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Setting the scene

Rapid changes in the social and economic environment are challenging African smallholders to supply their products to the market and their ability to improve their families' livelihoods. These changes include:

- Market liberalization and integration
- The rise of the retail sector
- The decline of government support for and intervention in agriculture and rural areas.

Market liberalization and integration

Over the past 20 years, new trading policies have liberalized and integrated markets. Some farmers have benefited. But many farmers in developing countries have seen their incomes fall. Their terms of trade (the price of what they sell compared to what they buy) have declined steadily as prices of agricultural commodities have fallen compared with manufactures.

The integration of world markets, or "globalization", has formed closed supply networks. Buyers and sellers sign contracts to produce and trade a wide range of specialized products. For example, a buyer may want to purchase a specific variety of pineapples, grown to strict specifications and packaged in a certain way. The buyer may negotiate a contract directly with a grower, rather than buying through a trader.

This new organization of supply chains is unfamiliar territory for many African smallholders. It is very different from the conventional, arm's-length trade in undifferentiated commodities such as maize or wheat, which may involve many intermediaries, and where the buyer may not know who the producer is.

It is accompanied by a market concentration, with a small number of powerful transnational companies dominating large parts of the agrifood system. Small-scale producers and processors have little market power in comparison.

The rise of processors and retailers

The rise of the food processing and retail sectors has compounded this market concentration. Buying power is now concentrated in the hands of a small number of food processing firms and supermarkets that have significant power over producers and other actors in the supply chain.

This trend is not just true of the developed world. In Africa too, supermarket chains such as Shoprite, Uchumi and Nakumatt are coming to dominate food retailing. Supermarkets account for 30% of the food retail trade in Kenya, and 55% in South Africa (FAO 2003).

The supermarkets enforce exacting standards for the produce they buy. They want their beans to be a uniform length, their mangoes to ripen at exactly the right time, and their bananas to be free of bruises. They have developed new private standards and rules, and have created certification and auditing systems to make sure they get the product they want.

These rules enable the supermarkets to sell what consumers want – and to be left with as little unsaleable produce at the end of the day. The supermarkets pay growers attractive prices to ensure they get produce of the right quality. But the rules are hard for smallholder farmers to comply with: they lack the right technology and management skills. So smallholders are being squeezed out of a lucrative market.

Declining government involvement in agriculture and rural areas

Structural adjustment programmes have meant that developing country governments have significantly reduced their support to farming communities. Investments in rural infrastructure (roads, electricity, telecommunications), input subsidies, marketing schemes, and services such as extension and research have all declined. In the past, most African governments provided services to farmers and rural areas through commodity marketing boards and state-supported cooperative movements. The decline of these institutions has hampered economic development as well as farmers' access to local markets.

For development to take place, various actors in the supply chain must invest in a coordinated way (Stockbridge et al. 2003). For example, government investments in rural infrastructure are profitable if farm organizations also invest in increased production, local businesses invest in processing and distribution, service providers invest in new technology, and so on. If these complementary efforts are not well coordinated, an equilibrium of underdevelopment may occur (Hoff 2001).

As a result of these changes, the majority of smallholder farmers in developing countries are now less organized than before. They are trying to increase their production in the face of reduced inputs and declining prices. This increases the supply of low-quality goods onto the market, which further suppresses prices. This situation is "Cochran's treadmill" (Cochran 1979): more farmers supply more products into a market where prices are steadily falling, natural resources are being degraded and poorly managed farming systems are spreading into increasingly marginal areas.

The challenge for smallholder producers

To address this situation, development agencies, donors and NGOs are placing more emphasis on enabling farmers to increase their level of competitiveness, to produce for an identified market, rather than trying to sell what they have already produced and also seeking new market opportunities that offer higher levels of income. These goals can be achieved through better economic coordination and institutions. Farmer organizations can play a key role of organizing economic activities beyond local boundaries. They can build up relationships with various chain actors and create commitments from various actors to cooperate on mutually beneficial actions and investments and thus create value chains (see box below).

It is a challenge for smallholder farmers, through their organizations, to understand market demand and develop their skills and capital requirements to supply the required volumes of quality product at the right time of the season.

- **Market information** A group finds it easier than individual farmers to obtain the information that members need to grow for a particular market. At the same time, other chain actors find it more attractive to deal with a group than with numerous small-scale producers.
- **Capital and skills** The group can pool their resources, access credit and services to develop the technology and skills needed to produce more sophis-

Actors, supply chains and value chains

Actors are those involved in producing, processing, trading or consuming a particular agricultural product. They include direct actors which are commercially involved in the chain (producers, traders, retailers, consumers) and indirect actors which provide financial or non-financial support services, such as bankers and credit agencies, business service providers, government, researchers and extensionists.

A **supply chain** is a set of linkages between actors where there are no binding or sought-after formal or informal relationships, except when the goods, services and financial agreements are actually transacted.

A **value chain** is a specific type of supply chain – one where the actors actively seek to support each other so they can increase their efficiency and competitiveness. They invest time, effort and money, and build relationships with other actors to reach a common goal of satisfying consumer needs – so they can increase their profits.

ticated products. A group is more able than an individual to take risks.

- **Volume** The group can grow enough produce to meet a buyer's volume requirements. The buyer can deal with the group as a whole rather than with individual farmers.
- **Quality** A group can set rules specifying quality standards, and can appoint members to enforce them. The group can access extension and marketing advice that would be impractical to provide to individual farmers. And it is worthwhile paying for certification and inspection procedures so the group can sell produce to high-value export markets.
- **Consistency of supply** A group finds it easier than an individual to ensure a consistent supply of produce in terms of volume and quality. Group members can organize among themselves to grow crops that mature at staggered times, so ensuring a continuous supply for the buyer. They can pool their resources (or get credit) to acquire the technology they need to force flowering or fruiting, invest in irrigation so they can grow off-season crops, or to store produce. They can also buy produce from other farmers to cover shortfalls in their own production.

Principles of empowering smallholders

Empowerment is vital for sustainability. Confronted by short project timeframes and limited funding, development organizations often make the mistake of trying to intervene too much – for example, by taking over management of the chain, rather than enabling the farmers' organization (or other players) to do it themselves. When the project finishes and the development organization withdraws, the value chain is left without a key link, so it collapses.

Intermediary organizations should aim instead to support farmer organizations to strengthen their capacity to manage chains or chain activities. They should embrace the following principles before engaging smallholders in a value-chain development process. This may help ensure that interventions target development objectives such as equity, gender, sustainable development, and poverty reduction.

Sustainable businesses

Successful intervention in a chain involves promoting sustainable business models. This means that the various actors in the chain must all be able to make a sufficient profit. After an initial period of assistance, each of the actors in the chain must be able to act on their own, without continuing long-term outside subsidies or other forms of support. A business model that does not generate sufficient profit on a sustainable basis for each of the actors, or that relies on continuous outside support, is doomed to fail in the long term.

Value chains and the Millennium Development Goals

Donors support the value chain approach because they recognize that to reduce poverty and to achieve the Millennium Development Goals, the livelihood issues of the world's rural poor must be addressed. Many donors have shifted their attention towards private-sector implementation of programmes, market-based allocation of resources, and public–private partnerships.

A value chain approach supports several of the Millennium Development Goals:

MDG 1: ***Eradicate extreme poverty and hunger*** Strengthening the capacity of smallholder farmers to develop markets increases their share of the value chain and thus improves their livelihoods. Also, it helps them indirectly, by generating employment and creating wealth in rural communities and in the larger economy that can trickle down to the very poor.

MDG 3: ***Promote gender equality and empower women*** The majority of farmers are women, though they are typically under-represented in farmer organizations and are poorly served by extension and other services. Value chain interventions typically mainstream gender issues, or include a strong gender component.

MDG 4: ***Reduce child mortality*** Reducing child mortality depends on access to nutritious food, which a value chain strategy can increase.

MDG 7: ***Ensure environmental sustainability*** Rural people are custodians of much of the world's land and water resources and biodiversity. They are central to achieving this goal.

MDG 8: ***Develop a global partnership for development*** Improved market access (especially international trade in agriculture, which remains highly protected) depends directly or indirectly on pro-poor agricultural growth.

More information on the Millennium Development Goals: United Nations 2005

Equity

Equity means ensuring that the economic gains in value chains are fairly distributed among the various actors. It is necessary to take into consideration aspects such as return on investments and the bargaining power of the various actors. Returns should be proportionate to the level of effort and risk that the actors assume. Smallholder farmers should be treated as rational business people who require empowerment to be able to negotiate a higher economic return.

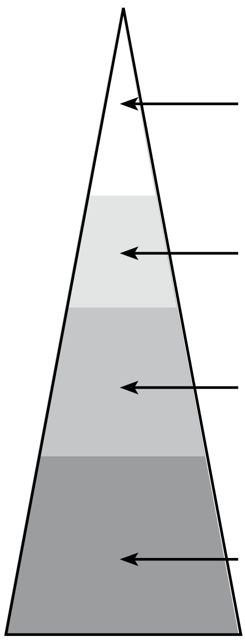
Inclusion and exclusion

Value chain development should not be seen as a social policy to include everyone. It is targeted at particular players – those who have the potential to generate wealth by producing and processing specific products that the market demands. Inclusion – and exclusion – are a necessary part of such a "game". Smallholders must be able to meet market conditions if they are to become players in this game. Not everyone can grow a particular specialist crop (that would merely flood the market). Not all farmers will have the right type of soils, own enough land, have land near enough to a road, or possess the necessary skills to grow a certain crop. They may not be able to organize themselves into groups, and they may not be interested in doing so.

That does not mean that development agencies should focus on the more fortunate members of society, a "chosen few", and ignore the rest. That would reinforce the divisions in society rather than helping create broad-based opportunities (see *Pro-poor value chain development* below). Rather, it means that strategies to promote inclusion should focus on building the farmers' organizational and management skills and supporting farmers to realize where and how they can sustain a profitable business.

Gender responsiveness

Although women do the majority of farm work in Africa, they are relatively poorly served by development agencies. There is a danger that women and other vulnerable groups are excluded by default from new, potentially profitable opportunities. It is a challenge to overcome the inherent gender biases in society, culture and organizations. Steps are needed to ensure that women and other vulnerable groups (such as young people, elderly people, and people living with HIV/AIDS) are given the opportunity to participate in and contribute to such initiatives. Ideally, interventions should provide opportunities for various segments in society: men and women, young and old, privileged and underprivileged.



1 Highest wealth quartile	Most innovative, most educated and articulate; includes leaders and people with most skills	This group generally benefits most from social support programmes, is most interested in new ideas and ready to take on new risks
2 Incremental asset building	Social mobility dependent on local economic growth	Can follow the first group, but are generally not leaders
3 Lower asset group	Precarious in terms of their ability to keep the assets they gain	Seeking change but less able to control their assets and options
4 Poorest of the poor, declining assets	Poorly educated, low assets, marginal areas, landless, often receiving food aid/remittances	Number of this group in a community depends on distance to market, local economy, degree of integration with mainstream economic processes, shocks and opportunities

Wealth categories within a rural community

Specific interventions to support the needs of disadvantaged groups are often appropriate. Such groups typically have limited access to and control over resources, so are less likely to benefit from new opportunities. The intermediary organization should check which groups (in terms of wealth, sex, age, etc.) control what resources. This will help them understand how decisions are made at household level – for example, how are decisions made on what crops to produce, when to sell, and what to grow for the family's own consumption? Understanding this will enable interventions to be designed and targeted properly.

Social responsibility

Promoting value chains often involves difficult issues of social responsibility. For example, many farmers think that children are the best pollinators of crops such as vanilla. During pollination season, they may take their children out of school for weeks or months so they can work on the farm. The family may earn more money, but at the price of poorer education for the children. So should development agencies promote vanilla? This is not just an issue for NGOs and government agencies, but also for private firms engaged in value chains. Irrespective of the size of the enterprise, they should pursue a socially responsible agenda.

Pro-poor value chain development

How can value chain development be targeted to help the poor?

By default, most development programmes benefit the better-off people in a community. These are the most innovative, better educated, upwardly mobile people, who are generally more confident and interested to take on new risks (see the figure on the previous page). Interventions targeted towards them risk merely helping those who least need it.

Vulnerable households – those headed by women, or the families of AIDS victims, for example – may find it difficult to grasp new market opportunities. Even if they have the information they would need, other constraints may prevent them from benefiting, such as limited access to credit, natural resources or social capital. The poor generally lack a cushion that enables them to take on risk – and risk is inherent in business.

This means that if the goal of the intervention is general economic development, a lack of targeting is likely to select the best-off people in the community. This is particularly true for interventions that include a lot of risk. But if the aim is to specifically support the poorest, then the approach will need to target groups based on their ability to save or ability to deal with exposure to risk.

Designing supply chain interventions so they benefit vulnerable groups poses a considerable challenge for development organizations. It is necessary to identify beneficiaries who are likely to be able to benefit from a supply chain approach.

Efforts will be needed to build the group's livelihood assets and strengthen their capacity to manage the chain or chain activities.

The ability of communities to respond to development interventions depends on a number of factors. These include:

- The farmers' access to **capital assets**: economic/financial capital, physical capital (such as infrastructure), natural resources (land, soil, water), human capital (skills, education, labour), and social capital (ability to organize, links with outsiders, etc.).
- The level of **social integration** of the community. Some groups are relatively isolated (e.g., forest dwellers, pastoralists and ethnic minorities), while other communities are in regular contact with urban centres and have strong social and economic ties with influential outsiders.
- The **stability of the environment** where the community lives. Has the community been exposed to security problems such as civil war or ethnic conflict? Is it recovering from a disaster, or has it been exposed to economic shocks? Is it subject to chronic emergencies, such as repeated drought, disease or political discrimination?

Purpose and readership of this book

Markets play an increasingly important role in the lives of even the most remote economic actors. This book describes how marketing strategies can help groups of smallholders analyse their position in the supply chain, and develop and take advantage of supply chains to improve their incomes and livelihoods. It illustrates how service providers can assist and empower rural and peri-urban communities to identify market opportunities, improve supply chain management skills, increase their competitiveness and diversify into alternative and higher value products.

The approach takes a "value chain" perspective that strengthens business linkages between producer groups, service providers and other actors such as processors and importers, rather than focusing only on on-farm interventions. The book provides case studies on how intermediary organizations have empowered farmer organizations to develop markets. The lessons drawn from these case studies will serve the various intermediary organizations and enhance their performance to facilitate market access for smallholder farmers.

The book is intended mainly for use by organizations interested in empowering smallholder farmers to develop markets. It is specifically aimed at those involved in project design and implementation, building staff capacity in market facilitation, and project evaluation. They may include the following:

- **Extension workers**: individuals or institutions providing agricultural extension services, particularly those involved in market linkages practices.
- **NGOs, national farmers' associations**, and other organizations that provide market linkage services.

- **Training institutions** at all levels, especially farmer training colleges.
- **Ministry of Agriculture** staff and other development workers.
- **Private sector actors** involved in inputs, extension, business planning, finance, market facilitation, storage, etc.
- **Research organizations** promoting market linkage methods, especially national agricultural research organizations.
- **Policy makers and donor** organizations.

These organizations and individuals inevitably have different perspectives, but they all have a common interest: developing the ability of farmers to produce and sell a product that consumers want, on a reliable basis.

The interest of development agencies and NGOs in this is obvious: they have a development agenda to increase the income and wellbeing of the poor. Responsible firms in the private sector have a similar interest: in order to supply their customers with a quality product at a reasonable price, they need to develop stable, long-term relationships with producers and processors. They therefore have a major interest in supporting the development of farmer groups, helping them organize, educating them to produce the desired product, and ensuring that they approach the market in a businesslike way.

Development organizations can help this process in various ways (see Chapters 7 and 8):

- They can **initiate** or **facilitate** the process as a neutral outsider.
- They can act as **trainers** or **coaches** to strengthen the capacity of farmers' organizations to manage chains.
- They can act as **information** and **knowledge brokers** to facilitate understanding of the value chain and provide information about innovations.

Success is not easy. It may require considerable amounts of effort, perseverance, and support from outsiders. If the efforts are to be sustainable, the farmers and supply chain actors must be able to understand the market and respond to its many, constant changes in a timely, effective way.

Parts of the book

The remaining chapters in this book focus on the concept of value chains and how to improve them.

Chapter 2, Introducing value chains, describes a framework for analysing the farmers' position in a value chain, and for making strategic decisions on how to help them improve it. It presents four roles that farmers may play in the chain.

Chapters 3–6 present cases describing how groups of farmers have improved their position in the chain, either by improving how they perform the role, or by taking on new roles. These chapters also describe the role of the intermediary organization in helping them to do this.

Chapter 3, Chain actors, describes how three groups of producers improved their position as chain actors by improving their production techniques and finding markets for their produce.

Chapter 4, Chain partners, tells how various groups have been able to take on more management roles in the chain, so becoming chain partners.

Chapter 5, Chain activity integrators, shows how farmers' groups shifted from being chain actors to chain activity integrators by adding value to their produce, for example by processing it.

Chapter 6, Chain co-owners, describes how farmers have become chain co-owners through a combination of increasing the types of activities they perform, as well as increasing their ability to manage the chain itself.

Chapter 7, Strategies for chain empowerment, distils lessons from these cases. It describes the strategies that the intermediary organization can use to help farmers improve their position in the chain.

Chapter 8, Facilitating chain development, describes the various roles that the intermediary organization may consider playing in promoting value chains.

Chapter 9, Resources, gives a brief overview of various tools that intermediary organizations can use in analysing and facilitating the development of value chains. It also lists relevant resource materials and provides details on the contributors to this book.

How this book was prepared

This manual is part of wider efforts to promote pro-poor access to markets in Africa. It is designed to reflect the experiences and views of many organizations working with pro-poor supply chains. The book was developed with a range of partners (see pages xiv–xvi) with experience in assisting farmers develop markets for their produce.

The idea for this book began with a report produced by KIT and Faida MaLi in 2004 on the role of Dutch farmers in Tanzania's rural economic development (Verkuijl and Masao 2004). This examined the contribution of Dutch enterprises to local economic development by creating employment opportunities and transferring knowledge of sustainable production systems, improved labour standards or food-quality and safety standards. One of the report's recommendations was to capitalize on Faida's and KIT's experiences in securing smallholders' access to markets. Therefore, a "writeshop" was proposed in 2005 to learn and disseminate the experiences of various organizations on this topic.

In April 2005, KIT and Faida MaLi met with the International Institute for Rural Reconstruction (IIRR), which has extensive experience in facilitating writeshops. IIRR recommended starting with a preparatory workshop with key stakeholders that would allow the participants to agree on the content, scope and target audience of the manuscripts. Such a preparatory workshop was held in Arusha, Tanzania, on 16–17 March 2005, with participants from Faida MaLi, FAO, KIT, Matchmakers Associates, SNV and the University of Florida.

KIT facilitated the conceptual learning process, played an overall technical role and raised funds. Faida MaLi organized the logistics and shared its experience, and IIRR advised on the overall process, assembled the technical team, facilitated the writeshop and took charge of the book editing and printing. KIT funded the preparatory workshop, while Cordaid and CTA funded the writeshop itself. Others like SNV, FAO and CIAT contributed by supporting the participation of their staff.

The Moshi writeshop

An intensive, 6-day writeshop was held in Moshi, at the foot of Mt. Kilimanjaro in Tanzania, on 24–30 October 2005. The contributors brought manuscripts with them, along with other printed materials, and photographs relevant to the subject. A total of 38 representatives from local, regional and international NGOs, United Nations organizations and international research centres, together with staff of KIT, IIRR and Faida MaLi, participated in the writeshop.

Each of the participants was asked to prepare a brief paper describing a particular case they had been involved in. Each case focused on how a particular group of farmers had, with the assistance of an intermediary organization, developed a supply chain or improved their position within it. The participants brought these manuscripts with them to the writeshop.

The writeshop began with a presentation of a framework describing different ways that farmers can participate in a supply chain – as chain actor, chain partner, chain activity integrator, or chain co-owner. This framework facilitates a strategic understanding of interventions to integrate small-scale farmers in the chain. Substantially modified as a result of comments made during the writeshop, it forms the basis of Chapter 2 in this book.

The participants then split into two groups, each discussing half of the case studies that had been prepared. Each participant presented his or her case study; the other participants commented on the drafts, asked questions, and suggested additions or changes. The participants then revised their drafts with the assistance of a team of editors and resource persons. Artists drew illustrations to accompany the text. The participants then presented their revised drafts to the group a second time, along with the illustrations, which allowed other participants to make further suggestions. The editors and artists again helped revise the text and illustrations. The groups were fairly fluid: individual participants and resource persons were able to move from group to group, so contributing to the drafting of more than one chapter.

By the end of the writeshop, the participants had completed drafts that fitted into the four typologies of the framework (chain actor, partner, activity integrator and co-owner). These cases form the bulk of the book – Chapters 3 to 6.

Also during the writeshop, the participants divided into four smaller groups, each of which synthesized the case studies on one of the typologies, and discussed the strategies appropriate to that typology. This resulted in Chapter 7. The draft of this chapter was also presented to the plenary, and participants were able to provide comments and suggestions on the text.

After the writeshop, considerable restructuring and rewriting were necessary to eliminate overlap among the various chapters and to ensure the style was clear and consistent. The chief editor in collaboration with the representatives of KIT and Faida MaLi were responsible for finalizing the book.

Throughout the writeshop process, the initial manuscripts were revised substantially or were completely rewritten. The information they contained was selected, sifted, and combined with ideas from other sources, and was distributed throughout the book. A single section in the book may contain information provided by many different participants. This means it is not possible to label a particular chapter or section as the work of a particular participant. The "authors" and resource persons of the book are thus the contributors listed on pages xv–xvi.

Writeshop advantages

The sequence described above is an adaptation of the writeshop approach pioneered by IIRR at its headquarters in the Philippines. IIRR–Africa has used this approach to produce extension and information materials on a wide range of subjects. Writeshops have several advantages over conventional methods of producing a publication. They speed up the production process, taking full advantage of the participants' range of expertise. The process of writing, getting comments, revising and illustrating takes place at the same time, considerably shortening the often-difficult process of writing, editing and publishing. A large number of participants contribute to each topic: in effect, the writeshop provides an opportunity for technical peer review by a large number of reviewers, as well as pre-testing for understandability and field relevance by a group of the intended readers.

In addition, writeshops bring together a large number of people from various institutions and walks of life, each with different perspectives and expertise. They are an excellent training and networking opportunity, with individuals learning about each other's work and exchanging ideas and experiences that will be of value for them when they return home. It is hoped that the relationships and networks forged during the writeshop will continue long into the future.