

# Pathways to Commercialisation: Supporting Small Farmers

Accelerated growth in agriculture is critical to meeting the MDGs in Africa. Intensification and commercialisation of smallholder agriculture are seen by many governments and international agencies as the principal means of delivering this.

However market-based approaches have not delivered growth to many parts of Africa where markets are weak, thin and interlocking

The challenge is how to raise productivity in the agricultural sector, and how smallholder farmers can 'step up' and participate in markets and improve livelihoods

This brief draws on recent research by Future Agricultures and examines narratives and strategies for commercialisation. It asks:

- What pathways to commercialisations are open to smallholder producers and how can these be supported?
- What are the livelihood aspirations of young people in rural areas?
- How can farmer organisations be strengthened to assist smallholders to engage in markets and deliver broad-based growth?

## Commercialisations in agriculture<sup>1</sup>

Many national governments and international development bodies see intensification and commercialisation of smallholder agriculture playing a central role in delivering broad-based growth in rural areas, where the majority of the poor still live. An alternative view, though, is that strategies to promote commercial agriculture will benefit primarily large-scale farms plus a minority of smallholder farmers – to the detriment of the majority of poor rural households.

However, there is no one 'ideal' commercial agriculture, following a linear path to a single end point. Commercialisations can take

different pathways for different farmers in different places - encompassing both domestic and export markets – and need to be supported in different ways.

## Who are commercial farmers?

Commercialisation – measured as the degree of participation in markets (usually focusing on cash incomes) – could be relevant for any size of farm and any type of market. Farmers will benefit from participating wherever the opportunities are – domestic or export markets – and respond to any opportunities available. In reality, large-scale and smallholder farmers tend to have different strengths giving them advantages in certain crops (Tables 1 and 2). Competitive advantages for small-holders generally centre on their low-cost, usually highly motivated family labour, while large farms have lower costs in most market transactions. Better-endowed smallholders are usually the prominent suppliers of staples, horticultural products etc. for domestic and regional markets, where quality, safety and traceability requirements are fairly minimal. Large-scale producers continue to expand as horticultural exporters, but are less visible in domestic markets where high value segments are still small.

Which farm type dominates will depend partly on the crops promoted (in turn a function of agroecological conditions and market opportunities) as well as markets targeted. Large scale farms might flourish because they are most appropriate for particular crops and markets with a comparative advantage in the country or region – not necessarily because of large farm bias in policy. Equally, a country may do well in two product groups (say, coffee and export horticulture in Ethiopia) with smallholder production systems dominating in one, and large farms in the other. With appropriate

Table 1: Competitive strengths and weaknesses of different farm types	Smallholder farmers		Small Investor-farmers	Large-scale farming
	Type 'A' – Small-scale non-commercial farmers (limited crop sales: not main income)	Type 'B' – Small-scale commercial-farmers (main income from produce sales)		
Land	*	**	**	**
Finance / Credit		*	**	***
Inputs: access/ purchase	*	*	**	***
Skilled labour: access		*	**	***
Unskilled labour: motivation, supervision	***	***	**	*
Contacts/networks	*	**	**	***
Market knowledge	*	**	***	***
Technical knowledge	*	**	***	***
Product traceability and quality assurance			*	***
Risk management	*	*	**	***

\* = poorly positioned (no star is worse!); \*\*\* = well-positioned

organisational, technical and policy support, the two can produce, process and market a single product, with different roles based on their comparative advantages and specific conditions along the value chain (e.g. through contract and outgrower schemes).

### Large farm policy bias?

Policies in most countries contain a mix of measures to assist both large-scale and small-scale farm enterprises. However, in practice, policy may favour large farms to the detriment of smallholder commercialisation. Why? Reasons include lack of clarity about what commercialisation means - the diversity of alternative paths across regions and localities - and the range of interventions needed to achieve it. Smallholder farms need more support than large-scale farms if they are to flourish. Whilst large scale commercial farming can grow where there is an adequate enabling environment (macro-economic stability, banking systems, core infrastructure – roads, electricity, telecommunications), smallholder commercialisation requires a range of services through pre- to post-harvest. Where state capacity is lacking, large-scale farms may be able to source critical production and marketing services themselves. But the majority of smallholders will languish.

### Promoting broad-based commercialisation

Broad-based smallholder commercialisation will require more active state engagement in service provision. Smallholders need access to a range of pre- to post-harvest services: finance, extension advice, input markets, market information and linkages to improve efficiency of production. Few of the required services will be entirely private sector-driven under current conditions in Africa. Farmer organisations – if strengthened – may assist with providing some. There nearly always has to be some state role – if not in service provision, then in its coordination and regulation.

Except for very small, agroecologically homogenous states, pre- and post-harvest services required by smallholders are best organised at decentralised (district or regional) level. Agribusiness is unlikely to invest in coordinated service provision through contract farming for food staples and other crops grown by smallholders for own consumption and domestic/regional markets. Effective coordination across multiple, independent providers of complementary services is most feasible at the local level.

The role of ministries of agriculture should be to support decentralised service provision and local coordination (effectively providing technical input into local government processes) - as a part of a reorientation towards state-led reforms to help create the structural conditions for kick-starting the agricultural economy<sup>2</sup>. Such a shift will be challenging – organisationally and politically. But if agricultural commercialisation policy is to reflect and promote pro-poor and pro-development pathways, governments and donors need to

support the channels and environments through which smallholder farmers can and do participate.

### Future agricultures: Agribusiness and youth<sup>3</sup>

Young people constitute a high and increasing proportion of Africa's population: around 70 percent are currently under the age of 30. Many young people are choosing not to pursue livelihoods in the agriculture sector, particularly as farmers. This could have important implications for national and international efforts to drive economic growth through investments in agriculture.

Understanding of alternative futures for African agriculture and agribusiness and of young people's aspirations is needed to reframe policies and provide appropriate support.

### Views of African agriculture and agribusiness

There are divergent views of agribusiness in Africa ranging from: agribusiness being synonymous with transnational corporations, globalisation and large-scale plantations – working against the interests of local people and resources; to agribusiness and entrepreneurialism as the driver of a Green Revolution in Africa.

In fact, agribusiness in Sub-Saharan Africa is ubiquitous and highly heterogeneous – ranging in form and scale from individual traders, shops and kiosks, through small and large national production, marketing and input firms, to transnational companies. However, most agribusiness activity is relatively small-scale and serves the domestic market. Agribusiness provides family farmers with access to markets, inputs, technology and consumer goods. The relationship between agribusiness and family farmers can be synergistic and/or competitive.

Thus neither of these contrasting views is adequate when considering the future of African agriculture. By characterising agribusiness as essentially greedy transnationals, the first neglects the diversity and domestic orientation of much agribusiness, and its close links with family farming and the rural economy. The second ignores the potential for asymmetries of knowledge and power, and the exploitation that can result (in other parts of the world, in the absence of effective regulation, the agri-food sector has contributed to significant negative livelihood, health and environmental impacts).

### Young people's aspirations

Young people's aspirations are not just about economic opportunity – status is important: agriculture seems to be unappealing as it does not bring status, regardless of economic outcomes. African secondary students' vocational aspirations and expectations do not reflect the employment opportunities or the realities of the labour market, nor the socioeconomic conditions and development levels of other countries. Implications are:

Table 2: Predicting Competitiveness of Farm Types in Different Crops and Markets (given technical and economic requirements of different crops and demands made by different markets).	Smallholder Farmers		Small Investor-farmers	Large-scale farming
	Type 'A'	Type 'B'		
food staples (local/national/regional markets)	YES	YES		?
high value crops, e.g. horticulture (local/national/regional markets)		YES	YES	?
low value export commodities, e.g. cassava, soya, grains				?
horticulture exports		?	?	YES
traditional export commodities		coffee, cotton, cocoa, tea, groundnuts	YES	sugar, tea, tobacco

- There may be an increasing gap between young people's aspirations and the level of livelihood that local rural environments and economies can support.
- Young people in areas of high agricultural growth may potentially be more interested in making farming a central element of their livelihood than those in low growth areas.
- Young people's interest in farming will likely be positively related to their ability to put together, or gain access to, the resources needed to farm on a 'commercial' basis (i.e. land, credit, labour).

Young people's aspirations suggest that small-scale commercial farming (Type 'B' above) is the farming type most likely to attract them in future. Policies which address this type of farming are likely to have most success in keeping them in farming. However, there may be a fundamental tension between MDG 2 (universal primary education) and the desire to see young people staying engaged with farming – particularly for girls and young women.

### **Farmer organisations – enabling farmer engagement in markets<sup>4</sup>**

Farmer organisations (FOs) are increasingly being asked to play a central role in driving agricultural transformation. Governments, development organisations and NGOs are rushing to promote scaling-up and diversification of FO's activities and membership, despite their mixed record of success. Many have meagre resources and limited organisational and technical capacities. External support will be needed – but this needs to be well targeted, consistent and carefully handled, if FOs are not to be yet another development disappointment.

### **Renewed interest in farmer organisations**

Most government and development organisations agree on the need for inclusiveness and genuine participation of farmers in agricultural research and development programmes and policies. But there are a number of challenges to achieving this. As governments have reduced services (from the 1980s-90s), farmers are being encouraged to take on new roles such as: input provision, extension and marketing – but in many places leadership, organisation and resources are severely limited. The private sector has emerged to provide some of these services in some places – such as Kenya – but has focused on high-value export agriculture with limited participation by small-holder farmers. This leaves the majority exposed to high transactions costs and risks and huge service gaps. These gaps have only been partly filled by the rise of NGOs and other civil society groups.

Moving forward requires clarity on the roles of farmer organisations (vis-a-vis other actors) - what works, what doesn't and why?

### **Changing roles of farmer organisations**

In rural societies, traditional organisations build social capital and facilitate collective action to respond to the uncertainties of agricultural production and manage relationships within the group. In contrast, formal farmers' organisations perform a 'bridging' function between the group and the outside world. FOs typically share elements of both. They are rooted in local contexts, but organised around market principles. Traditional groupings are often inclusive but formal FOs – cooperatives, unions, associations, federations or groups – are membership based, providing services to and representing the interests of their members. They can be local, regional, national or even international.

By encouraging their members to 'cooperate to compete' FOs can provide opportunities for small producers and livestock keepers to effectively participate in and benefit from growing markets. Strong and vibrant farmers' organisations that genuinely represent their constituencies can play a vital role in informing and influencing agricultural policy and practice. However, identifying and promoting

authentic FOs that can empower their members is a major challenge.

Many FOs started out as farmer-run cooperatives (a mainstay of government policy post-Independence) but have adjusted to take on new responsibilities – such as input provision and extension. Increasingly, FOs are serving as partners to the private sector, in the production of high-value horticultural and commodity crops (e.g. Malawi). FOs have adjusted their roles over time: some specialising in particular sub-sectors; others broadening their scope to become multi-purpose organisations.

### **Challenges and opportunities**

As the demands of globalisation and international value chains intensify, competitiveness is a vital strategy for farmers. Smallholders have formed various types of producer organisations to compete: market access; service delivery (input supply, education, extension etc.) and voice (advocacy and policy engagement).

### **FOs face various challenges:**

- In a market-driven economy, FOs must operate in a business-like fashion or perish
- Government extension services are increasingly limited in scope: FOs will have to assume more of these responsibilities
- Market entry demands (grades, standards), access requirements (transport, credit) and adding value to production (processing, packaging, quality control) are challenging for under-resourced FOs
- FO's autonomy requires them to be self-sufficient – with limited funds.

FOs find it difficult to access points on agricultural service and supply chains. But they have increasing opportunities to engage with significant partnerships with public and private sector actors, and improve their services to members by:

- Providing extension services and organising the purchase of inputs and sale of products
- Providing primary production, processing and marketing of agricultural products
- Introducing farmers to global value chains through contract farming
- Finding possible new entry points for farmers to access markets (e.g. Ethiopia's Commodity Exchange).
- Offering extension solutions such as farmer-to-farmer training (e.g. Malawi's Contact Farmer system)
- Representing the interests and 'collective' voices of farmers in policy debates and processes

### **Partnership strategies to support farmer organisations**

A key issue for FOs is how to respond to these and other new challenges and opportunities. For governments and development organisations the question should be how to assist these organisations without undermining their autonomy. Different partnership strategies emerge:

**1. Market-oriented FOs.** Support value-adding investments in well-managed cooperatives and farmer organisations. Locate high-value market and staple market linkages, determine the requirements of these markets and then provide the necessary technical assistance to meet these requirements (e.g. training on compliance, investments in small processing plants, group certification etc.). Possible support includes working with partners to:

- Developing market information systems
- Encourage market entry by developing buyer relations and contracts, capacity building for grades and standards compliance

- Assist FOs and higher level federations develop lobbying and market access skills and awareness.
- 2. Input oriented FOs.** Locate FOs with successful initiatives to scale-up.
- Work with public and private organisations to source critical inputs, develop input sourcing schemes
  - Provide seed capital for farmer-based input credit systems
  - Support participatory plant breeding – linking FOs and researchers to ensure development of new varieties meet local needs
  - Formalise seed sharing networks, seed fairs, distribution of seeds through agrodealers – to ensure diversity of planting materials
  - Encourage savings and investment in input-related projects (rather than returning savings to funder)
- 3. Extension oriented FOs.** Promote farmer-centred innovation process with local articulation of demand, innovative solutions, testing, implementation and scaling up with a range of actors.
- Promote a structured approach – identifying, analysing, adding value and disseminating innovations
  - Support exchange visits between farmer groups and research institutions
  - Foster farmer-to-farmer extension – farmer field schools etc.
  - Support public and private strengthening of FOs to increase knowledge of price, grades, standards
  - Encourage development of user-friendly impact assessment approaches – to improve downward accountability of informal and formal R&D.
- 4. Policy and advocacy FOs.** Strengthen capacity of FOs willing and able to represent farmers. Provide assistance to engage with policy-makers.
- Prioritise leadership development – including women leaders – and encourage self-reliance
  - Develop information systems to provide up-to-date information
  - Second professional staff to FOs to improve advocacy, policy engagement activities
  - Provide training on strategic planning and evidence-based advocacy
  - Encourage formation and strengthening of national, regional, international networks of farmers' organisations.

Capacity strengthening and organisational development of FOs is a slow and uneven process, regulated by complex behaviour and cultural norms and the broader policy-environment. Patience and a willingness to experiment with various investment options and organisational forms are required – before moving to scale up major initiatives with farmers' organisations.

## Key Policy Findings

- There are different pathways to commercialisation: smallholders need to be actively supported through a range of services from different sources - well coordinated and regulated by the government through a decentralised process.
- Young people's aspirations show they are most likely to maintain an engagement in farming if they are supported to become commercial smallholders, but there may be a fundamental conflict with MDG2 – education.
- Strategies to support farmer organisations need to be tailored to their various roles - marketing, inputs, extension and policy advocacy – and must be handled with patience and flexibility.

## Endnotes

1. Leavy J and Poulton C. (2007) *Commercialisations in Agriculture* Future Agricultures Working Paper 03, FAC
2. *Role of the state in pro-poor agricultural development: FAC CAADP Policy Brief: Policy into use*
3. Leavy, S and Smith S (2010) *Future Farmers: Youth aspirations, expectations and life choices* Future Agricultures Discussion Paper 13, FAC
4. Thompson, J., Teshome, A., Hughes, D., Chirwa, E. And Omiti, J. (2009) *Challenges and opportunities for strengthening farmers organisations in Africa: Lessons from Ethiopia, Kenya and Malawi* Future Agricultures Policy Brief 31, FAC

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