



POLICY

POINTERS

Making the **CONNECTION**

VALUE CHAINS FOR TRANSFORMING SMALLHOLDER AGRICULTURE



“

Making value chains more inclusive enables smallholder farmers to access markets that have previously been denied to them. To achieve this requires, among others, the right environment for growth, both domestically and for international trade, improved information flows, including through the use of ICTs, and, in particular, the willingness to innovate.”

**Michael Hailu,
CTA Director**

The *‘Making the Connection’* conference was organised by the Technical Centre for Agricultural and Rural Cooperation ACP-EU (CTA) and hosted by the United Nations Economic Commission for Africa (UNECA), with significant contributions from the following organisations: the African Union (AU), the Agence Française de Développement (AFD), Agri-ProFocus, the Alliance for a Green Revolution in Africa (AGRA), the Centre for Development Innovation (CDI) of Wageningen University (WUR), the Donor Committee for Enterprise Development (DCED), Fairtrade Africa, the Food and Agriculture Organization of the United Nations (FAO), the Forum for Agricultural Research in Africa (FARA), the International Labour Organization (ILO), the International Livestock Research Institute (ILRI), the Netherlands Development Organisation (SNV), the Europe-Africa-Caribbean-Pacific Liaison Committee (COLEACP) PIP programme, the United Nations Industrial Development Organization (UNIDO) and the World Agroforestry Centre (ICRAF).



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Michael Hailu, Director of CTA, discusses issues linked to value chains during the "Making the Connection" conference, Addis Ababa, Ethiopia.

Upgrading value chains

The 'Making the Connection' conference discussed a wide range of policy issues. Some of the most important follow. They address issues such as ways of improving linkages between small farmers and buyers, the development of intra-regional trade, promoting an enabling environment and improving value chain finance.

1. Smallholders are essential for agricultural development. Some consolidation appears inevitable and farm sizes may grow, but small-scale production is likely to be the norm in ACP regions for years to come. Policies need to recognise this and should aim to address constraints faced by small-scale farmers and facilitate their development. Agriculture must be profitable, and this is best achieved when there is a strong private sector.
2. While farms will remain relatively small, the conference made it clear that they do not have to remain poor. Value chains are becoming more efficient and improved linkages between buyers and farmers offer scope for higher incomes. Improved linkages, for example through contract farming, depend on the development of trust between all actors in a chain. Governments should encourage an atmosphere of trust by promoting activities and legislation that maximises the potential for trust development.
3. The constraints to value chain development, particularly intra-regional trade development, have been frequently studied and are well-known. It is now time to convert knowledge to action. Governments should consider: taking steps to ensure that all relevant officials are familiar with existing rules and subsequent changes; developing mechanisms for reporting of rule breaches; organising multi-stakeholder meetings to discuss ways of improving implementation of existing legislation; and ensuring that their policies are consistent with existing regional trade commitments.
4. Governments should consider the costs and benefits of different resource allocation decisions. Spending funds on agricultural subsidies is likely to produce much lower returns

A strong private sector is essential for agriculture to be profitable

than spending the same sums on infrastructure development and the strengthening of extension and agricultural research services. Governments should pay particular attention to creating an enabling environment, to facilitate the ease of doing business.

5. Left to itself, the private sector can develop profitable value chains. However, to achieve this on a large scale requires the availability of skilled managerial staff. ACP universities and colleges presently offer limited training in agribusiness and value chain topics. It is recommended that governments support their academic institutions to develop appropriate curricula. Regional collaboration is one way of achieving this.
6. Improved communication between the public and private sectors is essential. The conference recommended that governments facilitate access of private sector representatives to policy discussions. They should also encourage the formation of associations representing all those involved with specific commodities, including farmers and their organisations, in order to provide a formal link between industries and policymakers.
7. Public-private partnerships offer scope for significant value chain development and should be promoted by governments. Examples include: private sector investment in processing facilities, with accompanying government investment in roads and other infrastructure; private sector support for the introduction of new crops for smallholders, with varietal improvement by government research stations; and public sector extension assistance to contract farming operations.
8. Information and communication technologies (ICTs), especially web and mobile-based technologies, can improve value chain efficiency and farmer incomes and will be adopted rapidly when there is an economic reason to do so. Governments that have yet to liberalise their telecommunications sector are losing out on potential efficiency gains in all sectors, not just agriculture.
9. Value chains are, in principle, easy to finance: the financier can secure repayment by relying on the strongest link in the chain. But while such examples of value chain financing have been successful in many countries, a lack of awareness among developing country banks is still hampering their widespread application. This constraint has to be addressed if non-traditional value chains (which are of less interest to the western banks that are now most active in value chain finance), including for south-south trade, are to flourish. ■



Participants following a speech by a value chains expert, David Hughes.

In search of inclusive value chains

A major conference on developing value chains for smallholder agriculture – the largest ever held on the topic – attracted over 500 participants to Addis Ababa, Ethiopia. The conference focused on how to create efficient, market-led value chains that will ensure greater food security and improve the welfare of tens of millions of smallholder farmers.



©FAO/Simon Maina

Masaai men exchanging money at a cattle market.

In many developing countries, agriculture is the backbone of the economy. In sub-Saharan Africa, for example, 65% of the full-time labour force is involved in food production, and agriculture contributes 25–30% of gross domestic product (GDP) and half of all export earnings. Smallholder farmers are responsible for approximately 80% of food production in sub-Saharan Africa, yet many remain desperately poor. Indeed, 70% of the world's poorest people live in rural areas, and the majority are involved in food production.

“In many parts of the developing world, farming needs to be transformed from a largely subsistence activity to one that is run as a business,

and generates enough income for smallholder farmers to improve their livelihoods and make a greater contribution to the economy,” said CTA director Michael Hailu in his opening remarks at the conference. “If that’s to happen, smallholders need to become part of viable and sustainable value chains.”

The theme of the conference was ‘Making the Connection: Value Chains for Smallholder Agriculture’. This is a topic of immense importance. If there is to be sufficient food for 9 billion people by 2050, small-scale farmers, of whom there are around 500 million worldwide, must be incorporated into efficient value chains.



Hand sorting of groundnuts, Malawi.

© Twin



© Tim Smith

Plucking tea in Rwanda.

There have been plenty of events focusing on value chain development over recent years, but none until this conference had explored the issue by bringing together such a wide range of interests, organisations and individuals. The ‘Making the Connection’ conference was organised by CTA and hosted by the United Nations Economic Commission for Africa (UNECA), with significant contributions from around 20 other organisations. It attracted over 500 participants, representing 69 nationalities and over 250 different organisations. Around a third of those who attended were from the private sector. The conference consisted of two keynote addresses, four plenary panel discussions, 20 parallel sessions and a day of well-attended field trips in and around Addis Ababa.

The term ‘value chain’ has been widely used by the private sector for some time, but it has only recently been adopted by those working in agricultural development. It describes a coordinated and collaborative chain in which producers are responding to specific consumer demands and where value is added along the various segments of the chain. In many developing countries, value chains are beginning to replace traditional, ad hoc transactions – for example, between farmers and traders – with a series of managed relationships that involve farmers, input suppliers, advisory services, processors, packagers, transporters, warehouse managers, buyers and consumers. Value chains are market-led, with the private sector playing a central role in their development and success.



© REUTERS/Thomas Mukoya

A worker processes tea in Kenya.

A MATTER OF URGENCY

During the opening session of the conference, the speakers emphasised the importance of increasing agricultural production and linking smallholders to markets. There was a strong focus on Africa, partly because the majority of participants came from Africa and partly because the continent has lagged behind other parts of the developing world when it comes to tackling poverty and malnutrition and increasing agricultural productivity. For example, average cereal yields in South Asia are 4.5 t/ha, compared to 1 t/ha in Africa. During recent years, explained Josué Dioné, at the time UNECA's director of food security and sustainable development, Africa's expenditure on food imports has risen at an alarming rate. "We need to reclaim our share of the global market," he said. "We are not short of land or water,

and Africa has great potential to increase food production and satisfy its own needs. We need to increase food production and develop comprehensive value chains that integrate smallholders in commercial markets."

Agricultural growth represents a key pathway out of poverty. "For the poorest people, growth coming from agriculture is about four times more effective at raising incomes than growth outside the sector," said Michael Hailu. Indeed, for every 10% increase in crop yields in Africa, there is a 7% reduction in poverty. Growth in the manufacturing and service sectors has no such effect.

Before he declared the conference open, Wondirad Mandefro Gebbru, Ethiopia's state minister for agriculture, suggested there was reason for



hope, pointing to some of the achievements made by his own country. One of just eight to reach the target set by the Comprehensive Africa Agriculture Development Programme (CAADP) of spending at least 10% of the national budget on agriculture, Ethiopia has an agricultural growth rate of 8% a year. The country has significantly increased support for agricultural advisory services, and it now has as many extension workers – some 60,000 – as India, whose population is 14 times greater.

“There is huge potential for our smallholders to increase their productivity and supply both local markets and markets abroad,” concluded the minister. “However, we need a much better understanding of how to make value chains work effectively, especially for small farmers, by connecting them with inputs, credit and markets.” The conference, he hoped, would provide important insights into how this could be achieved.

THE CONTEXT

In his keynote speech, David Hughes, emeritus professor of food marketing at Imperial College London, set the scene by discussing world food trends and their impact on value chains in developing countries. “In my professional lifetime, the world population has doubled to 7 billion, and there will be another 2 billion by 2050,” he said. In Africa, the population is set to double from 1 to 2 billion during that period. “Could this be a brilliant commercial opportunity for the continent’s farmers?” he asked.

If we are to satisfy the needs of 9 billion people by 2050, food production will have to increase by approximately 70%. This is not simply an issue of rising numbers. Developing countries are becoming more urbanised – to give just one example,

the population of Dar es Salaam, Tanzania’s capital, is set to increase by 80% in the next 15 years – and a growing middle class will demand a more varied, high-quality diet. Already, the increase in consumption of animal products in countries such as China has led to an increase in demand for cereals as livestock feed. This has been partly responsible for significant cereal price rises in recent years.

Hughes highlighted a number of other important trends. Staple food prices have become increasingly volatile in the wake of the food price crisis of 2007–08. We can expect such volatility to continue in the foreseeable future, with alarming consequences for poorer countries where households spend a high proportion of their earnings on food. During recent years, global retailers have begun to expand into developing countries: for example, Walmart is becoming a significant presence in Africa. However, regional and local suppliers will continue to play an increasingly important role, influencing both markets and food prices.

“This is all good for agribusiness, but tough for smallholders and small store owners,” said Hughes. “Smallholders are disadvantaged, but not doomed.” To survive and prosper, they will need to make the most of their strengths, which include their use of family labour, attention to detail, and the opportunities provided by their proximity to markets.

The welfare and prosperity of farmers in African, Caribbean and Pacific (ACP) nations will depend, to a considerable degree, on their ability to become part of viable value chains. As Jethro Greene, chief coordinator of the Caribbean Farmers Network (CaFAN) put it: “Farmers should

see themselves as businessmen and women. I want to see my farmers buy the best cars – just like farmers in Holland.”

KEY ISSUES

During the opening plenary session on promoting sustainable, market-led value chains, the six panellists found plenty of common ground. There was widespread agreement that although the private sector must be the prime mover in value chains, governments have a vital role to play in creating the right conditions – the enabling environment – in which value chains can

thrive. The panellists acknowledged the important role that market information systems and

ICTs can play in linking farmers to markets. All agreed that local and regional markets will become increasingly important for smallholders over the coming years. They also agreed that farmers’ organisations and cooperatives need to be more business-oriented, and have access to better training, if they are to successfully promote the interests of their members. These themes are explored in greater detail over the following pages. ■



© Robin Hammond/Panos/Hollandse Hoogte

Tobacco warehouse in Malawi.



80%

the proportion of food produced in Africa by smallholder farmers.



© REUTERS/Thierry Gouegnon

Workers handle cashew nuts at a processing plant in Côte d'Ivoire.

Creating the environment for growth

Governments have a key role to play in creating an enabling environment. This includes providing essential goods and services, such as infrastructure, health care and agricultural research and development, and keeping the peace, both within and between nations. Governments also have a role to play in controlling corruption and promoting the ease of doing business by reducing the amount of bureaucracy faced by companies.

The expression ‘an enabling environment’ may not mean much to the average man or woman travelling in a *matatu* in Nairobi or a *taxi-brousse* in Ouagadougou, but it is a concept of profound importance for the development of value chains. In his introduction to the plenary session on the role of governments in facilitating value chain development, Andrew Shepherd, CTA’s Senior Technical Advisor for Market-Led Development and a conference co-organiser, declared: “This is the most important session as far as I am concerned. If the enabling environment is wrong, then everything else we do is a waste of time.”

According to André Dellevoet of the Africa Enterprise Challenge Fund, African governments have done much to improve the enabling environment, for example by investing in infrastruc-

ture and reducing levels of conflict, but there are still significant problems. “Many companies and enterprises feel pain on a daily basis because of the difficulties they face doing business,” he said. These difficulties may relate to a wide variety of factors, such as lack of access to credit, non-tariff barriers to trade and poor roads. Frequently, said Dellevoet, there is a significant and damaging overlap between business and politics. “You might think that a blockage is due to an administrative issue, but all too often you will find that there are politicians protecting their own interests.”

DEFINING THE ENABLING ENVIRONMENT

In an earlier plenary session, Steve Wiggins of the Overseas Development Institute (ODI) suggested that there are some fundamental activities that governments must undertake to help small-holders benefit from value chains. First, they need to provide a ‘conducive rural investment climate’.



10%

The proportion of public spending that sub-Saharan African countries have pledged to spend on agriculture. Less than 10 have so far achieved this.

This implies peace and security, macroeconomic stability, support for basic institutions, respect for property rights and effective labour laws.

Governments also have a responsibility to provide essential goods and services, such as education, roads, health care and support for agricultural research and development. Without good infrastructure, efficient markets are unlikely to flourish, and all the evidence suggests that farmers who live close to all-weather roads fare better than those who live further away. As far as money spent on agricultural R&D is concerned, it is almost always money well spent, with a benefit-to-cost ratio as high as 20 to 1. The provision of good security is also important. Without it farmers will lack the confidence to

make the most of their land and their skills, and there will be little incentive for banks and others to provide the credit needed to increase productivity and invest in long-term agricultural projects, for example the growing of perennial crops, such as cocoa, coffee and mango. This means not only keeping the peace between and within nations, but reducing levels of crop theft, or praedial larceny, as it is known in the Caribbean.

Governments also have a responsibility to reduce the incidence of bribes and corruption, a significant cause of hardship for farmers and those transporting agricultural produce to markets. Corruption not only pushes up the cost of transport, but hurts consumers, as they are obliged to pay higher



Farmers travel by rural road on foot, on bicycle and by car to bring produce to market.

prices to cover the ‘informal taxes’ demanded by the police, the army, customs officers and others. To give just one example, a study in West Africa found that the 61 truck drivers who took part were stopped more than 2900 times, with an average of 48 stops per trip. On average, each had to pay more than US\$200 and waste seven hours at road blocks on each trip (source: World Bank/DFID).

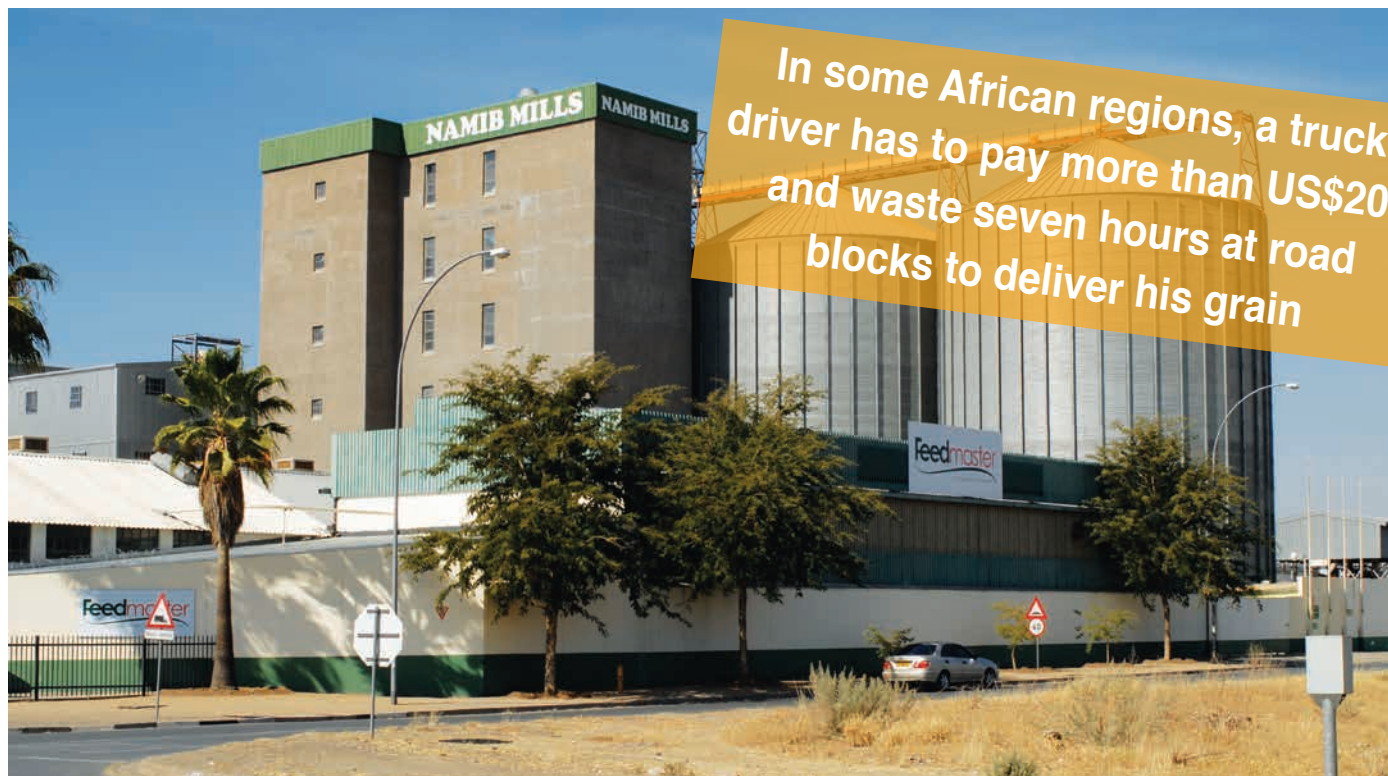
POLICIES THAT WORK

It seems that many African governments have made sound pronouncements when it comes to introducing policies to increase agricultural production and improve the livelihoods of smallholders, but many have failed to turn aspirations into practice. Indeed, less than a quarter of sub-

Saharan African countries have achieved one of the CAADP goals, enshrined in the 2003 Maputo Declaration, of devoting at least 10% of public spending to agriculture.

Some of the conference speakers took a pessimistic view about the ability of ACP governments to formulate policies to encourage agricultural growth. One suggested that many governments have little understanding of farming issues.

Jacqueline Mkindi, the chief executive officer of the Tanzania Horticultural Association, provided a more nuanced view. She suggested that the Tanzanian government could take considerable credit for its Kilimo Kwanzi – Putting Agriculture First



Grain silos in Namibia.



Stacking shelves in a cocoa health product shop in Côte d'Ivoire.

– policy, whose objective is to increase agricultural productivity and food security. However, there are frequently problems in the way policies are interpreted and applied. “That’s often due to institutional failures and the lack of capacity within government departments,” she said. She stressed that it is important for the private sector to work with government, and described how her association is now providing training and equipment for government inspectors.

Mkindi also noted that private sector companies frequently face challenges related to the lack of harmonisation of policies between different government departments, and between national and local governments. This was also one of the key findings of an in-depth study of the enabling environment in 20 countries, undertaken by the

UN Food and Agriculture Organization (FAO) and its partners (source: FAO). Many of the measures that are needed to improve value chains and increase productivity involve a wide range of different ministries, including those with responsibility for agriculture, industry, trade, foreign affairs, health and finance. Inevitably, this means that policy-making can be a long-drawn-out process.

Some of the speakers suggested that governments need to go beyond fostering an enabling environment: at times, there is a case for direct intervention. Examples were provided from the Caribbean and the Pacific, two regions that have much in common. Farming households in these scattered island states produce relatively small quantities of food, farmers are getting older, they have limited education and – although there are exceptions to

this – they tend to be poorly organised. In both regions, the agricultural contribution to GDP is in decline, and they rely heavily on food imports. Hence the frequent calls for policies which encourage import substitution.

Donald Keith Amiel of the Caribbean Broilers Group argued that local producers must battle against large commercial importers, who are determined to retain their profits, and the politicians who support them. However, some island governments now take action to protect local producers. For example, the poultry industry in Jamaica has benefited from the imposition of a 200% duty on cheap foreign imports. “This has helped to stimulate production to such an extent that 35% of Jamaica’s eggs and poultry are now produced locally by small farmers,” said Amiel.

In the Pacific, governments have also introduced a number of measures to help local farmers. For example, Fiji has imposed import tariffs, and some island states are now subsidising cargo shipping between the islands to reduce transport costs. “This helps local farmers to remain competitive,” said Tim Martyn of the Secretariat of the Pacific Community (SPC).

THE IMPORTANCE OF TRUST

Trust matters. This was one of the key messages to come out of the conference. “This is a very important issue, as value chains simply won’t work without trust,” said Ellen Olafsen of *infoDev*, a global partnership programme of the World Bank. “Stimulating trust relates, to some extent, to what governments do.” It is important that they are predictable; that they don’t change the rules of the game. In other words, farmers and everyone else

involved in value chains needs to know what they can expect from government.

Joost Guijt, a researcher from Wageningen University, opened the plenary session on ‘Scaling up successful value chains for smallholders’ with an account of a project which has been examining the ingredients of success. He and his colleagues identified trust as one of the key ingredients of successful value chains. Farmers must trust their input suppliers and buyers must trust the farmers. Indeed, all those working in a value chain must trust one other, be they NGOs, governments, producer organisations or financiers.

Creating an enabling environment for agricultural growth is a difficult and time-consuming process. However, governments should not be put off by the idea that they must seek perfection, suggested Steve Wiggins. “Just look at China and the reforms it introduced in the 1970s,” he said. “It moved a few levers – and the result was a runaway train.” Relatively small measures encouraged people to invest and innovate, and this led to rapid economic growth.

Wiggins added that we don’t need to look as far as Asia for good examples of how to create an enabling environment. Take, for example, the experience in Ghana, where the government introduced a series of reforms in the 1980s – including investments in roads and energy and the modernisation of the agricultural economy – which proved beneficial to rural areas. As a result of these reforms and Ghana’s strong focus on smallholder agriculture, food production has increased and rural poverty has declined. There are significant lessons here for other ACP countries. ■



49%

The proportion of a sample of truck drivers in Mali who cited police harassment as being the main obstacle to freight transport.

The power of information

Information and communication technologies (ICTs) are playing a vital role in the development of effective and transparent value chains. Mobile phones and other technologies provide farmers with information about everything from crop diseases to market prices. They also help to link organisations and individuals involved in the production, processing, sale and consumption of agricultural produce.

In 2000, there were just 16.5 million mobile phone subscriptions in Africa. Now, there are about 700 million, and the number of people on the continent with access to mobile phones exceeds the number with access to clean water. During the past decade, mobile phones – the most important of all information and communication technologies (ICTs) beside the radio – have gone from being a rich man’s luxury to one of life’s necessities. According to a recent eTransform AFRICA report, published by the World Bank, ICTs now contribute 7% of Africa’s GDP. Part of this derives from the way they are used by farmers and others in the food business.

Reflecting on the achievements of the ‘Making the Connection’ conference, Lamon Rutten, CTA’s head of Policies, Markets and ICTs, suggested that it had changed the way people think and act about certain issues. “I think the conference encouraged organisations to start thinking about ICTs as an essential component in developing value chains, rather than just an optional extra,” he said.

Two of the parallel sessions were explicitly focused on ICTs and their use in promoting value chains.

One, moderated by Ken Lohento, CTA’s Programme Coordinator on ICTs, explored the way in which mobile services are being used to strengthen agricultural value chains for smallholders. The other, facilitated by Vincent Fautrel, CTA’s Senior Programme Coordinator on Value Chains, examined market information systems and value chains, with a particular focus on the role of public-private partnerships.

IT’S NOT JUST ABOUT PRICE

Over the past decade, market information systems have become increasingly sophisticated and much more diverse. The first generation models mainly provided farmers and policymakers with information about crop prices in newspapers, on blackboards and on the radio. The second, which dates back some 10 years and involves both private and public sectors, provides farmers and traders with information, not just about market prices but a range of other topics. “ICTs and mobile phone-based solutions are increasingly used to provide the opportunity for two-way communication – for example between farmers and markets or extension agencies – and this is leading to greater efficiency within the value chain,” said Fautrel.



Residents of Kilosa Township listen to the Kilosa Community Radio, Tanzania.



© IFAD/Mwanzo Milinga

Farmer communicates market prices to producers in his group in Tanzania.

Farmers, and others involved in value chains, can now benefit from a great variety of different ICT-based applications, tailored to meet the demands and needs at different stages along the value chain. While farmers might want information about weather conditions or crop varieties, government agencies might seek information about crop yields and availability. ICTs are also being used as a virtual banking service, the most successful example being Safaricom's M-Pesa, which enables farmers in Kenya and Tanzania to buy and sell goods using their phones.

"Mobile phones are helping to empower smallholder farmers who are beyond the reach of conventional extension and advisory services," said Lohento. The Caribbean is one of many places where phones are helping to connect farmers with infor-

mation on everything from markets to the weather. These services are not only helping them to plan their agricultural calendar more effectively; they also act as an early warning system. "Agricultural losses to Hurricane Sandy would have been much greater had it not been for the text messaging service alerting farmers how to cope," explained Peter Thompson of Jamaica's Rural Agricultural Development Authority.

The conference heard from two ventures which have been particularly successful in developing information systems for farmers. In India, Reuters Market Light (RML) has pioneered a mobile phone-based service designed to support farmers in 13 states. Using a card bought from retail outlets in rural areas, farmers can gain access to a broad range of information, including



700 million

The number of mobile phone subscriptions in Africa in 2012, compared to just 16.5 million in 2000.

Mobile phones are helping to empower smallholder farmers who are beyond the reach of extension services



© Pete Lewis/Department for International Development

Coffee farmer checks the latest coffee prices using the Ethiopian Coffee Exchange's price information line.

advice on crops, weather forecasts, local market prices and international commodities. The information covers some 300 crops and varieties and 1300 markets, and there are now over 1 million subscribers in some 50,000 villages. According to RML, this service has increased users' incomes by up to 10%.

In Ghana and Mauritius, Esoko has established a technology platform and consulting service that provides information to farmers, trading organisations and government agencies. Like RML, Esoko collects and provides a wide range of information on prices, the weather and agricultural know-how. Farmers can sign up to Esoko to receive a package of weekly advisory services – the company estimates that this has helped to improve incomes by 10% or more – and busi-

nesses can use Esoko to track people, the frequency of field visits, market prices, input credits and so forth. All of this is helping to dispense with the old and cumbersome way of doing business on paper.

CONTENT MATTERS

According to Fautrel, two key points emerged from his session on market information systems. "It seems clear that the new, so-called 'business models' are still not financially sustainable," he says. The experience of Esoko and Reuters Market Light shows that market information cannot be provided to small farmers on a solely commercial basis. Public-private partnerships, involving support by the government, will be the best way forward for the foreseeable future. Some farmers are willing to pay for information, but many lack the means to do so. The second point relates to the importance of

providing good information. It is all very well replacing the old-fashioned ways of reaching farmers – for example, by radio bulletins – with text messages, but if the information is poor, farmers will be ill-served. “It’s important to combine different tools and different channels of getting information to farmers and others on the value chain, and to make sure that the information is timely and accurate,” says Fautrel.

Mobile operators are now looking at developing added-value information services as well as the means of communication. This may involve partnerships with weather forecasters, advisory services, marketing businesses and so forth. Precisely how these different organisations will share the revenues remains to be seen.

Mark Davies, the founder of Esoko, told the conference that he felt the same sense of excitement now as he did in 1995, when he created the first city guide for New York. “I have been working on technology and agriculture for six years,” he reflected. “It’s complicated, confusing and exciting.” One of

“It seems clear that the new, so-called ‘business models’ are still not financially sustainable. Market information cannot be provided to small farmers on a solely commercial basis. Public-private partnerships, involving support by the government, will be the best way forward for the foreseeable future.”

Vincent Fautrel, Senior Programme Coordinator,
Trade and Value Chains, CTA

his objectives is to help create a space where farmers and ‘techies’ can talk to one another about the technologies that work best for smallholders.

Conference participants who joined the visit to the Ethiopian Commodity Exchange (ECX) gained an insight into the ways in which market information systems and ICTs are benefiting smallholder farmers in Ethiopia. One of those who attended – and was impressed – was Victoria Clause of the GSMA, the world association of mobile operators. Currently working for its mFarmer Initiative, a public-private partnership which supports mobile phone providers and agricultural organisations, she was in a good position to reflect on the achievements of the exchange, which was established in 2008.

The ECX, she wrote in her MAgri blog, was a great example of helping farmers to increase their participation in value chains (source: GSMA). Farmers can gain access to live market information by using their mobile phones; they can also get information from 82 electronic ticker boards in rural areas or via the ECX website. Over 1.1 million calls a month are made to ECX’s automated telephone information service and the website receives 2000 hits a day, half from outside Addis Ababa.

“When it comes to impact, there is plenty of evidence,” wrote Clause. Some 2.4 million smallholder farmers are connected via the ECX to national markets. Farmers have access to reliable and live market information, which allows them to decide when to sell. ■



© Pete Lewis/Department for International Development

Grading of coffee in Ethiopia.

NAIROBI COFFEE EXCHANGE				
Lot	OT&Mark	Bags	KGS	
171	1613002	115	6949	
	P\BULK	Price	143	
172	1913001	88	5292	
AVE PRICE/50KGS :			113	
BAGS OFFERED :			25847	

© REUTERS

A coffee trader notes prices at the weekly auction of the Nairobi Coffee Exchange, Kenya.

The shifting balance of global trade

During recent years there has been a significant increase in agricultural trade within and between developing countries. Instead of looking toward the North, many farmers in the developing world are increasingly focusing on boosting trade locally and within ACP regions. This trend is expected to continue.



Turning and grading Arabica coffee at a coffee processing facility in Ethiopia.

Over the past 20 years, developing countries have increased their share of global trade from 15.9 to 31.5%. Just as importantly, trade between developing countries has risen steadily. In 2002, developing countries accounted for 39.2% of developing country exports; now, the figure exceeds 50% (source: World Bank). In other words, South–South trade has become as important, if not more important, than South–North trade. “I think the ‘Making the Connection’ conference helped to shine a light on the significance of domestic

and regional trade in the developing world,” said CTA’s Andrew Shepherd. “In the past, this has often been ignored.”

The fact that regional and domestic trade is increasing shouldn’t come as a surprise. At a time when many developed nations faced recession, the economies of sub-Saharan Africa grew by around 6% in 2012. Furthermore, they are experiencing rapid urbanisation and a significant growth of the middle classes, who are demanding a wider choice of foodstuffs, including more livestock products and protein. All of this presents significant market opportunities for agricultural producers.



Cocoa nursery in São Tomé and Príncipe.



© Jonathan Ernst / World Bank

Traders work on the floor of the Ghana Stock Exchange in Accra, Ghana.

Many of the speakers at the conference stressed that much of the trade within and between developing countries is informal; in other words, it does not register in government statistics. For example, a recent GIZ study found that 80% of the agricultural cross-border trade in East Africa was informal. For livestock alone, the scale of the informal trade is astonishing: it is estimated that every year, some 400,000 cattle cross the border between Kenya and Tanzania as part of an informal, two-way trade (source: GIZ). A similar situation prevails in many other parts of the developing world and we should treat available data on the subject with caution. However, there can be no doubting the increasing importance of both local and regional trade in agricultural produce.

“During the last five years, we’ve seen some significant changes,” explained Hasit Shah of Kenya’s

Sunripe Group during the plenary session on ‘Promoting sustainable, market-led value chains’. Shah’s company currently sources horticultural produce from around 1000 smallholders and exports to 30 countries. “We are selling more to regional markets than we did in the past, and the local market is expanding too,” he said. The Kenyan horticultural sector now exports US \$1.2 billion of produce – cut flowers, fruit and vegetables – a year. However, this is dwarfed by the local market for vegetables, which Shah estimates to be worth some US \$3 billion a year, 90% of which is informally traded.

In his keynote address, David Hughes used the example of South African fresh fruit exports to illustrate the growing importance of trade between developing countries. In 1996, approximately 75% of South Africa’s fresh fruit exports went to the



80%

The proportion of agricultural cross-border trade in East Africa which is informal and unaccounted for in government statistics.

European Union. This figure has now fallen to around 50%, with neighbouring countries in Africa accounting for an increasing share of exports.

THE WORLD IS CHANGING

CTA's Vincent Fautrel told participants an anecdote about a 75-year-old female trader whom he had recently met in Ouagadougou, the capital of Burkina Faso. She told him that she was increasingly focussing her efforts on the Gulf States and China, rather than Europe. This was partly because it had become too expensive, and too difficult, for her to obtain visas to enter the EU. The difficulty in obtaining visas – face-to-face meetings remain an essential aspect of international trading relationships – had effectively become a non-tariff barrier, encouraging ACP exporters to look east and west rather than north. Exporters at the conference confirmed that this was very much the case.

A number of other factors – developed countries' insistence on difficult-to-meet standards; the steady erosion of trade arrangements which gave ACP countries preferential access to the EU – are also encouraging traders in developing countries to look towards markets in the South. However, as we have seen, trading across developing country borders poses its own set of problems. Poor infrastructure and high transport costs act as a deterrent. Administrative procedures, export and import bans, high tariffs and bribery also make intra-regional trade more difficult.

During the conference, several speakers highlighted regional projects that have helped to increase trade. One of these was the Italian-funded programme to promote food security in 15 countries in the Caribbean. Launched by FAO and the Caribbean Community Secretariat (CA-



Loading and unloading containers at Dar Es Salaam, Tanzania.

RICOM) in 2003, the project focused, among other things, on developing value chains for fresh pineapples in Dominica, onions in Barbados, hot pepper sauce in Belize and salad fruit in St Lucia. “The project managed to achieve much in a relatively short period of time,” said Heiko Bammann, an enterprise development officer with FAO. Besides strengthening viable value chains linking smallholders to buyers and processors, the project significantly improved the access of rural communities to a diverse range of high-quality foods.

The final plenary session of the conference began with a stimulating address from Daniel Gad, the owner and general manager of Omega Farms Plc, a leading vegetable producer in Ethiopia. Gad, who had spent much of his working life in the telecommunications industry in the United States before returning to the country of his birth, also stressed the importance of encouraging local and

regional trade. “If that’s to happen, we need to develop new storage, processing and packaging facilities,” he said. “This doesn’t have to be centralised – it could be at the village level. At the same time, we need to encourage stronger links between the private sector and small-scale farmers.”

Indeed, this is exactly what Gad’s company has done in Ethiopia. “The largest producers of food in Africa, the Caribbean and the Pacific are smallholder farmers, and we entrepreneurs should take advantage of their knowledge and skills to get a better product and high yields,” he said. The most effective way of doing that involves ‘aggregating’ many thousands of farmers, so that they work together towards a common goal. In short, organising farmers, and refining and developing value chains, are the keys to increasing productivity, raising farmers’ incomes and developing new trading links. ■



31.5%

Developing countries’ share of global trade. This is double what it was 20 years ago.



Cocoa beans being loaded onto a cargo ship in Côte d'Ivoire.

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Workers carry carton of liquid cocoa at a cocoa processing plant in Côte d'Ivoire.



© Jocelyn Carlin/Panos/Hollandse Hoogte

A container ship entering the port of Nuku'alofa, Tonga.



© Michael Shiferaw, ATA

Threshers being tested in Axum, Ethiopia.



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Organic cocoa collecting station, in São Tomé and Príncipe.

Innovative approaches

Successful value chains depend on efficient and transparent collaboration between everybody involved, from farmers and extension agencies to processors and retailers. Partnerships are at the heart of well-managed value chains. Farmer organisations will play an increasingly important role in the future, but there are also many other partnership arrangements that can help to develop and sustain value chains.

Successful value chains depend on the willingness of all those involved – farmers, producer organisations, processors, traders, researchers, NGOs, government ministries – to communicate, coordinate and collaborate. This was one of the key messages from the conference. “Taking value chains to scale requires the collaboration of a multitude of different actors,” explained Joost Guijt of Wageningen University.

Farmer organisations have achieved much when it comes to improving farmers’ incomes and providing them with a voice in policy-making. A good illustration of their potential comes from the Caribbean. “I cannot overstate the importance of small farmers acting together, both to influence policy and gain access to markets,” said Jethro Greene, chief coordinator of the Caribbean Farmers Network (CaFAN). His organisation has helped farmers to gain a greater share of local and regional markets and encouraged them to build

sustainable relationships with supermarkets. CaFAN is also encouraging farmers to move up the value chain by becoming involved in the processing of agricultural goods.

In Ethiopia, the Agricultural Transformation Agency (ATA) has made a significant investment in strengthening cooperatives and farmer-owned organisations. In Africa, the history of farmer organisations and cooperatives has been mixed, according to ATA’s chief executive officer, Khalid Bomba. “All too often, they have been plagued by corruption and inefficiency,” he said. “What we’re doing is providing training which will encourage them to think of themselves as businesses.”

At a breakout session devoted to farmer organisations, the speakers stressed the importance of good training. “We need farmer organisations to work on their management capacities so that they can provide better services to smallholders and help them become more competitive,” explained AGRA’s Fadel Ndiame. Keeley Holder of CaFAN

suggested that farmer organisations needed to improve their members' understanding of buyers' needs and requirements.

CREATING SHARED VALUE

Although the development of successful value chains depends, to a large extent, on the involvement of the private sector, non-governmental organisations can also play an important role. "NGOs are well placed to use public funds to try out new approaches and experiments," said Larry Attipoe of the Dutch agency, SNV.

Attipoe pointed out that private sector companies involved in buying and processing agricultural produce are often wary of dealing with large numbers of smallholders, not least because this can be a complicated process and transaction costs tend to be high. However, NGOs are well placed to bring large numbers of smallholders together, build their knowledge and skills, and help them to improve the quality of their produce. "We have a distinct advantage here, because we understand both ends of the chain – the farmers on the ground, and private sector business interests," said Attipoe.

Ecom Agroindustrial Corporation Ltd, a global trading and processing company specialising in coffee, cocoa and cotton, has recognised the important role NGOs can play in developing successful value chains. In Kenya, Ecom established a ltd company, Sustainable Management Services (SMS), which has provided training to over 85,000 small-scale coffee growers. This has led to an increase in yields and quality, benefiting both rural households and the company.

So far, the running costs of SMS are paid out of ECOM's profits. Training costs are largely paid

through grants or partnerships between ECOM and NGOs or ECOM and private clients who wish to support SMS activities. activities of SMS have been paid for out of Ecom's profits. According to the ECOM representative, Thomas Delbar, this is not a sustainable model for the future. "We hope that we will get to the stage where farmers are willing to pay modest sums for their extension services," said Delbar. "Ultimately, there can be no free lunches." This story provided an outstanding example of an inclusive 'agri-market' where both sides – producers and buyers – benefit.

David Hughes, in his keynote speech, talked of the growing importance of partnerships between companies and growers. For example, some 10,000 small-scale farmers in Rwanda received training on how to improve their agricultural practices. This was supported by an independent family business, Bettys and Taylors of Harrogate, UK. The collaboration has led to an increase in the supply of high-quality tea, used in 'Yorkshire Tea' blends, and Taylors has doubled the volume it purchases from Rwanda. Working conditions on tea estates have improved, and the minimum wage is now 40% higher than it was before Taylors initiated the project. There have been significant environmental benefits too, including a major indigenous tree-planting campaign. In the past, reported Hughes, people talked about corporate social responsibility; now, the focus is on 'creating shared value.'

AT A BIGGER SCALE

Commodity, or 'inter-professional' associations are becoming increasingly important. These bring together a wide spectrum of groups with an interest in specific commodities or sectors, and may

include farmers, buyers, processors, exporters and input suppliers. Such associations can play an important role in terms of stimulating policy dialogue with governments, as well as in matters related to arbitration, standard setting and information exchange.

An example of this sort of association – described in a breakout session on the governance of value chains – is the National Cotton Association in Burkina Faso. The association brings together producers and the private sector and it has successfully promoted the interests of the value chain in many different areas. It has helped to bring stability to the market, promoted innovation and technical support and attracted finance.

During recent years, regional associations have emerged as an important influence. Some focus on agricultural commodities. An example of this is the Eastern Africa Grain Council (EAGC), which brings together producers, traders and processors. EAGC's chief executive officer, Gerald Masila, described how, operating as a non-profit organisation, it disseminates and promotes the exchange of information on everything affecting the regional grain industry. CTA, one of EAGC's partners, is currently supporting the creation of similar regional commodity associations in other parts of Africa.

On a broader canvas, the Southern African Confederation of Agricultural Unions (SACAU) represents farmer organisations and other groups at the regional level. Its aim is to complement national activities, stimulate competitive production and trade in a wide range of crops, and ensure food and nutrition security across the region. It is doing this by encouraging measures which

will increase agricultural productivity and attract both public and private investment in the sector.

There are also – to use the jargon of the day – multi-stakeholder platforms operating at the global scale. According to Florence Tartanac of FAO, forums such as the Sustainable Consumption and Production Initiative of the United Nations Environment Programme (UNEP) and the Agri-Food Task Force of FAO and UNEP have played an important role by bringing together governments, the private sector and civil society. They are helping to foster better communication and collaboration.

Whether we're talking about farmer organisations, commodity associations or global platforms, this is all about improving the relationships between everyone involved in the value chain, from the field to the fork. ■

"Most people in ACP countries still feel uncomfortable with the concept of value chains applied to agriculture. Targeted methodologies and training materials must therefore be developed."

Andrew Shepherd, Senior Technical Advisor, Market-led Development, CTA



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Handling cocoa beans in San Pedro, Côte d'Ivoire.

Further reading

Access key resources on value chains on the conference website at <http://makingtheconnection.cta.int/resources>. These resources are limited to those that cover general value chain issues, either with worldwide or regional application. Country-level studies are not listed, but links to websites that do offer such studies are listed.

- **Value chains in practice**
 - Agro-industries
 - Farm-to-market linkages
 - Contract farming
 - Finance
 - ICTs
 - Structured Trade
- **Current issues**
 - Governance
 - Gender
 - Inclusive chains
 - Multi-stakeholder approaches
 - General papers
- **Methodological approaches**
- **Sustainability and certification**
- **Training and promotion**
- **Value chain portals**



The Technical Centre for Agricultural and Rural Cooperation (CTA) is a joint international institution of the African, Caribbean and Pacific (ACP) Group of States and the European Union (EU). Its mission is to advance food and nutritional security, increase prosperity and encourage sound natural resource management in ACP countries. It provides access to information and knowledge, facilitates policy dialogue and strengthens the capacity of agricultural and rural development institutions and communities. CTA operates under the framework of the Cotonou Agreement and is funded by the EU.



For more information on CTA, visit www.cta.int



Smallholder agriculture can be transformed if farmers become part of viable value chains



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