

TRADING UP

TRADING UP

**BUILDING COOPERATION
BETWEEN FARMERS AND TRADERS
IN AFRICA**



Royal Tropical Institute





Royal Tropical Institute



This publication is jointly produced by:

Royal Tropical Institute (KIT), PO Box 95001, 1090 HA, Amsterdam, The Netherlands
development@kit.nl, www.kit.nl

International Institute of Rural Reconstruction (IIRR), Africa Regional Centre, PO Box 66873, Nairobi, Kenya
admin@iirr-africa.org, www.iirr.org



The writeshop to produce this book was made possible with the financial support from:

Cordaid, PO Box 16440, 2500 BK, The Hague, The Netherlands, www.cordaid.nl

ICCO, PO Box 8190, 3503 RD, Utrecht, The Netherlands, www.icco.nl

Oxfam Novib, PO Box 30919, 2500 GX, The Hague, The Netherlands, www.oxfamnovib.nl

KIT and IIRR are grateful to all persons and organizations who participated in the writeshop to share their knowledge and experiences. Sincere thanks to the staff of IIRR's Africa regional office, who provided an excellent facilitation of the writeshop. A special word of gratitude goes to the traders and farmers in Africa whose experiences are reflected in this book. Many thanks to the main editor for an excellent job in editing and layout of the book, and to Anna Laven for proofreading.

Coordination: Lucian Peppelenbos

Editing and layout: Paul Mundy, www.mamud.com

Artwork: Nyotumba Bonaventure and Alfred Ombati

Cover: Nyotumba Bonaventure

Printing: English Press Ltd.

© 2008 KIT and IIRR

ISBN: 978-90-6832-699-4

Order from: publications@iirr-africa.org (for Africa) and publishers@kit.nl (rest of the world)

Correct citation: KIT and IIRR. 2008. *Trading up: Building cooperation between farmers and traders in Africa*. Royal Tropical Institute, Amsterdam; and International Institute of Rural Reconstruction, Nairobi.

Contents

Boxes	vii
Figures	viii
Tables	xi
Foreword	xii
Preface	xiv
List of contributors	xvii
1 Introduction	1
2 Understanding African markets	11
3 Framework for “trading up”	29
4 Strengthening chain relations	49
Learning from experience: Livestock trading in Mbire District, Zimbabwe	50
Keep tomatoes moving: Strengthening cooperation between traders and farmers in Ghana	62
Rebuilding the milk trade in Kenya	72
Dealing with a market collapse: Fertilizer in Zimbabwe	83
Developing markets for tomatoes in Western Kenya	94
5 Building market institutions	107
Market information system unites producers and traders in Ghana and Burkina Faso	108
Warehouse receipts for coffee marketing in Tanzania	118
Making peace with city government: The yam queen in Kumasi Central Market, Ghana	132
Reaching wool and mohair producers through traders in Lesotho	146
Improving market information in Kenya	159

6	Fostering chain partnerships	167
	Building an export value chain for mangoes in Burkina Faso	168
	Beefing up the livestock trade in Kinna, Kenya	181
	Managing soybean value chains in northern Ghana	194
	Parchment or cherries? High-quality coffee in Tanzania	205
	Producing and marketing green beans in Ethiopia	215
7	Strategies for trading up	227
	Strengthening chain relations	230
	Building market institutions	244
	Policy implications	263
8	Resources	267
	Organizations and websites	268
	References and further reading	271
	Participants' profiles	273

Boxes

1.1	Chain actors, supply chains and value chains	4
2.1	Cross-border trade	14
2.2	Trends in food marketing in Africa	16
2.3	The informal economy in Africa	17
2.4	Many kinds of traders	18
2.5	Women traders and gender bias	22
4.1	A livestock trader in Mbire	51
4.2	Actors in the livestock marketing chain	56
4.3	A risky business	65
4.4	From white collar job to market trading	66
4.5	David Kiptoo joins the Kong'asis coop	73
4.6	"It's gold to me"	74
4.7	"Before, we had no sense of direction"	96
4.8	Supplying Uchumi	98
4.9	The shopkeeper's tale	99
4.10	Tomatoes transform Duncan Papah's life	100
5.1	Tradenet.biz	111
5.2	Selling yams pays well	134
5.3	A leader for the future	135
5.4	The risks of being a trader	139
5.5	Kiinyuni Horticultural Growers Group	162
6.1	A livestock trader's horizons expand	185
6.2	Founding the Kinna Coop	186
6.3	Actors in the livestock marketing chain, Kinna	187
6.4	Access to organized markets changes Alhassan's life	198
6.5	Self Help Development International	218
7.1	KENSAVIT	232
7.2	Challenges in chain dialogue	234
7.3	Risks and benefits of specialization	237
7.4	Criteria for selecting a chain partner	238
7.5	Elements in engineering chain partnerships	239
7.6	Issues to consider in partnership management	240
7.7	Adapting to a moving market	241
7.8	Things to consider for enforceable contracts	252
7.9	Dairy policy in Kenya	261

Figures

3.1	Chain relations: How well do the players in the game work with each other?	30
3.2	Market institutions: How strong are the rules of the game?	33
3.3	Market interactions matrix	35
3.4	Movements in the market interactions matrix	38
3.5	Costs and revenues of actors in the yam value chain, Ghana	44
3.6	Value shares of actors in the yam value chain, Ghana	45
3.7	Changes in the yam market structure, Ghana	46
4.1	Costs and revenues of actors in the livestock value chain, Zimbabwe	59
4.2	Value shares of actors in the livestock value chain, Zimbabwe	59
4.3	Changes in the livestock market structure, Zimbabwe	60
4.4	Chain relations and market institutions in the livestock trade, Zimbabwe	61
4.5	Costs and revenues of actors in the tomato value chain, Ghana	69
4.6	Value shares of actors in the tomato value chain, Ghana	70
4.7	Changes in the tomato market structure, Ghana	70
4.8	Chain relations and market institutions in the tomato trade, Ghana	71
4.9	Costs and revenues of actors in the milk value chain, Kenya	80
4.10	Value shares of actors in the milk value chain, Kenya	81
4.11	Changes in the milk market structure, Kenya	81
4.12	Chain relations and market institutions in the milk trade, Kenya	82
4.13	Costs and revenues of actors in the fertilizer value chain, Zimbabwe	90
4.14	Value shares of actors in the fertilizer value chain, Zimbabwe	91
4.15	Changes in the fertilizer market structure, Zimbabwe	91
4.16	Chain relations and market institutions in the fertilizer trade, Zimbabwe	92
4.17	Costs and revenues of actors in the tomato value chain, Kenya	103
4.18	Value shares of actors in the tomato value chain, Kenya	104
4.19	Changes in the tomato market structure, Kenya	105
4.20	Chain relations and market institutions in the tomato trade, Kenya	106

5.1	Financing the onion trade	113
5.2	Costs and revenues of actors in the onion value chain, Burkina Faso and Ghana	115
5.3	Value shares of actors in the onion value chain, Burkina Faso and Ghana	116
5.4	Changes in the onion market structure, Burkina Faso and Ghana	116
5.5	Chain relations and market institutions in the onion trade, Burkina Faso and Ghana	117
5.6	Simplified warehouse receipt scheme	121
5.7	Loans and revenues from coffee marketing by the Tarakea Rural Cooperative Society	124
5.8	Coffee marketed by Tarakea and other coops in the warehouse receipt scheme, Kilimanjaro Region	125
5.9	Costs and revenues of actors in the coffee value chain, Tanzania	128
5.10	Value shares of actors in the coffee value chain, Tanzania	129
5.11	Changes in the coffee market structure, Tanzania	130
5.12	Chain relations and market institutions in the coffee trade, Tanzania	131
5.13	The Kumasi city government and the Yam Traders Association	135
5.14	Costs and revenues of actors in the yam value chain, Ghana	142
5.15	Value shares of actors in the yam value chain, Ghana	143
5.16	Changes in the yam market structure, Ghana	143
5.17	Chain relations and market institutions in the yam trade, Ghana	144
5.18	Costs and revenues of actors in the wool value chain, Lesotho	156
5.19	Value shares of actors in the wool value chain, Lesotho	157
5.20	Changes in the wool market structure, Lesotho	157
5.21	Chain relations and market institutions in the wool trade, Lesotho	158
5.22	Changes in the commodity market structure, Kenya	165
5.23	Chain relations and market institutions in commodity trading, Kenya	166
6.1	Actors in the traditional mango export chain	171
6.2	Summary of mango exports before and after entry of Fruiteq	175
6.3	Costs and revenues of actors in the mango value chain, Burkina Faso	177
6.4	Value shares of actors in the mango value chain, Burkina Faso	178
6.5	Changes in the mango market structure, Burkina Faso	179
6.6	Chain relations and market institutions in the mango trade, Burkina Faso	180

6.7	Location of Kinna	182
6.8	Costs and revenues of actors in the livestock value chain, Kenya	190
6.9	Value shares of actors in the livestock value chain, Kenya	191
6.10	Changes in the livestock market structure, Kenya	191
6.11	Chain relations and market institutions in the livestock trade, Kenya	192
6.12	Number of farmers and soybean production for Savanna, 2005–7	197
6.13	Costs and revenues of actors in the soybean value chain, Ghana	202
6.14	Value shares of actors in the soybean value chain, Ghana	202
6.15	Changes in the soybean market structure, Ghana	203
6.16	Chain relations and market institutions in the soybean trade, Ghana	204
6.17	Costs and revenues of actors in the coffee value chain, Tanzania	211
6.18	Value shares of actors in the coffee value chain, Tanzania	212
6.19	Changes in the coffee market structure, Tanzania	213
6.20	Chain relations and market institutions in the coffee trade, Tanzania	214
6.21	Production of green beans by Meki Batu union outgrowers for Ethioflora	219
6.22	Costs and revenues of actors in the green bean value chain, Ethiopia	223
6.23	Value shares of actors in the green bean value chain, Ethiopia	224
6.24	Changes in the green bean market structure, Ethiopia	224
6.25	Chain relations and market institutions in the green bean trade, Ethiopia	225
7.1	Movements in the market interactions matrix	228

Tables

3.1	Value shares of actors in the yam value chain, Ghana	42
4.1	Value shares of actors in the livestock value chain, Zimbabwe	59
4.2	Value shares of actors in the tomato value chain, Ghana	69
4.3	Gross margin for a dairy cow per month in Chepkorio, Kenya	76
4.4	Profitability analysis for a milk trader in Chepkorio, Kenya	76
4.5	Actors and their roles in the milk marketing chain, Kenya	78
4.6	Value shares of actors in the milk value chain, Kenya	79
4.7	Value shares of actors in the fertilizer value chain, Zimbabwe	89
4.8	Duncan Papah's costs and profit per acre	100
4.9	Value shares of actors in the tomato value chain, Kenya	102
5.1	Value shares of actors in the onion value chain, Burkina Faso and Ghana	115
5.2	Actors in the warehouse receipt system in Kilimanjaro	122
5.3	Value shares of actors in the coffee value chain, Tanzania	127
5.4	Value shares of actors in the yam value chain, Ghana	142
5.5	Actors in Lesotho's private-sector wool and mohair marketing chain	148
5.6	Sheep shearing, Mngcunube project, Lesotho	151
5.7	Government versus licensed trader through the stockholders' eyes	152
5.8	Mngcunube project impacts on animal health, Lesotho	154
5.9	Value shares of actors in the wool value chain, Lesotho	155
6.1	Actors in the traditional mango export chain	170
6.2	Exports of mangoes by Fruiteq in 2006 and 2007	175
6.3	Value shares of actors in the mango value chain, Burkina Faso	176
6.4	Value shares of actors in the livestock value chain, Kenya	189
6.5	Value shares of actors in the soybean value chain, Ghana	201
6.6	Value shares of actors in the coffee value chain, Tanzania	210
6.7	Variable costs of producing green beans, Meki Batu, Ethiopia	219
6.8	Costs and revenues for one hectare of green bean production, Meki Batu, Ethiopia	220
6.9	Value shares of actors in the green beans value chain, Ethiopia	223

Foreword

VALUE CHAINS PROVIDE POTENTIAL benefits for both rural producers and urban consumers. The metaphor of the “chain” emphasizes the fact that most goods are produced by a sequence of interlinked actors and activities. Producers have received particular attention, as they are perhaps the most apparent manifestation of the value chain. Receiving less attention, but of equal importance, are traders.

This publication sets out to give attention to this group. It looks at the role that traders occupy in the value chain. Traditionally, the idea was to get rid of the traders. Often farmers think negatively of traders, accusing them of exploitation. Erroneously, farmers often believe that if they could just get rid of the trader, their profits will improve. By contrast, traders fulfil a vital role in the value chain. In fact, with the appropriate trading partners, farmers are better off, not worse.

Unknown to most producers, traders operate in a climate of great uncertainty and encounter all sorts of risk. Traders search for commodities to buy, visit sellers, and negotiate deals individually. This is time-consuming. And because they are searching for products to sell, far away from markets, they too do not know how much they should pay for a certain product, let alone how much it will fetch when sold in the market later. Most private traders have little working capital; they often rely mainly on their own funds, advances from wholesalers, acceptance by farmers of deferred payments and, at times of peak financing requirements, moneylenders. Poor transport infrastructure means long, arduous trips that can jeopardize the quality of agricultural produce and livestock, and can translate to heavy losses for the trader.

Indeed, traders are not the villains that producers so often paint them as. The case studies presented here start off by recognizing the specialized role of all actors in the chain. Whether it is transporting livestock in Kenya, selling yams at Kumasi Central Market in Ghana, exporting Tanzanian coffee to European markets, or exporting tomatoes from Burkina Faso to Ghana, the case studies describe the actors in the chain, the challenges they face, the actions taken to deal with them, and the changes this has brought to the market structure.

In fact, one of the keys to value chain development is to reinforce linkages and partnerships along the chain. This involves analysis of the relationships between the various actors involved. There are issues that affect both traders and producers. Weak institutional arrangements, and high transport and handling costs that are the result of weak public infrastructure, hurt traders and producers alike. Once

traders and producers see the value of working together, they can progress to improve institutional issues. These improvements don't mean that traders lose out. In fact, traders can assume new responsibilities such as bulking and transport.

All of the case studies highlight how organizing both farmers and traders alike improves business relations. Traders have improved their performance by paying frequently and on time. All these reflect better business relations and contribute to more transparent prices. Improved chain relations can translate into benefits for farmers, traders and consumers. Finally, actors in the chain who work well together and trust each other can become partners and engage in dialogue with the government to create more supportive policies and actions on such key issues as taxation, research support and infrastructure.

Cordaid, ICCO, and Oxfam Novib are promoting the value chain approach as part of their policy to improve small-scale agriculture. The publication in 2006 of *Chain empowerment: Supporting African farmers to develop markets* focused on small-scale producers. This book, focusing on traders, is a logical next step. It leaves the role of African consumers in market chain development as possible future step.

It is worth noting that this is a new field for these three agencies. There is a growing literature on value chain approaches. The experiences here will add to this. We hope that this publication contributes to ongoing exchanges and mutual learning and will help us and others become even more effective in our support to agricultural development and poverty reduction. We also hope the book will make lobbying organizations aware of the need to include those ministries responsible for trade and small and medium enterprises in their lobby efforts as well.

René Grotenhuis, Executive Director, Cordaid

Jack van Ham, General Secretary, ICCO

Theo Bouma, Director, Project Department, Oxfam Novib

Preface

IN 2006 KIT AND IIRR published a book on experiences with empowering African producers in value chains. The book was written through a “writeshop” approach that gives voice to practitioners who represent interesting experiences that generally remain unpublished. We believe that there is much to learn from practice and that we need to do more efforts in bringing this untapped knowledge to the surface. The book is downloaded from the KIT website about 200 times every month, and was reprinted in 2007. There is clearly a big demand for this type of innovative knowledge generation.

One of the general conclusions of the value chains book was that empowerment of producers cannot be addressed without taking into account their relationship with other chain actors. Empowerment is a process that impacts on various social structures and personal relationships. The role of traders in value chains was identified as a subject that needs more attention if we want to understand empowerment processes of producers in Africa. When scrutinizing the literature, we observed relatively few references to the role of African traders in value chains. So we decided to organize a writeshop on this, and invite both traders and producers to share their experiences.

Worldwide and throughout history, traders have been object of general public indignation as well as mystification.¹ Who doesn’t know the archetype of the manipulative trader, depicted in novels as exploiting and misleading people? One of the best-known “middlemen” is Ebenezer Scrooge, a character invented by Charles Dickens to represent the evil side of mankind. Many cultures worldwide have their own versions of such stereotypes that depict bad elements of society. These negative connotations are sometimes based on the nature of trade itself. For example, in West Africa middlemen have been associated for ages with slave trade. And in Nigeria traders prospered during colonial rule, because the British were reluctant to move into the interior themselves and used the traders to do so.

But traders also have a second, more positive image. People secretly admire their freedom. Traders operate in both the formal and informal economy, and switch between the two at will. Traders are not easily brought under the sway of government. It is hard to tax them or force them to obey rules. A successful trader is seen having a highly entrepreneurial, free mind.

Historically, traders have fulfilled an important role in getting items from the producer to the end user: from farmer to broker, to distributor, to food store, to

1 This Preface draws on the following sources: Chandler (1977), Gadde and Snehota (2001), Nwabughuogu (1982), and Sheth and Parvatiyar (1995).

consumer. The trader interprets, translates, checks quality, catches errors, transports, sorts and bulks, provides finance, takes on risk, and in many other ways facilitates transactions. Many skilled suppliers, such as farmers, do not want (or cannot afford) to become experts at marketing.

In the pre-industrial era, trade involved producers selling directly to consumers: farmers sold their own produce to townsfolk, and each craftsman had his own shop to sell the goods he had made. Relationships with customers were vital. With industrialization, the producers naturally became separated from the users, and the emphasis shifted from the relationships towards the transaction.

But we can now detect a shift back towards relationships. Once again, direct marketing – albeit in a different form – is becoming popular, and consequently so is the relationship orientation of marketers. Direct marketing is growing in both business-to-business and business-to-consumer markets. Today’s technology advances permit producers to interact directly with large numbers of consumers.

International development projects and programmes have generally ignored traders, or have tried to bypass them. Many government and NGO interventions have been geared towards eliminating traders and replacing them by producer organizations. Only rarely have traders been appreciated for their role in value chain development. It is only recently that some governments and NGOs have realized that sustainable value chains require traders who bridge the gaps between producers and users.

This book is about “good” and “bad” trading practice. Traders and producers do not generally write papers and articles. They often feel reluctant to discuss their mode of operation, especially with the general public. This book aims to improve the relationship between producers and traders, thus contributing to more sustainable value chains that provide access to markets for local producers in Africa. Each trader and producer involved in the writeshop was assisted by writers, analysts and artists – and other traders and producers – to document and depict their experiences. Every manuscript was presented to the other contributors, challenged, and then rewritten. This approach has again proven successful: this book is full of short stories that are unique and rich in information. The analysis at the end of each story, and the introductory and concluding chapters, put the cases in context and provide insights that we hope readers will find valuable.

KIT and IIRR share a mission to develop capacities that are critical for the evolution of sustainable value chains in Africa. Through this second book on the role of traders, we hope to help mobilize the untapped knowledge of producers and traders. If our goal is to empower African producers and traders, we have to understand their interrelationships. In my opinion, improved relationship management will prove critical to enhancing market access and developing sustainable value chains for African produce.

On behalf of KIT and IIRR, I want to thank all contributors to this book for their openness and commitment to share their experiences with a public that has not always done justice to them. This book may help to change stereotypical think-

ing. It may inspire producers and traders to work on their mutual relationships. I hope it will also stimulate policy makers to listen more often to producers and traders when designing rules and support measures. This book is proof that their voice matters.

Bart de Steenhuijsen Piters
Area leader, Sustainable Economic Development
KIT - Royal Tropical Institute

List of contributors

For further information and contact details, see page 273.

Participants

Burkina Faso

Fruiteq SARL
Zongo Adama

Ethiopia

Ethioflora Plc
Mulugeta Abebe Adugna

Meki Batu Horticultural Cooperative
Union
Etefa Getahun

Self-Help Development
International – Ethiopia (SHDI)
Belew Damene G/Hiwott

Ghana

Centre for the Development of
People (CEDEP)
Aba Oppong

Eastern Regional Tomato Traders
Association
Theresa Amakye Fiawotos

Ghana Agricultural Producers and
Traders Organisation (GAPTO)
Haruna Agesheka

International Center for Soil Fertility
and Agriculture Development
(IFDC)
Musa Salifu Taylor

Network for Women’s Rights in
Ghana (NETRIGHT)
Patricia Blankson Akakpo

Savanna Farmers Marketing
Company
Janet Chigabatia-Adama

Yam Sellers’ Association, Kumasi
Dora Opoku-Mensah

Kenya

Anglican Church of Kenya-Western
Region Christian Community
Services (ACK-WRCCS)
Maureen Susan Oduori

Dairy farmer
David Kipsang Kiptoo

Elreco
Julius Kipchumba Lagat

Kenya Agricultural Commodity
Exchange Ltd (KACE)
Mary Wambua

Kenya Livestock Marketing Council
(KLMC)
Sonkolo Abdikadir Mohamed

Kinna Livestock and Products
Marketing Co-op Society Ltd
Rashid Wako Guyo
Dub Dabasso Jaldesa

Milk trader
Edwin Kiplagat Bett

Ministry of Livestock and Fisheries
Development
James Kariuki Ngugi

Western Farmers Association
Charles Kasembeli Khisa

Netherlands

Royal Tropical Institute (KIT)
Maurits de Koning
Lucian Peppelenbos

South Africa

Mngcunube Development

Alfred Carlyle “Lyle” Kew

Tanzania

Lima Ltd

Benjamin Dotto Majanga

Tanzania Coffee Board

Fidelis Joachim Temu

UK

School of Oriental and African Studies, University of London (SOAS)

Nigel David Poole

USA

Indiana University

Gracia Clark

Zimbabwe

Damjesi Investments (Pvt) Ltd

Daniel Jemiard Mmasomwayera
Sinkula

Farmers’ Association of Community Self-Help Investment Groups (FACHIG Trust)

Thomas Mupetesi

Lower Guruve Development Association

Ephraim Murendo

Writershop staff

Computers, logistics

Nicola Kiara

Coordination

Lucian Peppelenbos

Editing

Gracia Clark

Maurits de Koning

Paul Mundy (chief editor)

Aileen Ogolla

Lucian Peppelenbos

Nigel David Poole

Facilitation

Isaac Bekalo

Janet Nyaoro

Illustrations

Nyotumba Bonaventure

Alfred Ombati