

# 7

## Strategies for chain empowerment

CHAPTERS 3–6 HAVE DISCUSSED examples of four strategies for empowering farmers in chain development (see figure on the next page). In this chapter we will look more closely at the case studies for each strategy to derive lessons and recommendations that can be used by intermediary organizations and chain facilitators. For each strategy we describe the current situation, the goal and rationale, the timeframe, how to monitor progress, and the set of skills and assets the farmers need.

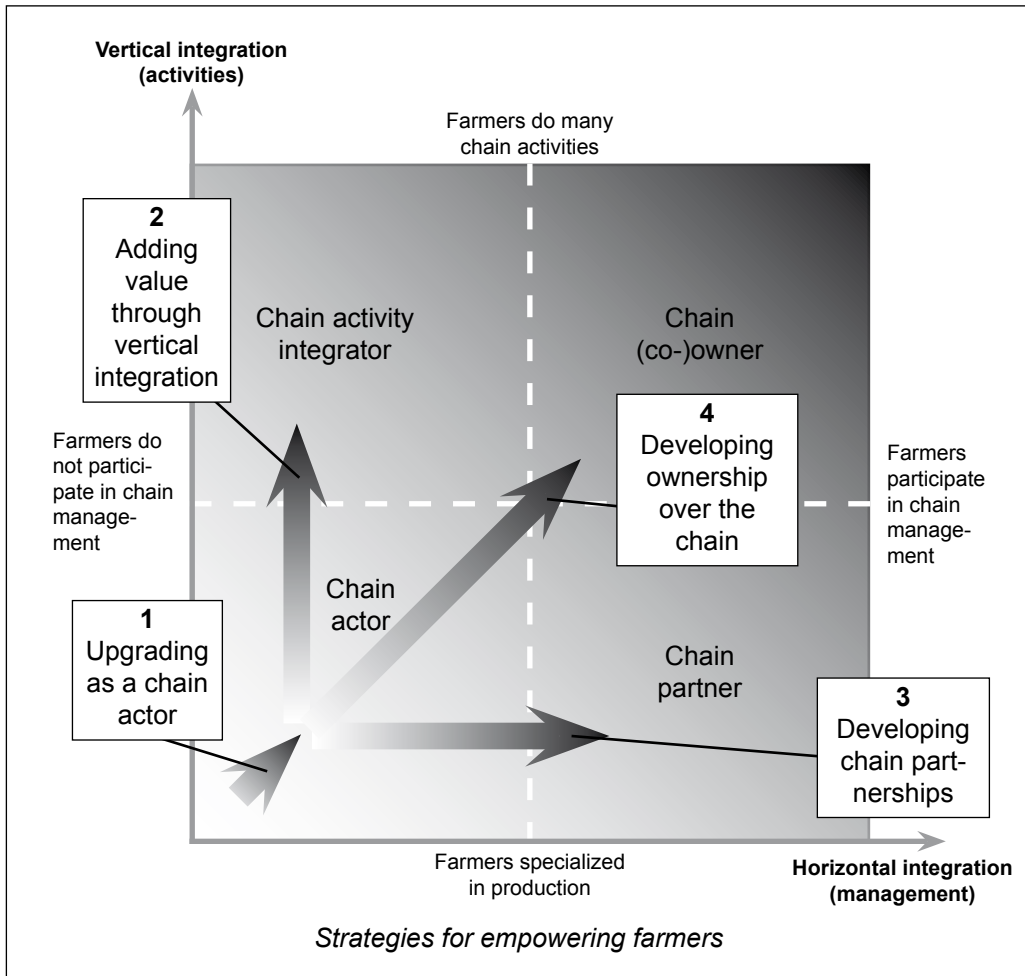
- 1 **Upgrading as a chain actor** The farmers become crop specialists with a clear market orientation.
- 2 **Adding value through vertical integration** The farmers move into joint processing and marketing in order to add value to the product.
- 3 **Developing chain partnerships** The farmers build long-term alliances with buyers that are centred on shared interests and mutual growth.
- 4 **Developing ownership over the chain** The farmers try to build direct linkages with the consumers.

### 1 Upgrading as a chain actor

This section draws especially on the cases in Chapter 3.

#### What is the current situation?

Currently the farmers are not well connected with markets. They stay on the farm to wait for traders who come and visit them to buy. The traders offer low prices and do not buy all of the output. Of course, the farmers are angry with



this – their time and effort are not well rewarded. They blame the traders for their problems. The traders give low prices and sell in the city for much more. The world is unfair!

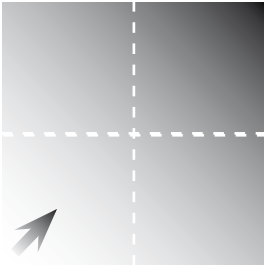
What the farmers do not realize is that they are part of the problem. Their production is not well tailored to what the market needs. They produce mangoes (say) of all different qualities – some are healthy and big, others are small and spotty. But they put them all together in the same crate. The trader does not know what quality to expect, so offers a low price.

## What is the goal, and why?

The idea is to make the farmers crop specialists with better farming skills, so that they can produce a better crop of a higher and more consistent quality and quantity, which is better suited to satisfy the buyer. In this way the farmers can make more money and improve their livelihood.

## Upgrading as a chain actor

### Intervention focus



Ensure that farmers have the basic assets they need to improve their production

Improve farmers' farm management skills: crop and livestock production, planning, record keeping, financial management, etc.

Improve farmers' understanding of markets, chains, competition, consumer demands and contracts

Identify and develop markets and products

Promote and strengthen farmers' organizations

### Chain model

Organized farmer groups with stable relationship with buyers

### Type of farmer organization

Farmer cooperatives, farmers' schools or study groups

### Key competencies of the organization

Good agricultural practices

Continuous improvement in farm production

Farm record-keeping

Strong organizational skills

Becoming crop specialists is a necessary first step, prior to any other form of chain development. Unless the farms are well run it makes no sense to invest in processing or to seek chain partnerships. However, when the farmers have consolidated themselves as specialized farmers, then other options open up.

For example, in the case of the pineapple outgrower scheme in Ghana (page 34), the farmers first develop farming skills as an employee before they become independent farmers. In the future, when they are specialized farmers, they may build up a farmer organization and increase their control over the value chain.

Another example comes from the case of cashew in Mozambique (page 47). The farmers have planted new varieties of trees, and have learned how to improve production. As a result, their yield and quality of their output have risen, and they now get better prices.

## How much time does it take?

The time it takes to become a specialized farmer depends on the existing assets and capacities of the farmer, the type of product, and the type of market. To produce for export markets is far more demanding than to produce for local markets – it may take many years to develop the necessary skills. In the pineapple case (page 34) it takes four years before the farmer may produce for the export market

alone. But for in some circumstances, such as in the honey case in Kenya (page 75) huge improvements were achieved in only 3 months. To improve quality in mango production may take 3–4 years – while in dairying big improvements can be achieved within 3 months through simple training in hygiene in milking and storage.

## **How to monitor progress?**

Progress can be measured in two ways. It is possible to collect quantitative data on quality, yields, average price, turnover, etc.

It is also possible to observe the state of the farm (tidiness) and develop a simple questionnaire that farmers can use to measure improvements in farming and management skills. The scores in such a questionnaire can be based on a series of simple questions about farm management.

## **What skills and assets does the farmer need?**

Producing for a market requires some basic assets. There must be basic infrastructure such as roads and communication facilities. The farmer must have access to productive resources – land, water, seeds, capital, etc. Unless these conditions are met, it makes no sense investing in commercial farming. In other words, to improve the livelihoods of farmers, it may be necessary to invest not only in the farmer but also in other parts of the chain.

To become a crop specialist, the farmer should have farm management skills. This includes not only technical production skills – irrigation, integrated crop and pest management, land preparation, etc. It also includes skills to plan activities, steer workers, maintain accounts, manage cash flows, keep records to gain a proper understanding of the costs involved, etc.

The farmer should develop an understanding what it means to produce for a competitive market. Other farmers are producing the same products for the same market, so the farmer must offer something special to attract a buyer. It is common to see farmers in the same area all planting tomatoes at the same time. Everybody does what the others are doing. Of course, this results in a glut and low prices at harvesting time. Hence, instead of just producing tomatoes because it is a tradition, the farmer should rather ask herself what the market needs.

Farmers should also understand that to produce for a market implies risk. The profit an entrepreneur makes is a return for the risks that she has taken. Farming is in itself a risky business – a drought may destroy the crop, or a goat may eat it. But farming for a market poses additional risks because the investments in farm production are higher, and the farmer makes herself dependent upon the buyer. Prices may fluctuate widely throughout the season. The farmer must have the capacity and willingness to take such risks.

One way to reduce these risks is to sign a production contract. The buyer and seller both reduce their risks by agreeing early in the season to supply or purchase a given volume of produce. However, other traders may come by at harvest time and offer higher prices. The farmer should resist such temptations and honour the contract. An example comes from the sunflower case in Tanzania (page 84) where farmers sold on the side to an unreliable trader. The contracting company was furious and withdrew from the contract, leaving the farmers unable to sell the remainder of their produce. They ended up with lower prices for their produce than agreed upon in the contract.

The farmers should be willing to learn and innovate constantly. Conditions in the market change rapidly as new competitors pop up, new technologies are introduced, and consumer preferences change. The farmers must be capable of doing new things, or doing old things in a new way. In this way the farmers can grow and evolve as the market changes. A good example of this comes from the jatropha case (page 41), where the farmers organized as groups, took up a new crop, and started processing it into oil.

All these skills and assets imply that the farmers are organized. Unless farmers are already organized, or are willing to organize, the facilitator does not even come into the picture. Many private companies also prefer working with organized farmers because it reduces their risks and transaction costs. Organization is therefore a basic asset that needs to develop – it is the backbone of the whole process of chain development. This cannot be rushed – organizations that are artificially created from above will soon or later fall apart.

## **2 Developing chain partnerships**

This section draws especially on the cases in Chapter 4.

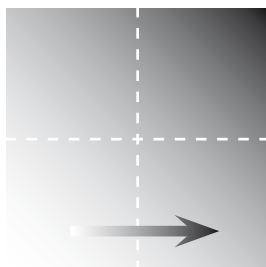
### **What is the current situation?**

The farmers are already professional chain actors. They offer a fairly attractive product, have organized among themselves, and have developed basic assets, farm management skills, understanding of markets and willingness to innovate. In other words, the farmers are crop specialists and have something good to offer to buyers.

However, the farmers feel out of control in their relations with the outside world. For instance, they may be selling to visiting traders – each year a new one. This leaves them in considerable doubt whether they can sell their produce, and at what price. Or they may be producing under contract for a processing company. This gives them a secure market outlet, but they have to follow the instructions of the company to the letter, and they lack power to bargain over prices or other contract conditions. The farmers feel that they are left to the whims of others – out of control.

## Developing chain partnerships

### Intervention focus



Make the farmers an attractive business partner both technically (quality, yields) and managerially (entrepreneurial mentality, understanding of the chain)

Organize continuous learning and innovation (farmer schools, exchange of best practice, etc.)

Empower the farmers organizationally (including information systems for improved bargaining)

Facilitate chain cooperation with the buyer (exchange of information, bargaining, joint action plans based on shared interests, etc.)

### Chain model

Specialized, organized farmer groups cooperating with processors, traders or retailers

### Type of farmer organization

At grassroots level: farmers' schools or study groups

At chain level: representation in a chain platform

### Key competencies of the organization

Good agricultural practices

Continuous improvement in farm production

Farm record-keeping

Independent information on market prices and trends

Understanding of the supply chain

Communication and bargaining with a focus on shared interests

## What is the goal, and why?

The farmers would like to build more stable relationships with the market. They would like to move to the point where they have greater influence in the chain – influence on factors such as pricing, technology, quality standards, logistics, timeframes, etc. To this end, the farmers opt for a partnership strategy based on shared interests and mutual growth. By linking with a buyer, they can increase their business security and gradually improve and expand their businesses. They want to make themselves an attractive business partner so that the buyer will be willing to pay better prices, listen to their demands, and invest in them.

## How much time does it take?

It takes several years to build chain partnerships. Just identifying a good partner may take a year. Another year is needed to get to know each other, develop trust and shared visions, and agree on a joint business plan. Then comes implementa-

tion of the joint business plan. A real partnership is only in place after 2 or more years of mutually satisfactory implementation. Hence building a partnership will take at least 4 years (assuming that the farmers are already crop specialists). Rushing the process tends to lead to unstable partnerships (as in the sunflower case page 84).

## **How to monitor progress?**

Quantitative data include the volume of the transactions between the business partners, and the amount of investment in the joint business plan.

Progress can be measured in a qualitative way using evaluation forms in which the partners evaluate the other party (e.g., commenting on each other's trustworthiness) and aspects of the business relation (e.g., commenting on quality control procedures, pricing formulas, etc.).

## **What skills and assets does the farmer need?**

We assume that the farmers are already crop specialists, because that is a basic requirement for entering into business partnerships. The cases about the farmer field schools (pages 79 and 94) show that first the farmers worked for many years on technical training and innovation. Later, when they had a good product and were ready to develop market alliances, they started improving their business skills and linkages to business partners. This is the shift from "farmer field schools" to "farmer business schools".

In this transition, the farmers improve their entrepreneurial skills – costing and pricing, production planning, understanding of market demands, marketing planning, negotiation skills, etc. Of particular importance is managing information. Information systems are needed to improve the farmers' management decisions and bargaining position. By keeping records of the use of labour and inputs at farm level, the farmers get a proper understanding of the costs involved, so can make better-informed decisions and calculate prices more precisely. These records can also guarantee the buyer about the product's traceability – where it came from and the inputs that were used. Another important aspect is market information. If the farmers are well informed of updated prices and trends in the market, they are better able to bargain with potential buyers.

The farmers should develop a chain vision – an understanding of how value chains work. They should understand the chain as a network of specialized companies that need each other to make money. They should acknowledge the position of other chain actors, and respect that their interests are also legitimate. They should understand the need for cooperation rather than fighting against each other. They should understand that sellers and buyers will always have opposed interests – a high price and a low price, respectively. Nevertheless, they also have a shared interest – that is, to satisfy the consumer in an effective and

efficient way. When the consumer is satisfied, the businesses of both the seller and the buyer will grow. The chain can only satisfy the consumer when all chain actors cooperate. That is the essence of the chain vision that underlies any attempt at building chain partnerships.

Another necessary asset is an appropriate structure and approach to dialogue with the partnering company and to agree on joint business plans. The farmers must be organized and have democratically elected representatives who can meet the partnering company when needed. Furthermore, to build trust, shared visions and joint business plans, an external mediator may be needed to ensure that the dialogue between the two parties is fair, transparent, concrete, and fruitful. A good example is Faida MaLi's role in the sunflower case (page 84). More information on Faida's approach can be found in the resource section (page 178).

Finally, it is important to develop the farmers' ability to mobilize savings for growth and investment. Because the sunflower farmers had no savings, they opted to go for the quick cash buyers, and in the process affected relationships with longer-term buyers who would have probably been more useful in moving them to the chain partnership level. Apart from mobilizing savings, the intermediary organization needs to build the farmers' capacity in accessing loans and attracting investment. This aims to ensure the farmers have enough capital to upgrade.

### **3 Adding value through vertical integration**

This section draws especially on the cases in Chapter 5.

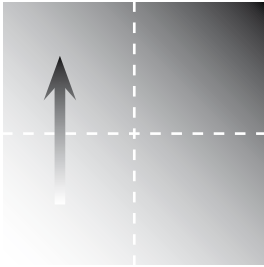
#### **What is the current situation?**

The farmers are already specialized chain actors to some extent – they offer a reasonably attractive product, have organized among themselves, and have developed basic assets, farm management skills, understanding of markets and willingness to innovate.

However, the farmers feel that they get few returns from the market. They sell their produce as raw material at low prices. At the end of the chain the consumer pays a price that is five to twenty times higher than the farmers receive. They see that other players further down the chain make money by grading the product, cleaning it, processing it, packaging it, and making it ready for use by the consumer. The farmers also see that they could get better prices if they could sell directly to wholesale or retail markets instead of selling through traders. But they produce too little volume to do this. Moreover, they have no access to processing technologies, trucks, packaging machines, etc.

## Adding value through vertical integration

### Intervention focus



Invest in facilities for processing, marketing and distribution (infrastructure and professional staff)

Develop market outlets

Design and implement management systems (operational procedures)

Develop organizational discipline

### Chain model

Farmer cooperatives adding value through joint input procurement, processing, marketing, etc.

### Type of farmer organization

Farmer cooperatives adding value through joint marketing, etc.

### Key competencies of the organization

Quality grading

Market outlet development

Logistics management

Organizational discipline

## What is the goal, and why?

The farmers want to move from merely farming into additional business activities. They want to put their farm produce together, process it to some degree, and then sell it as a group. This will allow them to get a larger share of the revenues in the value chain. It may increase their incomes and generate more jobs in their villages. Another motivation to start processing may be to prevent losses when fresh fruits and vegetables cannot be sold, as in the case of Muleba fruit juice (page 102).

## How much time does it take?

In all cases it took 3–4 years for the farmers to integrate new activities. But it is unclear whether they will be able to maintain them, so it is likely that more time is needed. The case of jatropha (page 41) is a good example – without additional project support, the farmers' groups are moving backwards.

## How to monitor progress?

Some impacts can be measured in a quantitative way. They include:

- The economic performance of the new business venture: turnover, profit, capital assets, return upon capital

- Increases in income at household level and the number of new jobs created.

In addition, qualitative assessment tools can be developed to monitor organizational capacities such as human resources, information systems, decision-making processes, joint planning capacities, bargaining capacity, etc. Client satisfaction with the product, delivery conditions, packaging, etc. can also be monitored.

## **What skills and assets does the farmer need?**

We assume that the farmers are already crop specialists, because that is a basic requirement for moving from farming into other chain activities. To do so the farmers' organization should build assets such as warehousing, conditioning and packaging, logistics and quality control equipment and systems. The organization has to develop the ability to plan and run these new business ventures. This includes the development of bankable business plans, obtaining investment capital, the identification and implementation of appropriate technologies, the operational management of the new business processes, the assurance of quality, targeting of buyers, management of client satisfaction, and continuous upgrading of the product and the production processes.

In other words, moving from farming into downstream business activities requires an elaborate set of new managerial skills. Operational management becomes highly complex – for example, the organization should ensure that input procurement is synchronized with production, processing, packaging and marketing activities. Specific technical skills may be particularly important, such as quality control and upgrading. Collective equipment and infrastructure must be managed in a professional and responsible manner. Decision-making processes, administrative procedures and information flows also become far more complex. This points to the need of recruiting professionals – farmers themselves are unlikely to be able to perform these functions. Professionals need to be in charge of marketing, administration, and management.

Besides professional management, strong group cohesion and organizational discipline are needed. Involvement in a joint business venture requires the members of the farmer organization to be able to trust and rely upon each other. Individual members must adhere to operational procedures and quality standards. Management decisions have to be transparent and understandable to group members. Unless there is real ownership by the farmers, the business venture will not be successful. This also implies that the members must invest their own resources in the business venture, and thus run risks. Dependency upon outside support is a major cause of failure.

A final area where the farmers' organization needs to develop capacities is public relations. The organization not only deals with suppliers and customers, but with a whole range of actors: financial institutions, service providers, certification agencies, local authorities, labour unions, etc. The organization must be able to manage this diversity of stakeholders and influence relevant elements of the business environment, such as registration, certification, standards, and infrastructure.


## 4 Developing co-ownership over the chain

This section draws especially on the cases in Chapter 6.

### What is the current situation?

The farmers are already specialized chain actors with a fairly attractive product, basic farm management skills, some understanding of markets and a willingness to innovate and take risks. They experience the same problem as in the previous strategy – they feel that they get too little return from the chain and that they have no control over what happens to their produce.

The cases start from a variety of situations. The Malian farmers (page 122) were isolated women processing low-quality shea butter for their own consumption. The Ugandan vanilla producers (page 128) were individual struggling smallholders, as were the Kenyan dairy farmers (page 138). The Tanzanian and Ethiopian coffee producers (pages 89 and 133) were already organized, though the Tanzanian regional cooperative was not operational.

<b>Developing co-ownership over the chain</b>	
<b>Intervention focus</b> 	Enter into joint ventures downstream in the chain for the development of new consumer product lines  Develop and market branded consumer products
<b>Chain model</b>	Farmer cooperative gaining chain co-ownership in partnership with processors or retailers, or through direct marketing to consumers
<b>Type of farmer organization</b>	Business cooperative
<b>Key competencies of the organization</b>	Total quality management Product/market development Consumer targeting Joint venture cooperation

## **What is the goal, and why?**

The goal of the intervention strategy is similar to vertical integration – i.e., to empower the farmers' organization to deal with technical as well as managerial issues on behalf of its members. However, chain co-ownership goes further than vertical integration. It implies that farmers organize themselves in recognized, visible business organizations, capable of penetrating existing markets, developing new products or markets, or diversifying their activities. It also means they can reach the end-consumers of their products and to initiate dialogue with the consumers to improve the product, based on consumer demand. Such farmers' organizations can negotiate lucrative prices and take a fair share from the chain.

Such a value chain may not be too long or complex, since co-ownership requires good coordination skills and capabilities. For African farmers the most accessible markets are local, national or regional. Reaching the end-consumer may be very difficult in an export chain. However, importers can be considered as the end-consumer since they take over all the rest of the chain in a distant country. Coffee and vanilla producers in Tanzania, Uganda and Ethiopia are involved in export markets to Europe and the USA (pages 89, 128 and 133), while Malian shea butter producers are targeting a regional export market in Senegal (page 122). Meanwhile, dairy product producers in Kenya are essentially targeting a local urban market (page 138).

## **How much time does it take?**

This intervention strategy will take a lot of time, especially if it starts with individual farmers. However, it may be possible to achieve results within 4–5 years if farmers already master their production techniques and aim at local markets where they are easily in contact with the end-consumer. The case of dairy farmers in Kenya (page 138) shows this.

## **How to monitor progress?**

Hard quantitative data can be collected on turnover, profit, capital assets, income increases, etc.

Other ways to know when a farmers' organization is becoming a chain co-owner is when parties start to recognize that it functions in a fair, transparent and trustful manner – for example, guaranteeing an acceptable price to the farmers and ensuring that they are paid in time. Honoured contracts, quality certification and satisfied clients are also good indicators of an empowered chain co-owner. Finally, a cooperative that initiates or negotiates research and development initiatives for the benefit of the entire value chain should be considered as co-owner of the chain.

## **What skills and assets does the farmer need?**

The farmers' organization needs to develop the same skills and assets as in the vertical integration strategy – e.g., professional management skills, organizational discipline and the ability to mobilize funds for investment in new business ventures. However what distinguishes the two strategies is the ability to coordinate the whole chain in order to satisfy the end-consumer. The organization must be able to understand consumer demands and to translate them into product and process upgrading and operational processes. The organization must be on top of what consumers want and what competitors do, and try always to stay one step ahead. This requires constant research and innovation. For example, the dairy farmers in Kenya (page 138) added a new product to their range: besides selling milk they started selling the snacks that consumers like to eat while drinking milk.

The shea butter chain in Mali (page 122) is an example of fragile co-ownership. Though the shea butter union negotiates its price with the Senegalese importer, it still relies on one importer only. The union does not yet reach the end-consumer because the importer processes the butter into a final product that is sold to mainly French consumers. The farmers are currently developing a partnership with a Dutch company to sell shea kernels. This partnership includes negotiating the price, product and process upgrading through improved processing techniques.

In the case of vanilla (page 128), the Ugandan farmers negotiate directly with American importers on price and quality. However, they are not in contact with American vanilla consumers, and they have no information on how to upgrade or brand their product in the US market.

