between two actors in the value chain

Actor

A direct player in the value chain, someone who actually handles the crop

Market services

All the services required to facilitate the efficiency of the linkages in the value chain, such as finance or input supply

Service provider

the provider of the various market services

Figure 1: Drivers for smallholder linkages among BIF-supported agribusinesses

The BIF portfolio		Afri-Nut	Guinness	Universal Industries	Sun Hotels	AACE	Pabna Meat	ACI	Malawi Mangoes
		Malawi	Nigeria	Malawi	Zambia	Nigeria	Bangladesh	Bangladesh	Malawi
Business drivers	Strategic importance	●	○	○	○	●	●	○	●
	Financial investment	○	○	○	○	○	●	○	●
	Supply volume	○	●	●	○	●	●	○	●
	Supply specification	●	●	○	○	●	○	○	○
	Company ethos	○	○	●	○	●	○	●	●
	Skill base	●	○	●	●	○	○	●	○

● Low ○ Moderate ● High

Competing drivers

Internal drivers have to be matched against the external context. Which roles does the company need to provide and what is it equipped to provide? Can roles effectively be done by others, or are there gaps which must be filled? There is a balance to be found between what the company really needs from the smallholder-market linkage and the most cost-effective way to achieve it.

Risk

There are many risks for the actors in any agricultural market, and also further challenges when innovating within a market. A company will assess how much risk it is willing to bear when making decisions about market linkages. In the developing world context, service provision is not as dependable or as high quality as is often desired. Therefore, evidence seems to show that when the need for an effective farmer-market linkage is strong enough then the company incorporates a greater level of service provision in-house, and takes more of the risk in the venture.

Malawi Mangoes

Malawi Mangoes is a start up business that aims to become the first large-scale fruit processing facility in Malawi. A banana plantation will provide raw banana supply but the entire supply of mangoes is to come from contract farming arrangements with local farmers.

Business drivers

There is a international supply gap in fruit pulp and Malawi Mangoes aims to fill some of this gap. It is more cost-effective to source mangoes from existing smallholder growers in an environmentally optimum area. Supply volumes are critical and therefore Malawi Mangoes have set up a contract farming system with all necessary skills and support to ensure supply.

Value chain development

There is no formal trade of mangoes currently in Malawi and few players in the industry. All support to farmers to ensure the linkage is effective and sustainable has been taken on board by Malawi Mangoes themselves to ensure success. Malawi Mangoes have provided farmers with top grafting technology, training, field officers and the necessary transportation arrangements.

Talking points

Malawi Mangoes is the classic contract farming arrangement whereby the farmers are carefully managed and supported directly by the company so that there is very little risk of commodity volumes and supply being lost. The investment that needs to be made to make the system work is high but the pay off is also significant.



AACE

AACE Foods is a Nigerian start-up company which processes, packages and distributes spices and food products to commercial and retail customers in Nigeria. AACE has a strong vision of delivering social and development benefits to small-scale farmers and thus sources directly from smallholder producers.

Business drivers

AACE could source its raw materials from the wholesale markets but this result in a lack of quality control, inconsistent supply volumes, and a lack of traceability. To avoid these constraints AACE could import raw materials and/or processed food products from other countries, as is the norm in Nigeria, even if the product

is grown in the country. However, this is not in line with AACE's vision and thus they have instead chosen to source directly from smallholder farmers.

Value chain development

AACE will engage directly with existing farmers groups and producer cooperatives that exist on the local areas. AACE will also work directly with local micro-entrepreneurs who will sort and grade farmers produce and transport it to the AACE factory.

Talking points

It is the vision of the company for pro-poor impact rather than commercial motives that drives the market linkage. However, AACE hopes that they can prove that it is a commercially viable option to engage farmers directly to secure raw material supply.

What shapes a market linkage?

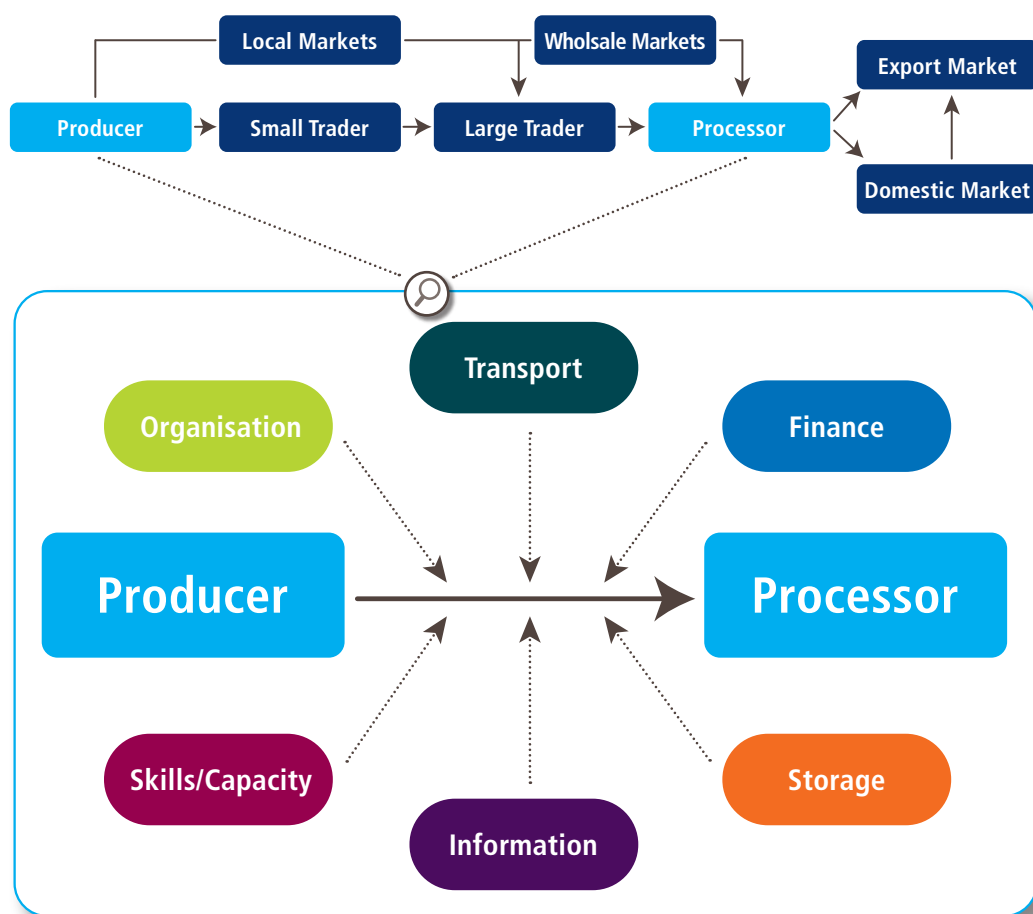
From the value chain perspective:

Considering value chain development:

It is not only the role of the company in the market linkage that is important, but also the context and the nature of the value chain and its market system. The key services that enable the value chain to function and that improve its efficiency, must be delivered through the market linkage. Without these, a linkage may be created but it will not be sustainable or able to function independently and effectively over time.

If we look at a generic value chain representation, the supporting services necessary in all smallholder-market linkages can be seen. All of these must be present for a market linkage to be successfully established.

Figure 2: Services that must be present in a functioning value chain



It is not only the required services that are important but also who it is that will deliver them. It is often the case that high quality, reliable service providers are not available and therefore the company may take the service provision in-house. In other situations however, this is simply not feasible, or good quality service provision may not be readily available from others. In the case of ACI Agribusiness described opposite, the service provision is delivered through a partnership with a third party, an NGO who provides organisational and extension services to the smallholder farmers.

Sometimes there may be a need for the company to try to build the capacity of a service provider or to try to adapt the service provision to meet the needs of the desired smallholder-market linkage. This is the case with Guinness where they are trying to stimulate change in the whole value chain ecosystem in order to facilitate the formation of a smallholder linkage. In their solution architecture, Guinness are working with service providers to help secure finance, extension, transportation and storage.

Underlying principles of value chain development

Competitiveness
ensuring the ability of a value chain to maximise its pool of resources that are available to its actors in the long term; and

Participation
maximising in a permanent manner the number of people that can participate in the value chain and generate resources in a way that rewards them fairly for their efforts

ACI Agribusiness

ACI Agribusiness is the agribusiness division of the Bangladeshi conglomerate, Advanced Chemical Industries (ACI). The market linkage aims to engage low income, landless farmers as tomato producers in order to ensure a sustainable supply of high-quality, affordable crops for ACI. A third party NGO plays a large role in the market linkage by organising farmers through Rural Sales & Service Centres (RSSCs) and hand holding them as the linkage is set up.



Business drivers

The market linkage in this case is not just about securing supply but also about reaching new customers for the ACI input products. Through the formal linkage and the support of the NGO, inputs can be given on credit with lower risk. The linkage in itself gives ACI Cropex high quality tomato supply and fulfils some of the companies' corporate social responsibility (CSR) policies.

Value chain development

The majority of the value chain functions are missing, thus the market linkage tries to fill the gaps:

- Farmers are organised under RSSCs
- Transportation is provided by ACI
- Extension advice is given to improve cultivation practices
- ACI provides all agricultural inputs (machinery, seed and fertiliser) to RSSCs on credit.

Talking points

- In this case the NGO is providing services based on a contractual relationship. This is more sustainable than when they try to become a temporary actor in the linkage that then withdraws.
- The linkage delivers a guaranteed market for the smallholder crop, and provides a transportation service. This has ensured very strong farmer buy in, even if a lower market price is offered.



Guinness Nigeria

Guinness Nigeria is a brewing company that produces a range of alcoholic drinks. Currently raw ingredient supply, mainly sorghum and maize, is sourced via traders rather than directly from farmers. Guinness Nigeria wishes to evolve its transactional dealings into stronger partnerships across the value chain that will allow it to engage more directly with farmers and develop the whole value chain to the benefit of all.

Business drivers

There is increased competition for raw material supply and therefore Guinness Nigeria has recognised that it must stimulate change in the value chain ecosystem if it is to guarantee the supply it needs. Engaging directly with smallholder farmers will also boost its public image.

Value chain development

Guinness Nigeria has decided its options to leverage strategic partnerships to mitigate some of the challenges that currently affect sorghum value chain include:

- Access to finance, via potential partnership with a financial service provider
- Improved extension support to farmers via NGO or other service providers
- Working with millers to facilitate the uptake of new technologies such as warehousing and transportation.

Talking points

Guinness Nigeria has huge market power and can leverage partnerships in a way that many others cannot. However, it is a large and complex challenge to stimulate change in a value chain ecosystem. At this stage the step between the theoretical and the practical change has not yet been taken.

What do smallholder-market linkages look like?

There are two elements to consider: who is involved in the smallholder-market linkage, and what services the linkage is providing. The needs and objectives of the purchasing company determine who is involved in the linkage but the value chain system determines exactly what the services provided by the linkage are.

Our observations lead us to think there are three broad categories of market linkage that sit on a continuum:

Full direct engagement – When the company invests in the services, skills and infrastructure necessary to build the market linkage alone. This tends to appear the form of contract farming arrangements.

Semi direct engagement – When there is use of a third party, such as an NGO, to help build and maintain the market linkage, the company may play a back seat role and provide very few services.

No direct engagement – No real effort is made by the company to work with the producer base directly, the use of informal traders is the main way produce is secured. It usually cannot really be termed an *inclusive* market linkage .

Learning from the Business Innovation Facility portfolio

Obviously, in the real world, theory must bend to the context and thus it is better to view the characteristics of market linkage mechanisms on a continuum, as shown below. Company engagement levels and the nature of the provision of key services are then described and aligned with real world examples from the Business Innovation Facility portfolio.

It can be seen that under a 'full engagement' linkage, greater levels of service provision are taken in-house by the company. However, under a 'semi engagement' linkage, a few, some or most of the key services are provided by a third party rather than the company with the linkage only successful in many cases due to this support. However, this is also subject also to availability of reliable service providers as noted in the 'risk' section discussed earlier.

Figure 3: Spectrum of company-smallholder engagement

Level of direct engagement by company with producer	No direct engagement			Semi direct engagement				Full direct engagement	
	No direct farmers linkages, all purchases from informal traders No assistance to farmers	Most purchases from informal traders but some direct purchases from famers Little or no assistance to farmers	Most purchases from farmers, but some other supply routes Use of third party for most services e.g farmer organisation, input supply and finance	Use of third party for some services, other support delivered by the company	Most services by company, e.g. buying agents and inputs, but some use of third party	All supply to be purchased directly from the farmers; contract farming. All services to farmers and support to the linkage provided in-house by the company, including finance, skills, transport.			
The BIF portfolio	Afri-Nut	Guinness	Universal Industries	Sun Hotels	AACE	Pabna Meat	ACI	Malawi Mangoes	
	Malawi	Nigeria	Malawi	Zambia	Nigeria	Bangladesh	Bangladesh	Malawi	

It can be seen from looking at the continuum above that most of the BIF portfolio fits into the category of 'semi direct engagement'. This is because full direct engagement can take a large amount of investment and commitment and most companies do not see the likelihood of a viable return from this, especially for what is often a new, innovative project.

The smallholder-market linkages that fall under the category of semi direct engagement can vary enormously. In some cases only financial services are being provided by a third party whilst the company undertakes the bulk of the work for the linkage, as in, for example the BIF project Pabna Meat. For other companies though they prefer to partner fairly significantly in order to engage with smallholder farmers. This is the case for Universal Industries where they rely on local NGO's to organise farmer groups, provide extension and act as a conduit for information.



Pabna Meat

Pabna Meat aims to develop a sustainable inclusive supply chain to increase its output of high quality, organic meat. Under a contract farming arrangement Pabna will engage directly with female cattle owners. Pabna will support the farmers through extension services, input provision and linkages to financial services.

Business drivers

Pabna has the capacity to process 25 cows per day, it currently only processes 5 as it sources from the open livestock market, where supply and quality are unreliable and where prices are volatile. There is a need for consistent, high quality supply, linking directly with farmers and building their capacity is the way to achieve this.

Value chain development

Small-scale livestock producers have poor management skills. Therefore, Pabna provides extension to teach improved feed and management practices. Pabna also provide the necessary veterinary support to the farmers. There is a need for financial support therefore a microfinance institution (MFI) is involved.

Talking points

- The majority of support to the farmers is intended to come from Pabna, but an NGO providing farmer support and a MFI provides small loans.
- A key challenge is sourcing the soft finance to support the farmers in purchasing cattle.
- The prominent role of an NGO to support the farmers questions the sustainability of the linkage; do the farmers have the capacity to maintain the linkage without the NGO?

Universal Industries

Universal Industries is the prominent producer of snacks and confectionary in Malawi. However a need for foreign exchange earnings has made them consider other product lines. Universal have installed a flash dryer to produce High Quality Cassava Flour (HQCF) which can be exported into the Southern African region. Universal wants to source all of its raw cassava from smallholder farmers and will utilise the reach of existing NGO programmes to initiate the farmer market linkage.

Business drivers

In order to produce HQCF fresh cassava is needed, meaning it must move from farmer to processor within 48 hours. To be cost effective, large volumes of cassava must be sourced and therefore only by working directly with farmers can planting be increased and also staggered so that the consistent volumes of raw cassava can be purchased throughout the year by Universal.



Value chain development

As cassava is a low-input crop relatively little assistance is needed for farmers in terms of crop production and handling. The main needs of the framers are organisation, business understanding and market information. Universal plan to utilise the networks and skills of several NGOs to enhance the value chain and secure their supply.

Talking points

Universal would prefer to simply undertake contract marketing arrangements with farmers and rely on the NGO to complete the rest of the market linkage functions. The question is whether this is sufficient to make the linkage effective in the long term. It may be the case that Universal must incorporate more of the market linkage functions themselves to secure the cassava supply that they desire.

Moving forwards

Areas for future consideration

1 In-house or not in-house?

A recurring theme of the “Insider” is whether the service provision in the linkage is provided by the company or by a third party. Evidence in the portfolio seems to suggest that the greater the strategic importance of the linkage then the more that is taken in-house. This may be partly due to the business drivers of the linkage but is also highly dependent on the context of operation. In many cases there are simply not high quality and reliable service providers, forcing many companies to go beyond what they would prefer in order to secure the necessary crop supply. An alternative to this is for companies to try and build the capacity of service providers or to try and adapt their provision to the needs of the linkage. This is more difficult to achieve but can be a more viable and sustainable option than providing all services in-house.

2 Role of informal traders

This “Insider” explores direct smallholder to market linkages. A whole other area for discussion is the role of informal traders. It has been put forward by some that the only viable and sustainable way to develop a value chain is to incorporate informal traders into formalised smallholder-market linkages.

3 Farmer perspective

This “Insider” has been aimed at the business or development practitioner audience; a voice that is not represented is that of the smallholder farmers themselves. Ensuring the situation, the needs and the ambitions of the smallholder is understood is imperative before any smallholder-market linkage activities are undertaken. How this can be achieved in a manner beneficial to smallholder farmers is still an area of debate.

4 How to make linkages sustainable?

In many smallholder-market linkages, the linkage is underpinned by the facilitating role that an NGO plays in supporting and hand-holding the farmers. With many projects it is yet to be seen whether the farmers can continue to function independently in the market linkage once the support is withdrawn. Without the initial support of the NGO it is unlikely that the linkage would have ever emerged. However, if the capacity of the farmers is not sufficiently built, it remains doubtful whether the linkage will stand the test of time.

5 Defining the partnership-relationship or transaction?

In many cases, a third party is used as a service provider to the smallholder-market linkage: whether it is a microfinance institution, an extension officer or a business skills trainer. What is important is that the nature of the partnership is defined at a very early stage so that roles and expectations are clear and objectives aligned.



Conclusions

Key lessons learned

The market linkage is largely determined by the needs of the company and their ability to invest. Broadly speaking, if the linkage is of strong strategic importance to the company then more of the linkage services and the risk will be undertaken in-house. If the linkage is of less strategic importance then some of the service provision is fulfilled by a third party, such as an NGO, with whom the company may partner.

- The market linkage is not just about the flow of the crop. Finance, organisation and capacity are strong constraints that must be addressed if successful crop transactions are to be seen.
- The role of the third party in the linkage is very interesting, they give added value and are often critical in making the linkage happen, but is their role sustainable?
- The services the linkage delivers are influenced by the wider context and the existing value chain system. A key constraint is often the lack of high quality services providers. If the company cannot take the service provision in-house then can they build the capacity of services providers to adapt their services to meet the value chain needs?
- It takes time and effort to setup an effective and sustainable smallholder-market linkage; all parties must be aware of this when initial partnerships are formed.
- There can never be a “one size fits all” approach. The economy, culture and physical environment that the value chain is operating in must be taken into account as this can impact on the dynamics of the market linkage.



“From my experiences, I have realised that you need to look for partners who are systematic and professional in their approach. An NGO partner should be able to demonstrate that they have detailed information about the farmers they are working with and have a strong team who are fully engaged in fieldwork. Only if these components are in place can successful linkage between ourselves and the farmers be established and maintained.”

Navin Kumar, Universal Industries

Additional resources:

Further information on the projects highlighted in this document can be found on the Practitioner Hub on Inclusive Business at: <http://businessinnovationfacility.org/page/projects-landing-page-template>

Visit our 'know-how' section on 'farmers as suppliers and clients' at: <http://businessinnovationfacility.org/page/know-how-farmers-as-suppliers-and-clients>

We have a number of additional materials that explore the issue linking farmers to markets:

Spotlight: [Different approaches to smallholder market linkages](#) – This Spotlight provides an overview of the different methods that both the development community and some commercial operators use to try to work with smallholder farmers and link them to markets.

Project Resource: [Sustainable Contract Farming Initiative](#) – This document is a presentation produced for ACI Agribusiness that is an assessment of the landscape and models of contract farming.

Checklist: [From farmer to supermarket](#) – This Checklist looks at three areas to consider – demand, supply and process – when supporting smallholder linkage into supermarket value chains.

Inside Inclusive Business: [Building inclusive value chains: Helping producers at the base of the economic pyramid access supermarket value chains](#) – This document provides a detailed analysis of where producers can take action and adapt their own processes and/or products so that they successfully secure and maintain business from supermarkets.

View other Insiders in this series from the BIF Publications Page: <http://businessinnovationfacility.org/page/facility-publications>

The following resources also offer important insights into this issue:

- [Link Methodology: A Participatory Guide to Business Models that Link Smallholders to Markets](#)
- [Growing Business with Smallholders: A Guide to Inclusive Agribusiness](#)
- [Making the Most of Agricultural Investment: A Survey of Business Models that Provide Opportunities for Smallholders](#)

These documents can be found at www.businessinnovationfacility.org/forum

About the author:



Georgina Turner

has been a consultant with Imani Consultants in Malawi for the past three years.

She has supported the Business Innovation Facility through providing technical expertise to its agri-business projects and learning.

georgina@imanidevelopment.com

This Inside Inclusive Business was edited by Caroline Ashley, Director, Inclusive Business Results. Its production was overseen by Clare Convey, Communications Manager. Members of the BIF team in the UK and the five pilot countries have also contributed to its content.



Imani Development is a private economic and development consultancy firm, rooted in the developing world, facilitating the process of economic growth and poverty reduction. Our focus is on the African, Caribbean and Pacific Island states as well as SE Asia. We have offices in South Africa (Cape Town and Durban), Kenya, Malawi, Mauritius, Tanzania, Uganda and Zimbabwe as well as offices in Australia and the UK and long-standing associate relationships in most key regions.



The Business Innovation Facility supports companies as they develop and implement inclusive businesses. Inclusive business is profitable, core business activity that also expands opportunities for people at the base of the economic pyramid: either as producers, suppliers, employees, distributors, or consumers of affordable goods and services.

For further information and to join the discussion on inclusive business, go to:
Practitioner Hub on Inclusive Business: www.businessinnovationfacility.org

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