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Growing Business with Smallholders

A Guide to Inclusive Agribusiness

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Authors

Endeva is an independent institute that builds, shares and applies enterprise solutions to development challenges. Endeva conceptualised and implemented the present project based on previous experience with BoP sector dialogues within the energy and pharma sectors. Managing Director Christina Gradl led the project. Juliane Schmidt supported the project with research, analysis and writing. We would also like to thank Anne Zimmermann for research support.

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Reviewers

Reviewers provided crucial feedback throughout the project, giving their time and expertise.

Dr. Thomas Breuer, GIZ
Dr. Wilhelm Elfring, Consultant
Dr. Gerd Fleischer, GIZ
Kathrin Fochtman, GIZ
Diana Hollmann, GIZ
Matthew McDermott, GIZ
Ingo Melchers, GIZ
Jonas Naguib, GIZ
Claudia Knobloch, Endeva
Aline Krämer, Endeva
Shuan SadreGhazi, PhD, Endeva
Till Rockenbauch, GIZ
Dr. Piera Waibel, Fair Labour Association

Experts

Experts from the agricultural and food industries, consulting companies, NGOs and the public sector contributed to this publication by sharing their experience in interviews and providing feedback.

Moritz Ackermann, BMZ
Caroline Ashley, Ashley Insight Ltd.
Javier Ayala, SNV
Madison Ayer, Farm Shop
Naty Barak, Netafim
Chris Brett, Olam
Rutger Bults, BoP Innovation Center
Nicolas Chevrollier, BoP Innovation Center
Lorenzo Cotula, IIED
Myrtille Danse, BoP Innovation Center
Grahame Dixie, World Bank
Eva Erisgen, BASF
Alexis Geaneotes, IFC
Joost Guijt, Centre for Development Innovation, Wageningen University, Seas of Change
Hans Jöhr, Nestlé
David Kahan, FAO
Siobhán Kelly, FAO
Christian Koch, Como Consult GmbH
Volker Koch-Achelpöhler, IVA
Christopher Maloney, McKinsey
Calvin Miller, FAO
Fadel Ndiame, AGRA/FOSCA
Karolina Otto, METRO AG
Sonja Patscheke, FSG
Roger Peltzer, DEG
Dr. Christoph Plessow, DGRV
Kavita Prakash-Mani, Syngenta
Marco Prehn, AGCO International
Jennifer Ragland, Coca Cola
Carsten Schmitz-Hoffmann, GIZ
Carolyn Schramm, PWC
Andrew James Smith, PWC
Dietmar Stoian, CATIE
Tania Tanvir, WEF
Burcu Tuncer, UNEP/Wuppertal Institute Collaborating Centre on Sustainable Consumption and Production (CSCP)
Filippo Veglio, WBCSD
Nina von Radowitz, METRO AG
David Williams, Technoserve
Tino Zeiske, Metro Cash & Carry

Growing Business with Smallholders

*A GUIDE TO
INCLUSIVE AGRIBUSINESS*

Christina Gradl
Christina Kükenshöner
Juliane Schmidt
Christiane Ströh de Martínez

Preface

Dear Entrepreneurs:

One of the major challenges we face today is how to meet the increasing demand for agricultural products. Demographic growth and climate change are prompting us to consider new ways of achieving food security and meeting the need for agricultural raw materials. This is not only a development challenge but also a significant market opportunity for companies and smallholders. Building inclusive agribusiness models by involving smallholders in your value chain will help you to tap into new sources of supply and secure existing ones, as well as expand to new markets for agricultural inputs.

The German Federal Ministry for Economic Cooperation and Development (BMZ) recognizes that sustainable development and economic development are inextricably linked. You as entrepreneurs are therefore important partners in promoting sustainable and inclusive growth. Your investments, know-how and drive for innovation are crucial in catalysing wealth creation.



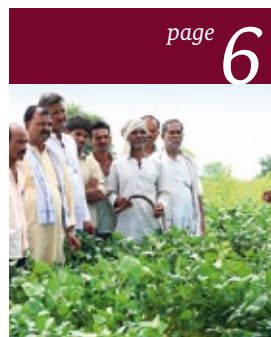
Photo: Th. Ecke

This guide is intended to provide you with inspiration and practical tools for developing and enhancing your inclusive agribusiness models in challenging environments. It draws on insights from a number of innovative initiatives at national, regional and global levels. I would like to express my sincere appreciation to the many experts involved in those activities who have contributed to this publication by sharing their invaluable experience. The result is a practical guide distilling the broad range of insights and state-of-the-art research and providing you with links to further information, relevant resources and related platforms for collaborative action.

We have the challenging but substantial opportunity to move towards more sustainable and inclusive agricultural practices – practices aimed at feeding people rather than fueling our cars and driving price volatility of essential goods for human well-being. Let's seize that opportunity for the benefit of companies and also smallholders and their communities!

Hans-Jürgen Beerfeltz
State Secretary
German Federal Ministry for Economic Cooperation
and Development (BMZ)

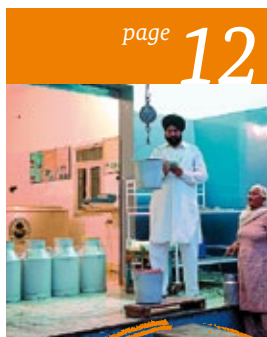
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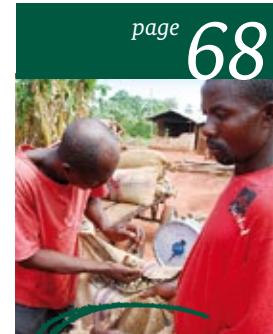
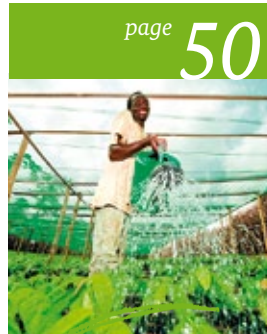
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A guide for all seasons

Farmers in India learn about new crop management techniques. This guide provides guidance on developing and managing inclusive agribusinesses.



As demand for agricultural products rises around the world, partnering with the smallholder farming sector offers agribusiness companies significant opportunities to grow their own businesses.

World population is forecast to expand by an additional two billion people by 2050. To meet the resulting increase in demand, food production will need to grow by 50% by 2030. Given that industrialised countries have little ability to increase either the quantity of land devoted to agricultural production or their own agricultural productivity, growth will need to come from developing countries and emerging economies, where the majority of agricultural land is owned and cultivated by smallholders.¹ Five hundred million smallholder farms around the world represent both homes and livelihood for two billion people. Integrating these farms into value chains not only promises to provide new sources for agricultural products, but will also enable smallholders to purchase better inputs and raise investment levels, thus creating market opportunities for

input providers. Inclusive agribusiness practices thus create business growth opportunities for smallholders and companies alike.

The conditions for taking advantage of these opportunities are very promising. A decade of experimentation has produced valuable lessons in how to integrate people at the base of the global economic pyramid into existing value chains, with a correspondingly better understanding of how to create successful inclusive business models. Technological advances are improving access to low-income markets, through means such as the widespread use of mobile phones. Finally, political support for doing business with smallholders is high in industrialised nations as well as in developing countries.

About this report

This guide is aimed at helping companies interested in developing business relationships with smallholders. It provides a framework that identifies common challenges, highlights solutions and shows how these can be implemented through cooperation at different levels. In this way, the guide aims to support company representatives engaging in inclusive agribusiness practices with practical tools and a comprehensive overview of potential solutions and collaborative approaches. Practitioners from development agencies, non-governmental organisations (NGOs), intermediaries and other organisations working to develop and support inclusive agribusiness will also find useful insights here. Based on 40 case studies, 40 expert interviews and in-depth sector research, the guide showcases existing experiences and lessons related to inclusive agribusiness and distils them into a hands-on guide for practitioners.

Inclusive agribusinesses create mutually beneficial business partnerships with smallholders in developing countries. The guide addresses the full agribusiness spectrum, from farming to forestry to animal husbandry and fish farming, in which companies can collaborate with smallholders along the value chain. Companies may source cash

crops, staple crops or high-value crops from smallholders. Companies may also sell inputs such as seed, feed, fertiliser, irrigation systems or machinery to smallholders in such a way as to increase production and incomes and thus stimulate further demand. Indeed, many businesses participate in various stages of the value chain. Moreover, inclusive agribusinesses create opportunities for employment, entrepreneurship, and the creation of micro-, small and medium-sized enterprises (MSMEs).²

The guide can also prove useful for those in related businesses. Agribusiness companies that own land and lease it to smallholders, or which themselves farm the land of smallholders, can also learn about core challenges, organisational models and options for strategic action. Companies offering services to smallholders, including financial, advisory, information or communication services can use the guide to identify how their offers complement other business models.

Even small farms typically employ workers during labour-intensive planting or harvesting periods. Although not the focus of this guide, several case studies show how recognising the needs and advancing the health and well-being of these workers adds to the sustainability of inclusive agribusinesses.

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CASE STUDY 1:

Kraft Foods in Côte d'Ivoire



Photo: Rainforest Alliance, Alex Morgan, 2011

Growing the cocoa inclusive agribusiness

1. Discover!

Kraft Foods Inc. is the world's largest chocolate manufacturer. It persistently faces problems in securing its supply of high-quality cocoa beans. The reasons are manifold: the cultivation of cocoa is time- and labour-intensive, cocoa trees are prone to pests and diseases, and cocoa producers – 90% of which are smallholders – receive low prices for their products. Thus, production quantities and quality levels in Côte d'Ivoire, whose 40% market share makes it the globe's biggest cocoa producer, have continuously declined in recent years despite the consistently rising levels of global demand for cocoa. The only way for Kraft Foods to secure its supply was to work directly with smallholders to improve their situation and enhance production processes.

2. Assess!

Kraft Foods identified several challenges in its existing supply chain. Ivorian cocoa producers had comparatively low levels of knowledge about sustainable cocoa bean cultivation processes. In search for new areas of fertile soil, they kept clearing forests. Cocoa trees were disproportionately affected by diseases and

pests. Inappropriate storage of agrochemicals led to pollution and health issues. Additionally, smallholders faced economic insecurity due to volatile cocoa beans price, and lacked proper representation of their interests through cooperatives. The distance to markets where they could profitably sell their produce also presented a challenge for smallholders, making it difficult for Kraft to source from them directly.

3. Plant!

To respond to these challenges, Kraft Foods, in cooperation with partner organisations, adjusted its business to work directly with cocoa smallholders. It employed several solutions in this process. First, the company offered the smallholders and their cooperatives a guarantee that it would buy all their certified cocoa beans, thus creating an incentive to comply with the Rainforest Alliance's sustainable agriculture standard. It also implemented a transport system to bring cocoa beans from the cooperatives to the processing plants. "Farmer field schools" provided smallholders with general agricultural knowledge as well as cocoa-specific training. In addition, basic business skills and techniques for managing smallholder cooperatives were taught, with the aim of enhancing links along the cocoa value chain. Smallholders were also taught to plant shade trees as an innovative practice in order to protect the cocoa trees.



Photos 2-4: ppdc

Photo: UTZ Certified

4. Nurture!

These solutions were implemented as part of the Market-oriented Promotion of Certified Sustainable Cocoa Production project (PPDC), a development partnership implemented between November 2005 and March 2009. Along with Kraft Foods, the partnership included Armajaro Trading Holdings Limited, a global soft commodity trading company; GIZ; USAID; the Rainforest Alliance; and the local Ivorian national extension service. Participating smallholders were aggregated into six cooperatives from which Armajaro Trading Holdings Ltd. bought cocoa beans on behalf of Kraft Foods. GIZ and the Ivorian extension service implemented the Farmer Field Schools.

5. Harvest!

Improved practices resulted in increases of 50% in cocoa yields and premium payments for 6,000 tons of certified cocoa. In addition, about 6,000 smallholders from six cooperatives were trained according to the Rainforest Alliance Sustainable Agriculture Standard. Proper waste and water management was implemented on participating farms. Farm workers that once slept close to the field and fires during harvest season now sleep in temporary huts, which has significantly improved the health of workers and their families.

Project monitoring revealed that not all smallholders renewed their certification immediately after the project, instead opting to sell their produce to companies that did not require certification and also offered good prices. Nevertheless, Kraft's commitment to buy certified beans encouraged smallholders and gave them the security needed to invest. Consequently, many of the smallholders decided to renew their certification in the second year after the project.

Overall, Kraft Foods is able to source high-quality certified cocoa for its premium brands (Côte d'Or, Marabou, etc.), thus achieving higher profits and protecting its reputation.

SOURCE:

*Project de Production Durable de Cacao Certifié
www.certified-cocoa.com*

- 1 Farmers in Ghana gain greater yields and better market access thanks to the Promotion of Certified Cocoa Production project.
- 2 The compliance with the Rainforest Alliance's sustainable agriculture standard is reviewed.
- 3 Cocoa farmers are interviewed to evaluate the results of PPDC.
- 4 Cocoa beans certified by the Rainforest Alliance.
- 5 Participants of the "Farmer field school".

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Guiding framework

Growing an inclusive agribusiness can be seen as analogous to cultivating a field, with business development corresponding to seasonal stages of growth. In each part of the season, a number of activities need to be performed. These steps correspond to the various aspects of a business model. Thus, companies must discover an opportunity, assess local conditions and potential challenges, plant solutions and nurture them with cooperation at various levels and, finally, harvest results.

1 – Discover!

The inclusive agribusiness opportunity

Any company seeking to venture into the inclusive agribusiness sector must first identify an opportunity, as Chapter 1 shows. Along with the projected global increase in food demand, a number of other trends are fuelling opportunities on the sourcing side. For example, consumers increasingly want to know where the products they purchase come from, and how they have been produced. As a result, traceability is becoming increasingly important, as are environmental and social standards. The growing middle class in developing countries is consuming higher-value food products. Around the world, more and more plants are being used to produce energy. If smallholders are provided with the opportunity to market their products, they can also invest in increasing the quality and quantity of production, which in turn creates opportunities for input providers. Finally, sustainable agriculture practices can enable smallholders to cope with changing climatic conditions through the use of better inputs, while simultaneously allowing them to capitalise on carbon credit programmes.

2 – Assess!

The smallholder context and its challenges

At the heart of any inclusive agribusiness is the relationship between the company and the smallholders. Yet even though both sides have an interest in doing business together, companies and smallholders often find it difficult to enter a productive business relationship. Each side often lacks the access to the other and the trust required to cooperate. Five primary structural challenges stand in the way of a smoother relationship: a lack of **information**, a lack of **skills**, **insecurity**, insufficient **resources** and gaps in local **infrastructure**. These factors constrain smallholders' activities and impede companies from doing business with them. Chapter 2 describes smallholders' specific characteristics and analyses the challenges that may arise in joint business ventures with them. Companies need to carefully assess the context in which their smallholder business partners are operating, preferably using a participatory approach.



FIGURE 1

A framework for inclusive agribusiness



NURTURE!

HARVEST

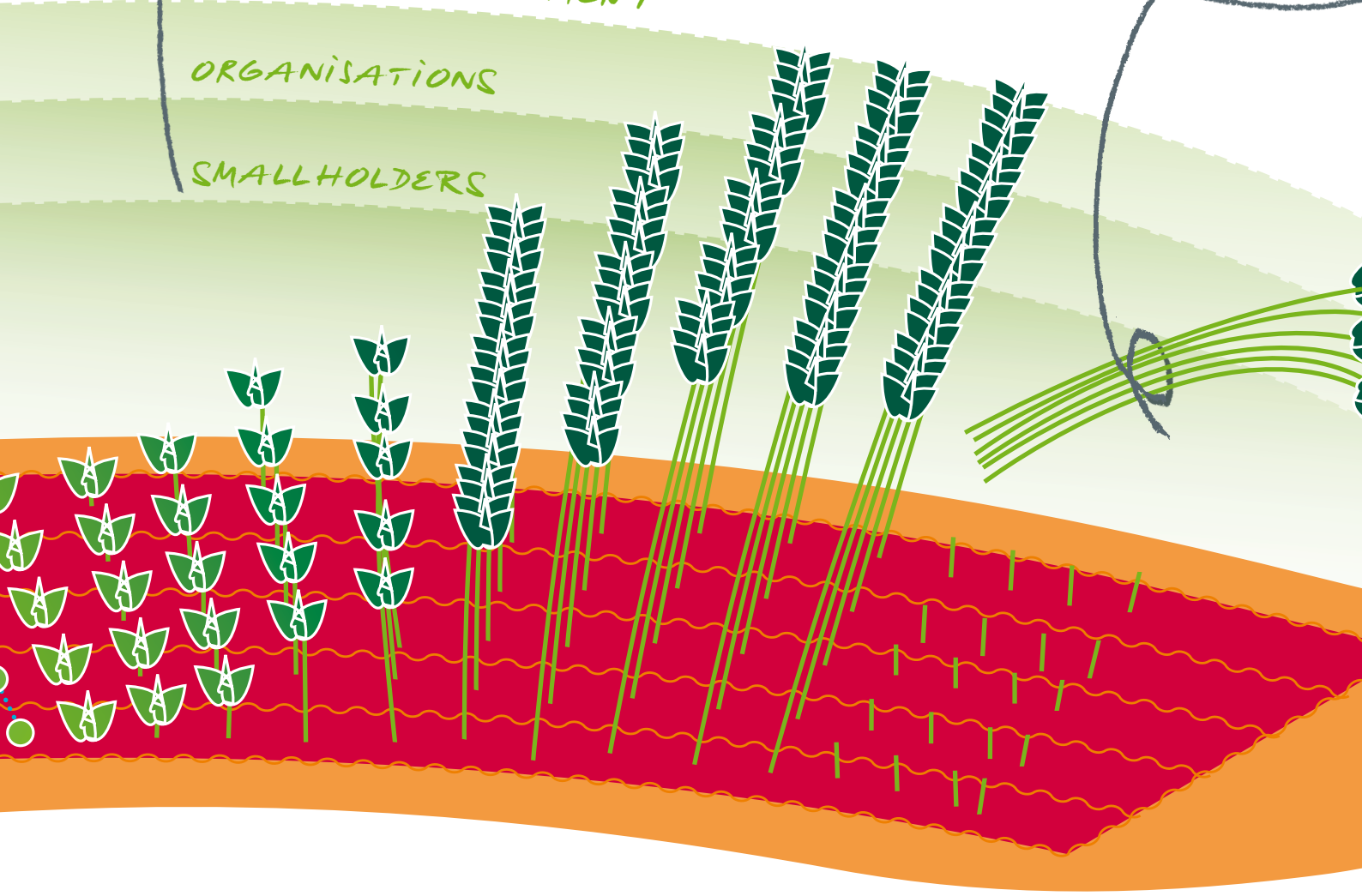
LEVELS

RESULTS

BUSINESS ENVIRONMENT

ORGANISATIONS

SMALLHOLDERS



3 – Plant!

Five solutions for inclusive agribusiness

Five core solutions provide a road map to overcoming these challenges:

- Conduct research and develop **innovations** in agricultural production technology to perform better under local market conditions.
- Upgrade smallholders' **production factors** either directly or by providing access to finance.
- Inform, train and consult to transfer **knowledge** to smallholders.
- Agree on and enforce **rules** between the company and smallholders.
- Strengthen **links** within the value chain by upgrading shops, building storage and processing facilities locally, installing transportation and logistics systems, and improving local infrastructure.

Each of the five solutions can be used to address each of the five individual constraints, though some can be more effective than others, depending on the concrete challenges encountered and the specific business model. The five solutions are introduced in Chapter 3.

4 – Nurture!

Three levels of collaboration

The company need not implement these solutions alone. It can build on the capacities and networks of partners to realise solutions more efficiently and effectively. Three levels of collaboration are usually combined in inclusive agribusinesses:

- **Smallholders:** Companies structure their relationship with smallholders both vertically through various relationship models, and horizontally through various aggregation models. Based on these structures, companies can leverage the personal relationships and existing structures and processes used by smallholders to implement solutions.
- **Organisations:** Companies collaborate and share tasks with other organisations possessing complementary capabilities. This can include other companies, but also NGOs, development agencies, academic institutes, public service providers and others. Cooperation can be purely transactional or fully integrated in the form of a joint venture, with many mixed forms in between.
- **Business environment:** Collective action and policy dialogue can be effective in improving the business environment and removing broad systemic constraints where individual action is ineffective or too costly.

Cooperation is organised very differently at every level. Chapter 4 provides an overview of relevant organisational models and explains how to nurture solutions at each level.

5 – Harvest!

Share the benefits and review results

Proper management of an inclusive agribusiness can lead to a fruitful harvest. Sharing this harvest equitably will nurture the results for the next season. How to go about this is discussed in Chapter 5. In defining what is equitable, the perspectives and priorities of all stakeholders need to be well understood in four dimensions: ownership, voice, risks and rewards. Continuous assessments allow performance to be improved over time. The process starts again the next season with a strategy for growing the business further.

The guide for all seasons provides tools for thinking through, designing and continuously improving business with smallholders. Doing business in rural areas of developing countries is far from easy, and projects can take time to grow. This is an investment in the future, and companies that start now will reap the benefits.

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Discover!

The inclusive agribusiness opportunity



Farmers measure milk at a collection point in Moga. Discovering an opportunity requires careful assessment of both the market and individual capabilities.

Meeting increases in demand for agricultural products will grow increasingly difficult without sourcing from smallholder farmers. At the same time, improved business environments and new technologies are making it easier than ever to work with smallholders as business partners. Creating better sales opportunities for them increases demand for agricultural inputs, which in turn expands sales opportunities for companies and local businesses alike.

CASE STUDY 2

Nestlé Milk Districts in India

Collecting fresh milk from the farm-gate

Nestlé is the world's largest milk company, sourcing more than 12 million tonnes of fresh milk equivalents from more than 30 countries. In order to establish a firm foothold and a satisfied customer base in developing countries, freshness and quality have proved paramount. To achieve these goals, Nestlé developed a "milk district" model that allows the company to source more than half of its milk locally as fresh milk. Originally developed in Switzerland, Nestlé has exported the milk district model to more than 30 countries, including India. Today Nestlé works with more than 680,000 smallholders – most of whom operate small farms – to ensure the supply of fresh milk and many other agricultural products.

Most smallholders in India own only a small number of cows. The milk district model allowed Nestlé to tap into this existing production base. The Nestlé milk-processing factory in Moga, in northern India, opened in 1959. Since that time the company's supplier base has grown to over 100,000 smallholders in 2,600 villages, who produce more than 300,000 tonnes of milk. Total milk production in Moga has increased fiftyfold.

The key to the model's success has been a highly efficient collection system that eliminates transport and transaction issues for this quickly perishable product. Refrigerated milk collection points enable smallholders to sell their fresh milk almost at the farm gate. The milk is stored, chilled and quality-tested at the collection points before Nestlé trucks pick it up and bring it to the nearest processing factory. These trucks also enable inputs from distant markets, veterinarians, agronomists and trainers to be channelled to smallholder clients. In monthly smallholder training sessions, smallholders can



Photo: ICMSAT

Farmers delivering milk to a local collection point.

learn about improving their animals' health, cultivating environmentally sustainable fodder and general farm management. These services have helped improve the quantity and quality of production. The milk district model allows Nestlé to oversee the entire value chain, ensuring quality while reducing costs by cutting out intermediaries.

Nestlé maintains a leading position in the dairy market in India, with market shares of over 20% for products such as whitener, baby formula, and condensed and fresh milk. This is quite significant given that India is one of the largest dairy markets in the world, and is likely to grow further due to demographic growth. Total market size was US\$45 billion in 2006–2007, and is estimated to grow to US\$83 billion by 2015.

SOURCES:

- www.nestle.com
- Goldberg, Ray A. (2005). *Nestle's Milk District Model: Economic Development for a Value-added Food Chain and Improved Nutrition*.
- Porter, Michael E. and Mark R. Kramer (2006). *Strategy and Society: The Link Between Competitive Advantage and Corporate Social Responsibility*. Harvard Business Review.

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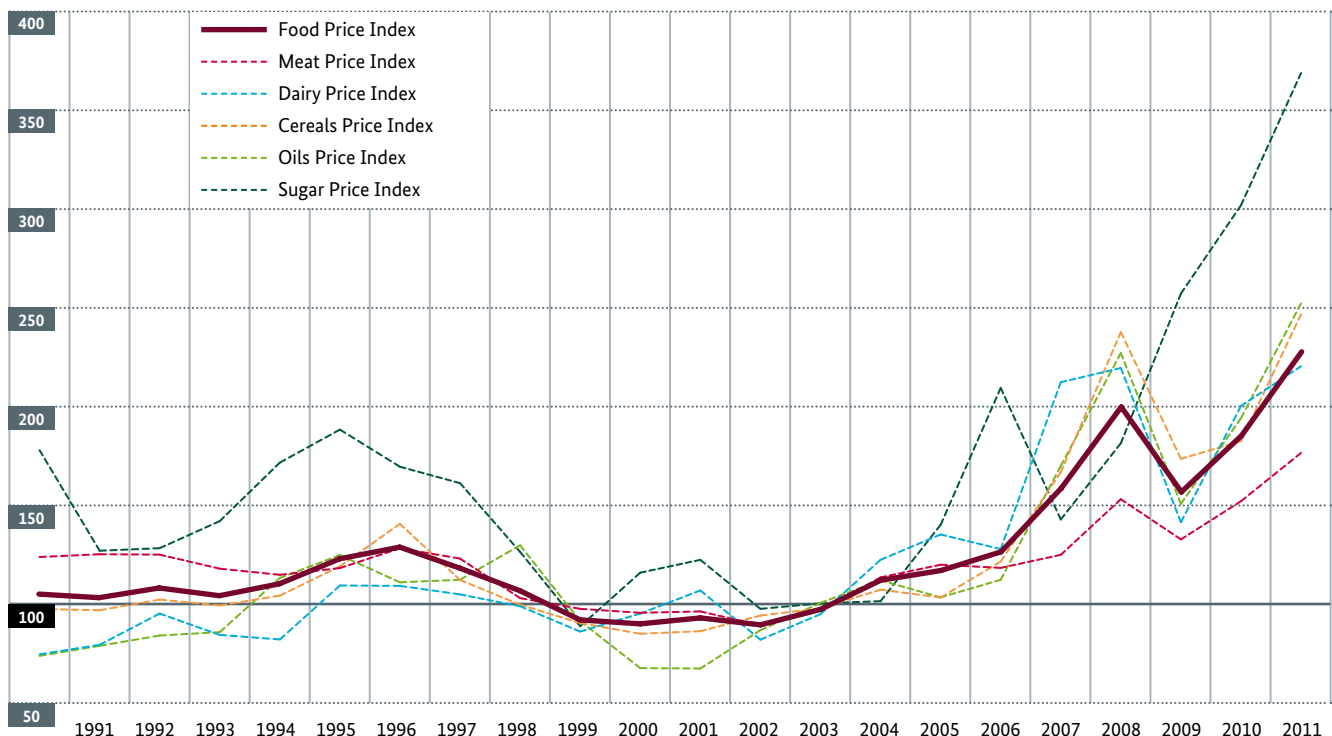
The smallholder business opportunity

High and increasing global demand for agricultural products creates opportunities for many companies along the whole value chain, from research and development (R&D) firms to input providers to traders, producers and retailers. At the same time, there is enormous potential for smallholders in developing countries to increase production volumes and quality levels. Therefore, smallholders represent interesting potential business partners for agribusiness companies.

Demand for agricultural products is increasing sharply

By 2050, there will be a projected 9.3 billion people on the globe, two billion more than in 2012.³ This growth will come almost exclusively from developing countries, making them the markets of the future. Food production will need to rise by 50% by 2030 to meet growing demand.⁴ Cereal production alone will have to rise by 900 million tonnes, to about 3 billion tonnes annually, in order to assure global food security.⁵ Agricultural products are also used to produce a variety of non-food goods such as cosmetics and garments. Furthermore, crops such as maize and sugar cane are increasingly used for energy production. As a result of growing demand, prices for agricultural products have seen an increase of 7% annually since 2000.⁶ Accordingly, price increases have attracted more investment into the agricultural production sector. International competition for agricultural resources is increasing sharply, and companies are struggling to acquire sufficient resources to ensure a steady supply over the long term.

FIGURE 2
FAO price indices for agricultural products
 (2003 = 100)



SOURCE: Own compilation based on FAO Food Price Index (2012).

Smallholders help close the production gap

In industrialised countries, neither the quantity of land devoted to agricultural production nor agricultural productivity can be expanded much further. In developing countries, land is still underutilised and productivity can increase substantially. Around the world, 72% of all agricultural land is located in developing countries.⁷ Smallholders are responsible for most agricultural land cultivation in Africa and Asia, as well as in many areas in Latin America. Though they may often lack official title, traditional rights give them a legitimate claim on the land, a fact companies should be aware of when they purchase land from other entities such as governments. Two-thirds of smallholders live in favourable areas that are irrigated, humid or semi-humid, and which have medium to good market access.⁸ Globally, more than 500 million smallholder farms produce about 80% of the food consumed in Asia and sub-Saharan Africa today.⁹ The majority conduct business on regional and national markets, and many trade only at the village level.¹⁰ For some crops, such as coffee and cocoa, most of the globe’s production capacity is owned by smallholders. In the cocoa sector, 90% of world production comes from 5.5 million smallholders.¹¹ To secure access to agricultural resources, cooperation with smallholders thus becomes a necessity. If companies want to expand agricultural production in developing countries over the long run, they will need to cooperate with smallholders to get their buy-in and also to retain permission to operate both from political decision-makers and local communities.

Conditions for inclusive agribusiness are improving

Much insight has been gained in the last decade on how to use inclusive business models to integrate people at the base of the global economic pyramid into value chains.¹² Companies have devised functioning models through trial and error, and research initiatives have systematically analysed and documented the resulting know-how, examining specific constraints, solutions, relevant actors and cooperation models. Moreover, new technologies are both reducing the costs of doing business with smallholders and increasing productivity. Almost every smallholder owns a mobile phone today, creating a channel through which to share information, collect data and transfer money. New agricultural technologies can increase smallholder productivity with relatively low expenditures. Finally, the public sector today actively supports the development of inclusive agribusiness practices. Governments in developing countries are enhancing business regulations supporting this area. Many are focusing on agriculture as a growth sector, and are providing support to big and small farms. Donors and development agencies are joining forces with companies to create sustainable and inclusive value chains, contributing their own resources, technical know-how and political leverage.

FIGURE 3
Estimated potential production increase

by driver (projected through 2030)

Billions of mt of production

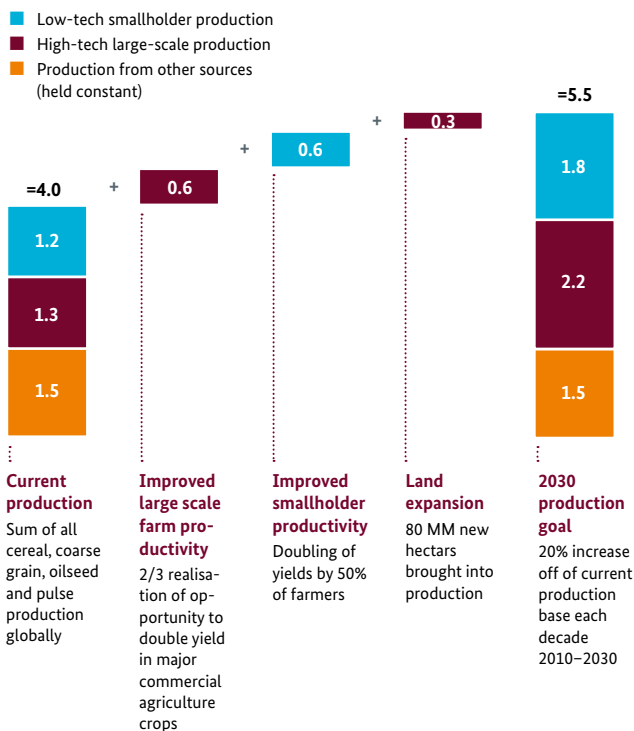
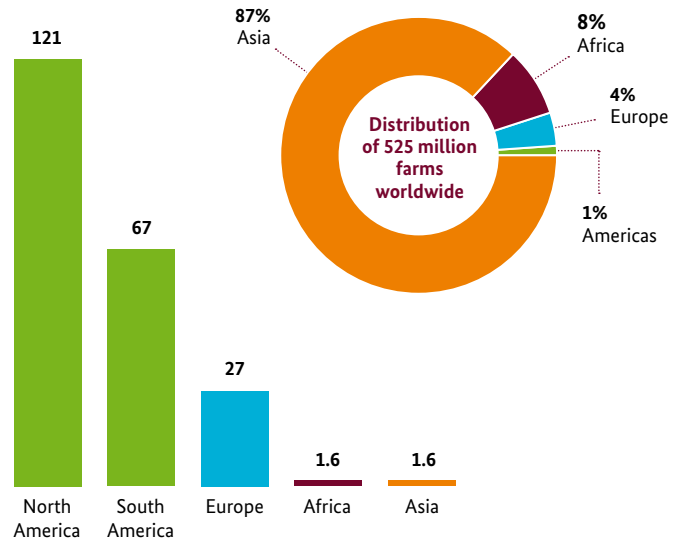


FIGURE 4
Global farm sizes and distribution of small farms

Average farm size in hectares



Source: Oksana Nagayets (2005). *Small Farms: Current Status and Key Trends*. Wye College.

SOURCE: WEF (2011). *Putting the New Vision for Agriculture into Action: A transformation is Happening*. Geneva. Based on data from FAO

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Inclusive agribusiness along the value chain

Possibilities for tapping the smallholder opportunity exist along the entire value chain. The figure below provides an overview of the various stages at which smallholders can be involved across and along the value chain, as well as descriptions

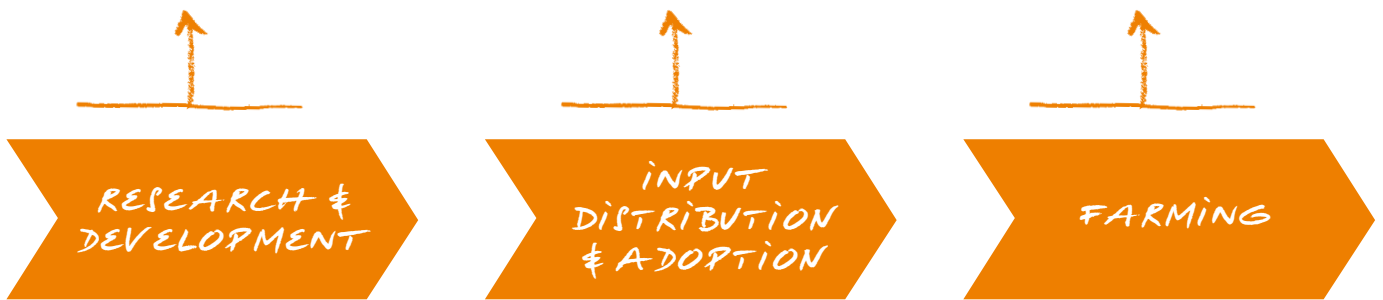
of potential activities.¹³ In seeking to realise an opportunity or solve existing challenges in the value chain, businesses often participate in more than one stage, sometimes even playing a role across the entire value chain, as the table also indicates.

Companies **research and develop** or adapt products like seed, fertiliser, plant protection products, irrigation systems, machinery, etc. They also develop innovative production technologies, including cropping, soil and water management systems.

Companies **sell** seed, feed, fertiliser, crop protections, irrigation systems, machinery and other production factors to smallholders.

Companies often support smallholders in their **adoption of new technologies**, helping them to increase production and generate payment abilities, and securing their own future demand.

Companies work with smallholders to **develop new farming systems** for subsistence, local, national and international markets.



Jain Irrigations Systems has developed a micro-irrigation system designed especially for smallholders. In 2010, 260,000 smallholder farmers implemented the system. The company has witnessed a compounded annual growth rate of 40% from 2000 to 2010.

SEE CASE STUDY ON PAGE 23

Bayer CropScience makes more than 40% of its sales in Asia, Latin America, Africa and the Middle East. The company sells inputs such as seeds and plant protection for cotton.

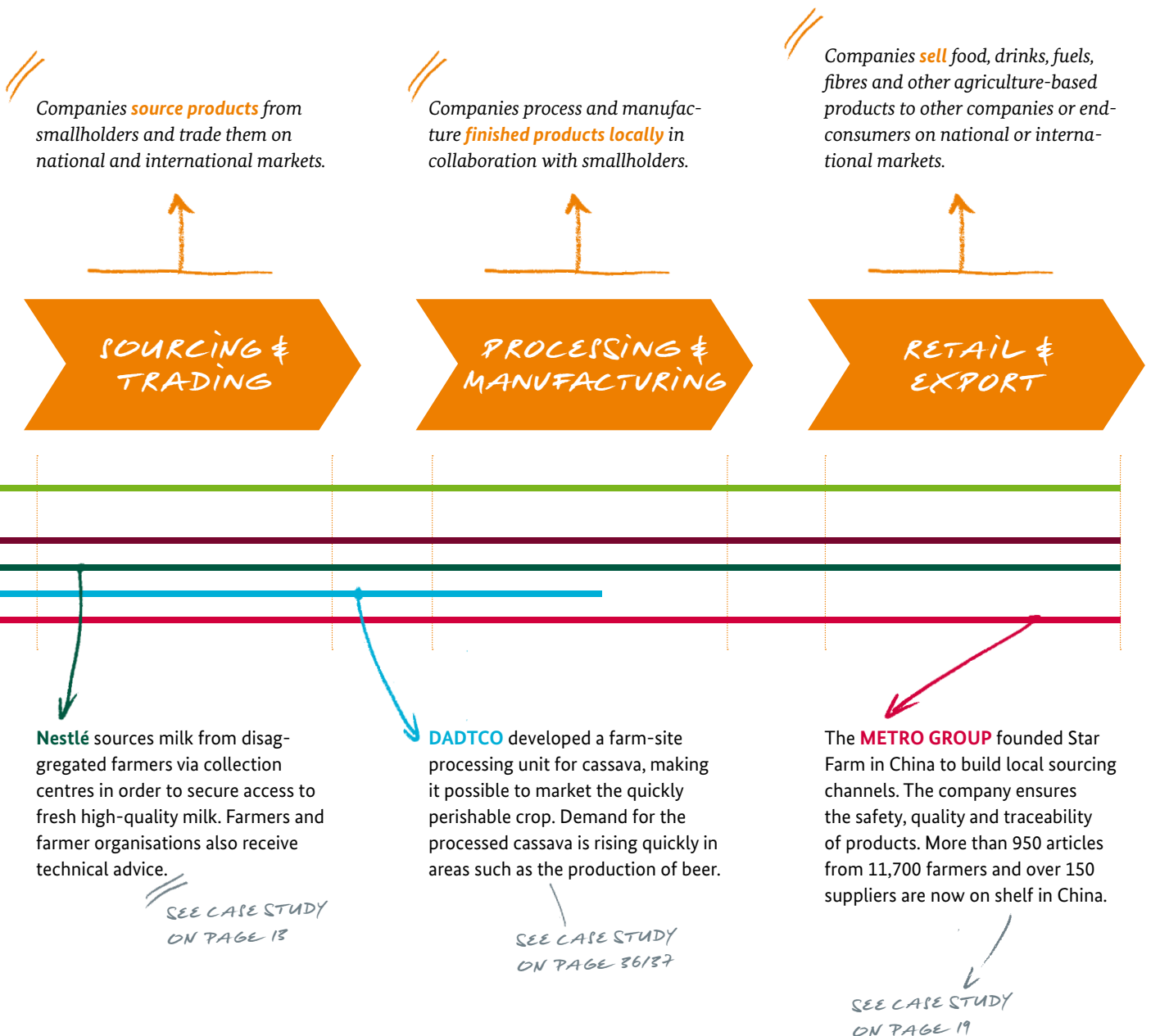
SEE CASE STUDY ON PAGE 60

CleanStar Mozambique (CSM) provides a variety of plants to smallholders for farming. CSM then buys the products, processes them into cassava flour, soybean meal and cooking fuel, and sells them on the local market.

SEE CASE STUDY ON PAGE 25

FIGURE 5

Opportunities to engage with smallholders along the value chain



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Sourcing from smallholders

The soaring demand for agricultural products projected over the coming decades is the main driver behind renewed interest in developing country agriculture. It has been further fuelled by growing demand for energy at the global level, and by the growing middle classes at the local level. In addition, global trade standards are requiring increasing levels of transparency, a trend driven by consumer demands to know where products come from and how they have been produced. This can be achieved only by working more closely with smallholders.

Food markets in developing countries are growing

By 2050, the population of developing countries is expected to rise by two billion people. Income levels of parts of the population will rise dramatically, creating a vibrant new middle class. The global middle class that currently numbers 1.8 billion people is estimated to grow by three billion people during the next 20 years.¹⁴ By this time, a projected 70% of the global population will live in cities. As the world's urban and more wealthy share of the population grows so, too, will the demand for high-quality and highly nutritious food. Annual meat production will have to rise by 200 million tonnes, to a total of 470 million tonnes.¹⁵ Companies looking for sustained growth must find a way to enter these markets today. Already, the rapid spread of local supermarket chains is changing the face of local food markets. Ultimately, these entities will rely on local sourcing for most of their product portfolio so as to increase affordability, quality and their own margins.

Global energy demand continues to increase

Energy derived from crops such as maize and sugar is increasingly replacing fossil fuels helping to mitigate climate change. At a global level, biofuel production is likely to grow by 6.3% to 8.3% annually for the next two decades. Vast areas of land have already been dedicated to energy crops, with over 10% of the global maize and oil plant harvest and over 20% of the global sugar cane harvest used for biofuel production today. This trend is likely to continue. In Indonesia, 18 million hectares of forest have been cleared for palm oil production over the past 25 years.¹⁶ These crops are often produced on large monoculture plantations, increasing the potential for social conflict along with the risk of pests. Working with smallholders can help solve these problems, particularly where smallholders are able to increase both overall production and where income and food security is not compromised as a result.

Transparency and traceability are increasingly critical

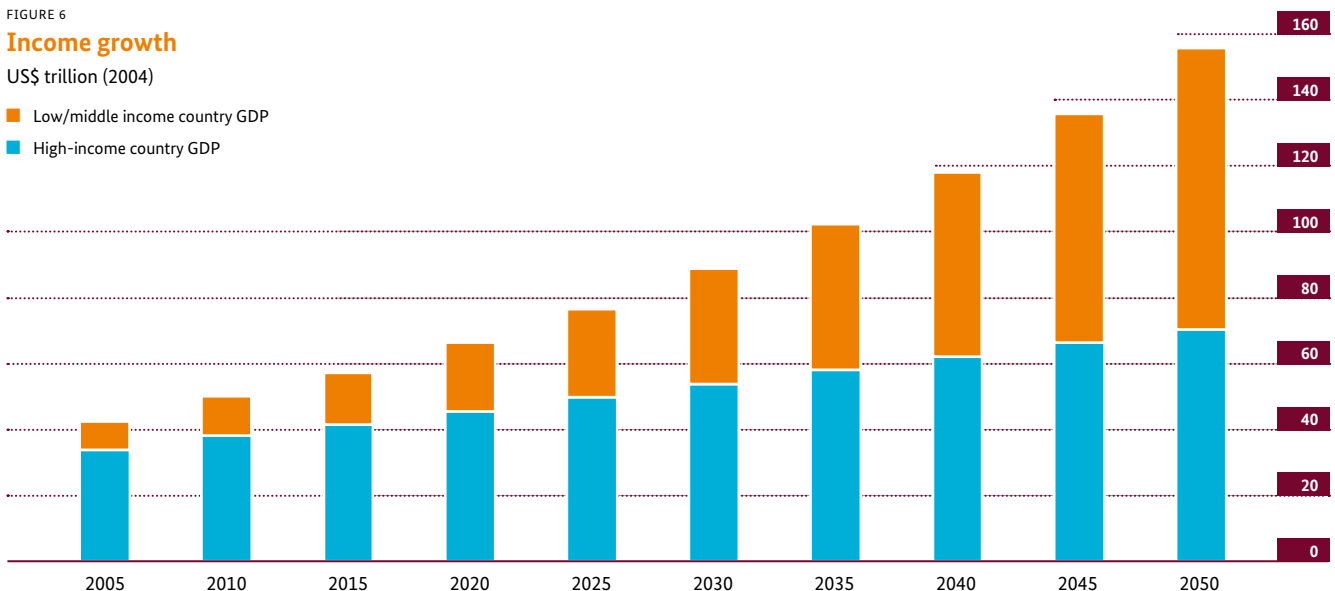
National and regional trade regulations, global trade standards as well as retailers and their consumers require that the production of food and other products be documented and controlled for quality at each and every step. For agribusiness, food, cosmetics and pharmaceutical companies, as well as any others involved in buying agricultural products, it is no longer enough simply to procure products on the open market. Instead, smallholders need to be fully integrated into these global value chains, and like all other players in the chain, they need to be certified and monitored in order to ensure that their production complies with the relevant standards.

FIGURE 6

Income growth

US\$ trillion (2004)

- Low/middle income country GDP
- High-income country GDP



SOURCE: Dominique van der Mensbrugge, Israel Osorio-Rodarte, Andrew Burns and John Baffes (2009). Macroeconomic environment, commodity markets: a longer term outlook.

Consumers are increasingly interested in production processes

Demand for fair, organic and sustainable products continues to grow significantly faster than the mainstream market. A study across eight countries including Brazil, China and India showed that these product characteristics are important to more than half of consumers.¹⁷ Fair trade sales are expected to reach US\$9 billion in 2012 and US\$20 billion to US\$25 billion by 2020. The global organic food market is projected to have a value of US\$88 billion in 2015, which would represent an increase of 48% since 2010.¹⁸ In addition, a wealth of other standards* related to the social and environmental aspects of production are being used both as consumer marketing tools and for quality and safety management. Indeed, the relevance of social and environmental issues is increasingly extending beyond the niche of ethical consumers, and is today clearly on the rise even within the mainstream market. Furthermore, sustainable practices help companies to maintain their licence to operate within a given market. Companies able to show that smallholders benefit directly and substantially from doing business with them enhance the foundations for their own long-term success – both locally and in industrialised countries – through improved reputation, increased brand recognition, customer and employee loyalty, and access to political decision-makers.

**SEE SPOTLIGHT ON STANDARDS ON PAGE 96/97*

FIGURE 7

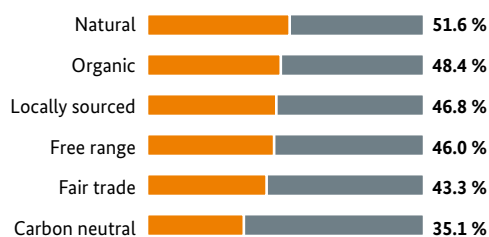
Preferred characteristics of products

Global survey among consumers across 8 countries
% respondents “agreeing” or “strongly agreeing”

“How important are the following factors/descriptors to you when considering purchasing a product or service?”



“I am willing to pay more for a product that is...”



SOURCE: Euromonitor International (2012). Green Buying Behaviour: Global Market Online Survey, 2011

CASE STUDY 3

Metro Cash & Carry’s Star Farm in China

Sourcing safe and traceable products from smallholders

In 2007, the METRO GROUP, one of the leading international retailing companies, founded the Star Farm company in China. Star Farm works directly with smallholders and cooperative enterprises, all of which receive comprehensive training and advice on how to comply with international standards such as GLOBALG.A.P.¹⁹ By overseeing the process of agricultural production “from field to fork”, the objective is to improve the safety, quality and traceability of local food products at the source. To date, more than 11,700 smallholders have been trained, an excess of 150 suppliers have joined Star Farm, and more than 2,500 Star Farm-qualified articles are on shelves in China. Star Farm is now expanding to Pakistan.

Participants are taught good and sustainable agricultural practices for production, processing, packaging, logistics and marketing. Areas for improvement are assessed at the individual farm level and documented in improvement plans. Comparisons of certain product groups such as eggplants and tomatoes have shown that the application of modern production processes can increase output by up to 65% while decreasing production costs.

To increase transparency and thus client satisfaction and retention, Star Farm implemented a new traceability system. Consumers can enter a Star Farm product’s bar code into a mobile application, terminals in stores or at the company’s website to learn about the origin of the product and every step in the supply chain, from “field to fork”.

SOURCES:
• www.StarFarmcc.com
• Interviews with METRO AG



Joining forces with partners, Star Farm increased the traceability of products from “field to fork”.

Photo: StarFarm

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Selling to smallholders

When smallholders have an attractive market for their products involving fair prices and also have access to adequate training, they are better able to invest in increasing their productivity. This, in turn, means companies can profitably build new markets for seeds, feed, fertiliser, plant protection products, irrigation systems, machinery and other production factors. This is particularly true for sub-Saharan Africa. However, Africa is catching up, and the market for inputs is growing overall. Input markets in Africa are estimated to increase from about US\$8 billion a year in 2010 to US\$35 billion a year by 2030.²⁰ To ensure that smallholders have the income to pay for these investments, and help boost their demand for high-quality inputs, companies often work with partners to help establish links between the various stages of the value chain. Rather than being simply product providers, companies are thus becoming system and solution providers.

Improved seed can increase yields and reduce risk

Smallholders typically produce their own seed. In sub-Saharan Africa, 80% of seed is collected on the farm compared to a worldwide average of 35%.²¹ Improved varieties, both hybrid and self-pollinating, not only have the potential to produce higher yields but often are also more resistant to pests and droughts and require less water. Which approach to seed production is best depends on a variety of factors, including environmental, economic and political conditions. In any case, improved varieties can do much to increase productivity of smallholders. In Tanzania, for example, smallholder maize farmers were able to improve yields by 50% to 60%, with better results in the north, where household living standards increased by 17%.²²

Fertiliser can also greatly enhance output

Average fertiliser use per hectare of cultivated land in sub-Saharan Africa was only 5 kg per hectare in 1997, as compared to a global average of 117 kg. Particularly when combined with improved seeds and soil management techniques, smart use of fertiliser can produce significantly higher yields.²³ If sub-Saharan Africa follows the trajectory of other developing regions, fertiliser markets will show significant growth in the coming decades.

CASE STUDY 4

BASF in India

Creating a market for inputs through Samruddhi farmer training

BASF Crop Protection had been selling pesticides through distributors and retailers in India, albeit with little success. In 2006, BASF initiated the Samruddhi farmer training project, designed to promote sustainable agriculture in India and contribute to farmers' prosperity ("Samruddhi" in Sanskrit). The idea of the Samruddhi project is to communicate directly with farmers in order to find ways to increase their productivity and profitability while using pesticides responsibly. BASF agronomists on the ground offer town-hall-style education sessions and on-field training; by visiting individual farmers on their fields, they provide advice throughout the production cycle, and even through the final marketing phase. Farmers are also provided with

grower's worksheets to help monitor costs and earnings and calculate profit per acre. Farmers can buy BASF products from local retailers.

The project started with participation by 30,000 soybean farmers. BASF's investment in training – about 8,500 field days and 7,000 farmer workshops were conducted in 2009 alone – has yielded promising results: By 2010, Samruddhi farmers had nearly doubled their average grain yields within three years, from 578 kg/acre (2007) to 902 kg/acre (2010), a level close to the world average of 1,020 kg/acre. Average net incomes increased by 64% from 2006 to 2008. BASF sales of crop protection products for soybeans grew by 60% annually in the same period.

Crop protection can diminish pest damage

In the absence of crop protection products, crop loss due to pests varies globally from about 50% for wheat to more than 80% in cotton production. With the use of crop protection products, actual losses vary between 26% and 40%.²⁴ Tropical and subtropical regions are particularly prone to pests. However, smallholders often lack adequate access to crop protection products, as well as the required knowledge and skills. Products are often overused or applied in the wrong way. Integrated pest management systems combine products with preventive strategies such as crop rotation and different cultivation techniques. Smallholders benefit from increased productivity and better health. In addition, negative effects on the environment are reduced.²⁵ Companies offering integrated solutions, potentially in collaboration with other actors in the value chain, have a growing market in front of them.

Climate change makes irrigation increasingly important

Use of irrigation varies greatly by region. In sub-Saharan Africa, where productivity remains low, only 3% of cultivated land is irrigated.²⁶ Cheap, low-tech drip irrigation systems or pumps can make smallholders less dependent on rainfall and broaden the range of products that can be cultivated.

Machinery increases productivity

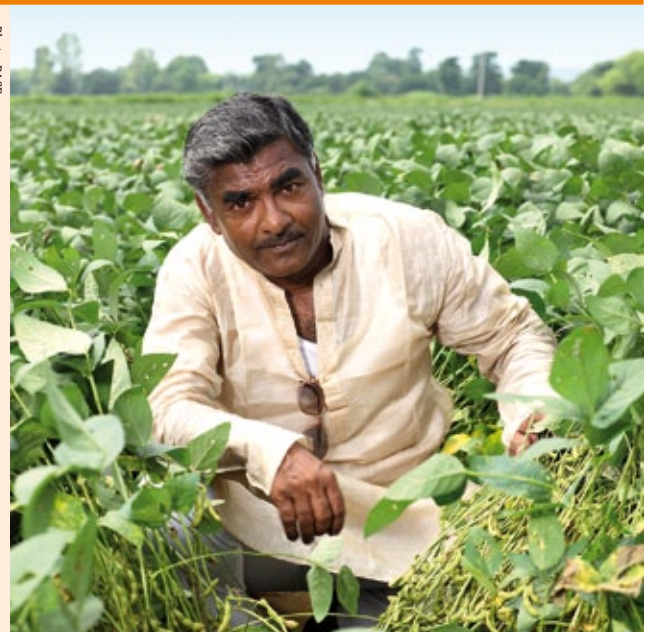
Machinery can enable smallholders to cultivate larger pieces of land, as well as expand their activities to include post-harvest management and processing. Mechanisation can also help prevent post-harvest losses. In sub-Saharan Africa, 10% to 20% of grain is lost after the harvest, but prior to processing. This amounts to a loss of US\$1.6 billion per year in Eastern and Southern Africa alone. The level of spoilage is much higher for perishable goods such as fruits and vegetables. For these products, production beyond the level of subsistence farming makes little sense without having packaging and processing technology near at hand.²⁷

By 2010, the Samruddhi scheme had grown to include 170,000 soybean farmers. The Indian BASF team has also begun to work with potato and onion farmers. Pilots have been conducted in Sri Lanka and Indonesia, and additional initiatives for Africa are planned, all driven by the core logic of building competent users and clients for BASF products.

SOURCE:
 BASF (2011). *Samruddhi – A farmer training project for sustainable agriculture in India.*

Improved agriculture knowledge
 can help create productivity.

Photo: BASF



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The opportunity in sustainable agriculture

Agriculture has a significant environmental dimension. Different agricultural practices can either harm or contribute to aspects of the environment such as biodiversity, the climate and water supplies. Smallholders are both affected by and contribute to climate change and environmental degradation. Smart business models can turn these challenges into areas for growth.

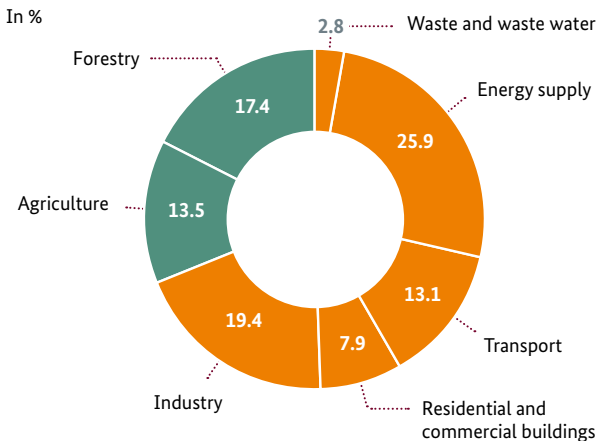
Smallholders depend strongly on a stable climate and regular rainfall patterns. The incidence of extreme weather events due to climate change is already increasing, and developing countries have been hardest hit. The drought at the Horn of Africa in 2011 is but one example of the harsh effects failing rains can have on smallholders. In some African countries, yields from rain-fed agriculture are projected to fall by as much as half by 2020, while rainfall and floods are likely to increase in other regions.²⁸ Through integrated land management systems, irrigation systems, agroforestry and more resilient varieties, companies can effectively respond to the challenge and provide an attractive value proposition for smallholders and their business partners.

Certain agronomic practices can help to reduce or avoid carbon emissions, enabling access to carbon trading schemes. Agriculture and forestry today contribute 30% of global greenhouse gas emissions. Zero tillage production, growing rice without flooding and hence methane emissions, and biodigesting animal waste are just a few of the solutions already acknowledged by

carbon trading schemes. Sadia, one of the world's leading producers of chilled and frozen foods, has introduced a programme for more than 3,500 pork producers to reduce carbon emissions and win access to carbon credits from the U.N. Clean Development Mechanism (CDM). The UN-REDD Programme – short for Reducing Emissions from Deforestation and Forest Degradation – provides financial incentives to avoid deforestation and forest degradation. A newer version, REDD+, targets additional benefits such as biodiversity conservation and poverty alleviation.²⁹ Revenues from these markets can co-finance inclusive agribusiness investments. In addition, maintaining forests and trees can enhance the quality of products such as cocoa or coffee by allowing plants to be grown in the shade.

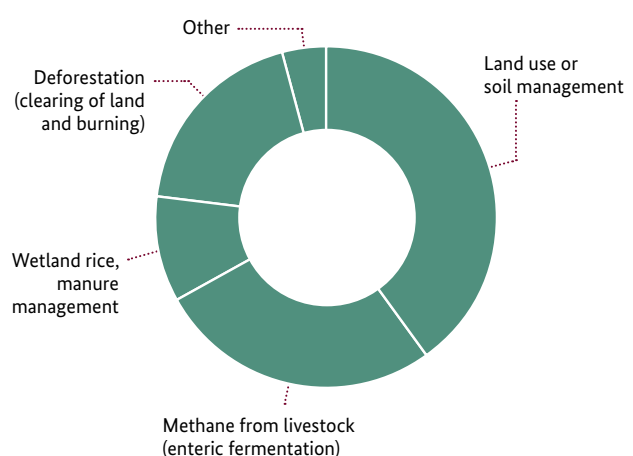
Sustainable agriculture can maintain high productivity levels through the long term. An estimated 12 million hectares of land, with a potential to produce 20 million tonnes of grains, are lost every year due to land degradation associated with deforestation, poor farming practices, inappropriate irrigation, or overgrazing. Agricultural activities can also damage water quality and reduce water availability. However, there is an opportunity to “leapfrog” the environmentally unsustainable agriculture systems developed in industrialised countries and move straight to integrated systems that manage natural resources effectively and sustainably. Sustainable agricultural practices can increase the cost effectiveness of inclusive agribusiness in the long run. Since these practices are often labour intensive, smallholders are in a privileged position to apply them.³⁰

FIGURE 8
Total greenhouse emissions by sector



SOURCE:
U.N. Intergovernmental Panel on Climate Change,
Fourth Assessment Report (AR4), 2007

FIGURE 9
Greenhouse gas emissions from agriculture and land use



SOURCE:
IAASTD (2009). Agriculture at a Crossroads:
Synthesis Report – A Synthesis of the Global and Sub-Global
IAASTD Reports.

CASE STUDY 5

Jain Irrigation Systems in India

Photo: Tamil Nadu Agricultural University, Coimbatore



Water right where it is needed – MIS mitigate water loss.

From micro-irrigation systems to an integrated farming system

Jain Irrigations Systems (JILS) has tapped a new market providing micro-irrigation systems (MIS) to smallholders in water-scarce regions. MIS reduce the total amount of water used for farming by up to 50% compared to traditional flood irrigation systems. They also reduce the need for fertiliser and energy to power pumps.

The Indian government supports smallholders with a subsidy of up to 50% for purchasing MIS equipment. To insure payment of the other 50% of the cost, JILS has extended its business across the value chain. The company has built an integrative contract farming system that provides smallholder customers with improved marketing opportunities. It provides smallholders with additional inputs such as high-quality seeds and fertilisers that increase farm yields, as well as training on good agricultural practices. Furthermore, it offers access to credit to facilitate the purchase of these inputs. Finally, the fruits and vegetables produced by the contracted farmers are bought directly by the company through its food-processing unit. As a result, farmers have raised their net incomes by as much as US\$1,000 per acre, depending on the kind of crop harvested. The investment usually pays off in less than one year.

JILS has financially outperformed its industry peers, showing annual revenue growth of 40% and an EBITDA margin of 18% from 2006 to 2010. Half of all revenues were generated from the MIS programme. As of October 2010, Jain's MIS were being used by 260,000 farmers in India, and the company had plans to expand to South Asia and Turkey.

SOURCES

- www.jains.com
- Gradl, Christina; Krämer, Aline and Julia Winkler (2010). *Drops Against Droughts. Jain Irrigation, GIZ.*

How to identify a business opportunity

As indicated above, there are abundant opportunities to strengthen business relationships with smallholders. At the beginning of the metaphorical season, the first step for any company moving into the space will be to identify which field to plough. This requires a number of choices to be made, including decisions on which country should be targeted, where a pilot programme should be located, what product or service should be sold or sourced, and how the new initiative should be internally organised. In many cases, these decisions will emerge from a company's existing business. However, it is advisable to take the following questions into account:

Location:

- Should the company enter an existing market or build a new one?
- Who else competes in the market, both formally and informally?
- What hurdles are to be expected, both formal and informal?

Product or service:

- Will the company sell/source an existing or new product, and/or provide services?
- How will the product or services be adjusted to meet local conditions?
- How can the company compete within its chosen market?

Internal organisation:

- Where should the new business be located within the company organisation?
- What organisational opportunities and constraints follow from this decision?
- Are leaders committed and patient enough to allow the new business to grow?
- How can company overhead be reduced?
- Is the organisational culture open enough for a new kind of business with smallholder partners?

By defining the market location, the product or service to be provided, and the place for the new business within the internal organisation, companies stake out ground for development of this new business opportunity.

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Assess!

The smallholder context and its challenges



A smallholder in Ethiopia explains to her visitor the challenges of farming. In order to set up an inclusive agribusiness, companies need to understand their partners – the smallholders, their opportunities and challenges.

Just as a field's soil and weather conditions must be assessed, evaluating local market conditions and the smallholder business partners' situation must form the basis for any new inclusive agribusiness development. Such an assessment will also help identify any structural challenges that need to be addressed. Five common challenges have been identified: a lack of market information, a lack of skills, insecurity, insufficient resources and gaps in local infrastructure.

CASE STUDY 6

CleanStar Mozambique

Understanding the market context for a holistic inclusive agribusiness

Novozymes, a Danish biotech company with 5,500 employees, has a strong focus on enzyme production. In 2010, with the objective of accessing new and fast-growing markets, it formed the CleanStar Mozambique (CSM) joint venture with CleanStar Ventures, a company promoting business and technology innovation in the sustainable development sector. By 2014, the business model aims to reach profitability with a supply base of approximately 2,000 rural smallholders and a customer base of 80,000 urban households. CSM helps smallholders in Sofala, in central Mozambique, with the implementation of environmentally restorative agroforestry systems, primarily on their own land and on community-owned land. The system involves a mix of multi-purpose crops and trees, including cassava.

Novozymes and CleanStar Ventures conducted several feasibility, market potential, and baseline studies to prepare for the initiative. The research revealed a number of challenges, which CSM was subsequently designed to address. Since smallholders lacked access to high-quality seed and other input markets, as well as knowledge on sustainable techniques for avoiding soil depletion and deforestation, CSM provided them with both seedlings and training. The smallholder families were free to consume any crops produced by the system, significantly improving their nutrition security. Furthermore, CSM set up processing factories in the vicinity

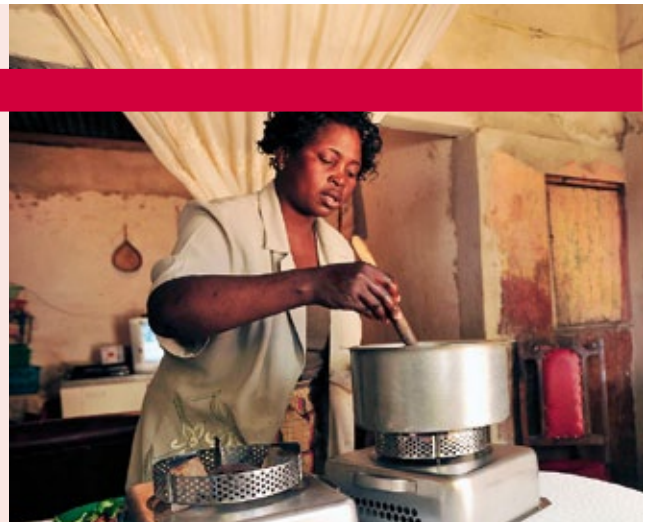


Photo: Novozymes

Cooking with ethanol reduces the exposure to harmful smoke and provides new income opportunities for smallholders.

of smallholder communities, and organised transport facilities so as to overcome local infrastructure flaws. Attractive prices ensured smallholder loyalty and induced them to increase output. In the future, CSM aims to win a permanent VAT exemption for cooking fuel in order to allow it to compete with charcoal, which is informally traded and hence is not subject to VAT. Finally, the company sells its products – mainly cooking fuel along with the required ethanol-fuelled cooking stove – via a network of retail points in Maputo as a substitute for the charcoal used for cooking in the majority of urban households.

SOURCES:

- www.cleanstarmozambique.com
- WSCBD (2011). *Novozymes: An Integrated Model for Providing Clean Cooking Fuels in sub-Saharan African Cities.*

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Understanding your business partner: 500 million smallholder farms

As the term itself suggests, smallholders own small farms, usually comprising no more than a few animals and a few hectares of land. Producing either crops and livestock, they typically practice a mix of commercial and subsistence production. Unlike commercial farms, their production system is very often family-driven, with the whole family involved and providing the majority of labour.³¹ In order to work successfully with smallholders as business partners, it is critical to be able to see options and decisions from their point of view. This requires a solid understanding of the nature of family-led farming systems.

Worldwide, more than 500 million smallholder farms represent both home and livelihood for more than two billion people – just under a third of the global population.³² These small farms not only produce most of the food consumed in developing countries, they also present a significant source of employment. Indeed, in most African countries, at least 70% of the labour force works in the agricultural sector.³³ Smallholders produce not only staple crops such as maize, rice and wheat, but also cash crops such as coffee and cocoa, and high-value products such as fruits, vegetables, fish, and animals.

Managing risks

Smallholder farmers face many risks, including bad weather, pests and disease. Even though the level of risk is significant, smallholder farmers usually lack access to effective risk-sharing mechanisms such as insurance. In moments of crisis, families have few options other than drawing on their savings, selling already meagre assets, or taking on debt. Any shock can thus throw a family quickly into destitution.

Consequently, smallholder farmers wisely tend to be risk averse, and seek to diversify the household's economic activities. The fraction of the rural extremely poor households who report more than one income-earning activity is 50% in Indonesia, 72% in Côte d'Ivoire and 84% in Guatemala.³⁴ Family members work as day labourers, run small shops or craft businesses, or migrate to the city for part of the year. Smallholders tend to prefer traditional, low-yielding seed varieties and plant a variety of crops.³⁵ While one portion of the smallholder's farm might be cultivated with staple crops for subsistence, another may grow cash crops for regional markets.

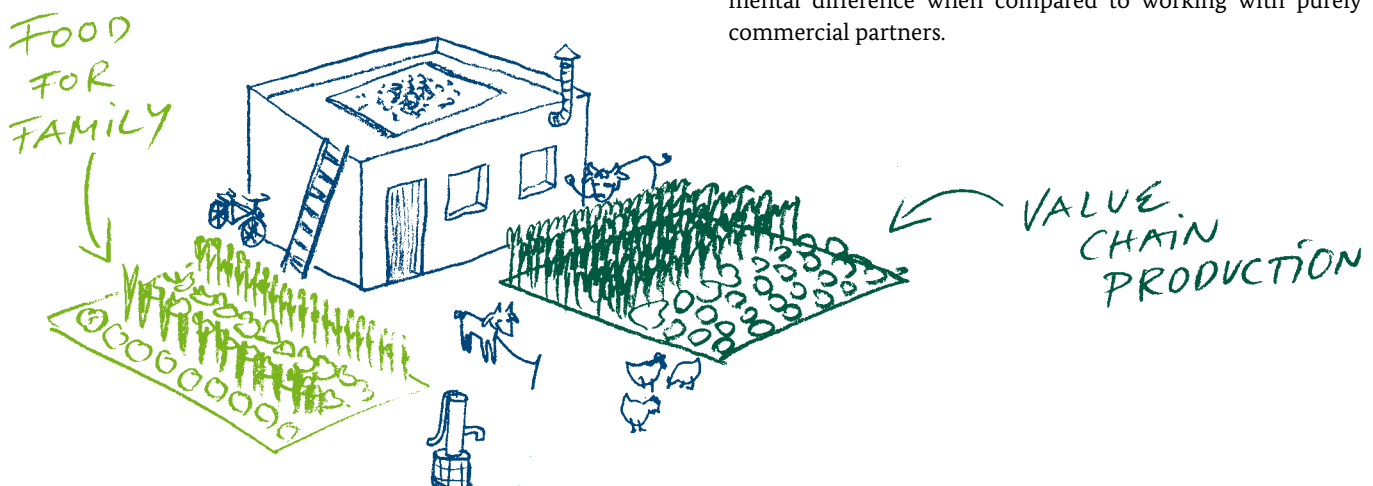
Facing trade-offs

Smallholders continuously face trade-off decisions regarding the use of money, labour and agricultural products. For example, money can be used to buy medicine or purchase fertiliser; labour can be used to work on the fields or keep the house; agricultural products can be consumed within the household or sold commercially. Although exportable products may offer attractive prices, farmers may decide not to produce them since this would require a reduction in subsistence production and additional investments, and would lead to insecure revenues and hence a greater exposure to risk.³⁶

Inclusive agribusiness models need to respond to this broad smallholder spectrum of risk and trade-offs. This is a fundamental difference when compared to working with purely commercial partners.

FIGURE 10

The family-led farming system



Relationship challenges

Though both sides have an interest in doing business together, smallholders and companies in many cases find it difficult to enter a productive business relationship. Often, the two sides lack the mutual trust and access to one another required for successful cooperation. Structural challenges including a lack of information, a lack of skills and knowledge, insecurity, resource scarcities, and gaps in infrastructure stand in the way.

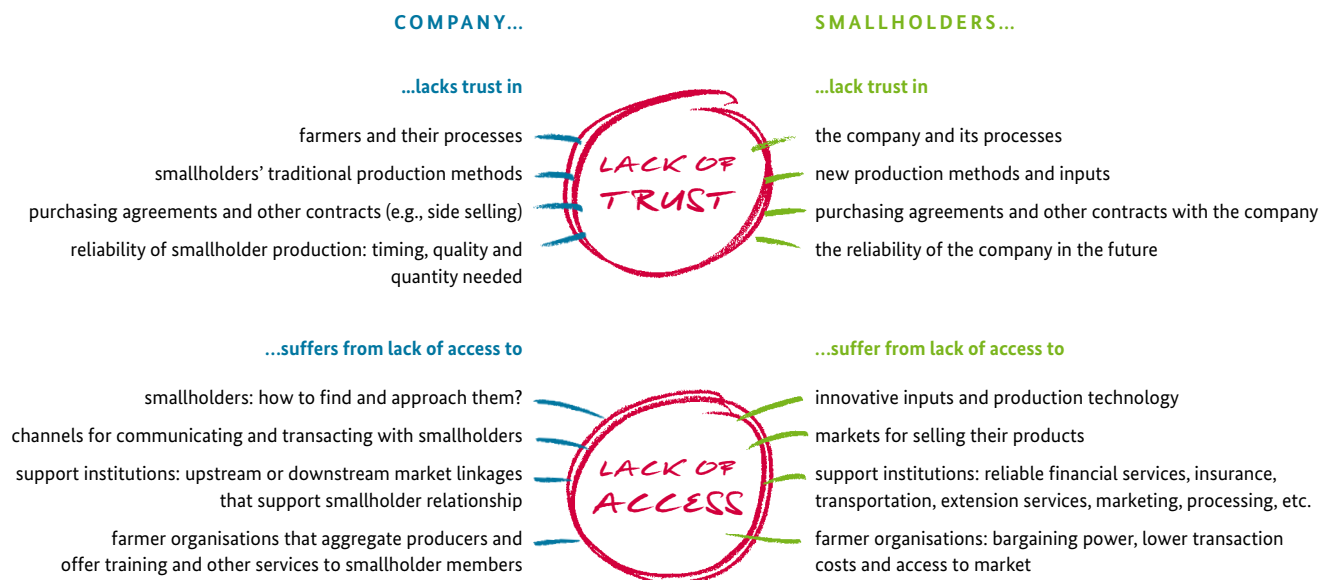
Trust and access are basic requirements for success in any business relationship. Business partners need to be able to meet and transact, and must feel assured that business commitments will in fact be kept. While these requirements are taken as a given in developed markets, their absence often poses barriers to business between companies and smallholder farmers. Experiences from the ground can illustrate the consequences of this lack of communication. In one case, for example, a large company provided seeds and fertilisers to smallholders

in a particular country with the aim of enabling them to grow high-quality rice. After cultivation and a fruitful harvest, smallholders sold the rice to the highest bidder, even though this was not the company that provided the inputs. The company subsequently decided to halt its involvement in that country. In another case, farmers started to invest and produce different varieties of a product at the request of a large food company; however, the company refused to buy their products afterward due to their low quality.

Stories like these erode trust, even when the parties involved have had no negative experiences of their own. A closer look at the perceived barriers on each side reveals that companies and smallholders actually face the same or very similar problems.

FIGURE 11

The mirror of relationship challenges between a company and smallholders



Structural challenges

Trust and access are typically grounded in a functional business environment, with infrastructure and institutions that have evolved to support such relationships. Yet the presence of these prerequisites can rarely be assumed in rural areas in developing countries. Five types of structural challenges are common in inclusive agribusinesses projects: a lack of market information, a lack of skills, insecurity, insufficient resources and gaps in infrastructure. Again, they affect companies and smallholders alike.

Lack of market information

Companies have difficulties obtaining vital information on smallholder markets. On the one hand, companies selling to smallholders don't know what kind of products and features smallholders demand, what they are willing to pay, or how best to market their products. On the other hand, companies sourcing from smallholders don't know who offers what products, in what quantities and at what qualities, at what prices, and where. Classic intermediaries such as market research and consulting firms are scarce in the rural context.

Smallholders also face difficulties accessing up-to-date information on issues such as market prices for their products, weather forecasts, potential business partners beyond the local level, available inputs, modern production and marketing technologies, and agricultural practices. Thanks to the broadcast of relevant information by radio stations, as well the fact that most people now have access to mobile phones that increasingly provide information services, the situation is improving. Nevertheless, most smallholders lack access to the Internet, the most comprehensive information source available. Only 24% of people in developing countries overall have Internet access, and the numbers for rural areas are even lower.³⁷ Furthermore many smallholders are unable to read and write; in the least developed countries, only 53% of those over age 15 are literate.³⁸

Lack of skills

Smallholders usually practice subsistence agriculture in the way their parents did. But to be part of larger value chains, certain standards need to be fulfilled in terms of general and crop-specific agricultural practices, and in terms of management. In most cases, the skills and knowledge needed to meet these standards are not readily available. Smallholders are generally unaware of up-to-date agricultural practices and post-harvest management techniques, a condition reflecting their additional lack of access to information. They often lack basic business skills such as accounting, cash-flow management, and the ability to engage in medium-term strategy development. Formal education is typically minimal, with many smallholders having completed just two to four years of schooling.

Companies consequently struggle with the lack of capacities possessed by their smallholder business partners. However, they often lack the skills and resources to provide the required training and education themselves.

Insecurity

In conducting business with smallholders, companies are inevitably moving into an insecure market environment. First, companies typically lack formal means to enforce contracts with smallholders. Second, formal procedures and bureaucratic processes will often create long delays – how long is often unclear – before local governments grant required operating permissions. Third, business regulations are often patchy, administrative systems are inefficient, and legal insecurities exist in areas such as the requirements and procedures for exporting agricultural products, or for registering a product for sale on the local market.³⁹ Fourth, although political security in many countries has improved in recent years, some countries continue to present a risk of instability associated with regime change or armed conflict.

Similarly, smallholders face considerable levels of daily insecurity, making it difficult for them to plan for the future, enter long-term commitments, invest and take additional risks. First, smallholder incomes are not only low, but also irregular and insecure, especially when opportunities to diversify income sources are scarce.⁴⁰ Second, most developing countries offer very limited access to social safety nets or insurance coverage able to absorb losses if harvests fail or prices are unexpectedly low. Less than 5% of people with low incomes have access to general insurance coverage, and even fewer to agriculture-related policies.⁴¹ Third, other farm risk-management tools such

as savings, resilient crops, or irrigation systems are often either similarly unavailable or too costly. Fourth, markets in the rural areas of developing countries are usually mostly informal. Contract-enforcement support systems such as courts or the police are out of reach, unreliable, or too costly and time-consuming to be of practical effect. Contracts thus tend to be based on trust, and often limited to people likely to be susceptible to social enforcement mechanisms. Finally, robberies and thefts are not uncommon. A cooperative or truck driver may get mugged carrying considerable amounts of cash after a delivery, diminishing incomes for all partners. In years of scarcity, smallholders with crops or livestock risk having these stolen by outsiders.

Insufficient resources

Smallholders generally lack productive assets and financial resources. Lacking access to adequate savings and credit services, it is consequently difficult for smallholders to improve their already poor resource base. Even though microfinance services have expanded quickly in recent years, these institutions are primarily focused on providing short-term loans for non-agricultural purposes, and often offer no savings, money transfer or insurance products. The lack of access to agricultural credit is also tied to the frequent lack of formal property title. Smallholder's main resources tend to be their land, but few can show an official document to a bank certifying the land's legal ownership and the value. It is thus "dead capital", unavailable to use as collateral.⁴² This capital constraint makes it difficult for smallholder farmers to make investments that don't pay off immediately, as for example in machinery or long-term crops such as trees. Even the acquisition of financing for inputs covering a single cultivation period often constitutes a challenge. Indeed, 55% of farmers in a sub-Saharan Africa survey stated that credit for input purchases was their top desire.⁴³

Companies are used to suppliers that can invest in order to meet demand, as well as to customers who can finance comparatively large investments. They find it difficult to provide financing for infrastructure that their potential partners lack, such as machinery or storage facilities.

Gaps in infrastructure

Many rural areas are difficult to reach, as roads are absent or in poor condition. The 53 countries classified as low income by the World Bank have a total of 239,000 kilometres of roads, while the 60 high-income countries collectively have 3.6 million kilometres.⁴⁴ For companies sourcing from and selling to smallholders, this is a major challenge, since farms are often widely dispersed in remote areas. Long transport times affect the quality of fresh products. Ports often have limited capacity and are outdated, and railway lines are often poorly maintained. As a result, proper logistics and transport services are also lacking. Simply taking products to market is a matter of considerable time and expense for many smallholders.

The lack of electricity also imposes challenges. Worldwide, 1.4 billion people lack access to electricity and must rely on candles or kerosene for light and diesel fuel for production-related activities such as running processing machinery. The lowest electrification rate is found in sub-Saharan Africa, where only 31% of the population has access to electricity.⁴⁵ The high cost of energy for tasks such as processing is a serious disadvantage in highly competitive markets

Other infrastructure with the potential to improve smallholder productivity is also lacking. This category includes training facilities, sanitation and water supply infrastructure, and health care services.

*SEE PAGE 40/41,
SPOTLIGHT ON FINANCIAL SERVICES

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How to assess local conditions

In order to reduce and overcome the challenges common to inclusive agribusinesses, companies need to understand the smallholder and business context. To this end it is useful to conduct a detailed assessment of the smallholder context and its challenges, answering the following questions.

In order to answer these questions, companies need to conduct market research. Secondary data on these topics is sometimes available. However, no amount of data can replace doing original research on the ground. Market research institutes, consultancies and universities can help to conduct interviews and surveys in the target area.

Participatory and action-oriented assessment approaches are particularly promising.⁴⁶ Not only do they incorporate insights from local stakeholders and identify the critical issues, they also help to foster trust among stakeholders and create a forum in which agreement on the first (joint) activities can be reached. Alongside smallholders and their organisations, existing intermediaries can be part of this process, and can potentially serve as an element of the solution as well. For example, existing middlemen could be given responsibility for operating a new village collection centre, thus defusing a boycott.

* Binca Seafood provides a positive example of this kind of participatory and action-oriented assessment approach. In this specific case, the Participatory Assessment of Comparative Advantage (PACA)⁴⁷ approach was used, enabling stakeholders to analyse challenges and opportunities in the local business environment, and to create a functional value chain within a short period of time.⁴⁸

*SEE CASE STUDY
ON OPPOSITE PAGE

Smallholder business partners:

- Which smallholders will the company seek to work with?
- How do these smallholders live, work and produce?
- What are their needs, preferences and priorities when purchasing and cultivating agriculture products?
- What risks do these smallholders face?
- What trade-offs do these smallholders have to make?
- What informal solutions do they use to overcome challenges?

Market context and challenges:

Market information

- What market information does the company require? How can it be accessed?
- What information is required by smallholder business partners? Do they have access to it?

Skills

- What skills do smallholders require to use products or to produce to the required standards?
- Where are gaps and how can they be filled?

Security

- What insecurities do companies face?
- How can contracts be enforced?
- What processes are required to formalise the business?
- Are all necessary regulations in place?
- How reliable and fast are administrative procedures?
- Is there a risk of political insecurity?
- What insecurities do smallholders face?
- What are their income streams and associated risks?
- Do smallholders have access to social safety nets or insurance?
- Do smallholders have access to risk management tools such as savings, resilient crops, or irrigation?
- Are thefts or robberies a common problem for smallholders?

Financial services

- Do smallholders have access to savings and transactional banking services?

Infrastructure

- What is the infrastructure like? Are smallholder farms and villages accessible by road?
- Are they electrified, enabling on-site product processing?
- What public utilities and services are available?

CASE STUDY 7

Binca Seafood in Vietnam

Participatory assessment for growing an inclusive aquaculture business

Seeking access to the growing high-end niche market of organic aquaculture, German importer Binca Seafood initiated in 2002 a development partnership with GIZ and Naturland, a German NGO certifying organic food. The objective was to produce the world's first organic pangasius by helping Vietnamese fish farmers comply with the high quality, safety and hygiene standards required by German law. In 2005, the first Pangasius farm was certified as meeting the Naturland organic aquaculture standard. In 2010, Binca and Vietnamese partner Ntaco Corporation were certified as sustainable pangasius producers under the GLOBALG.A.P standard, the first such award worldwide.

The new business for certified organic pangasius farming was developed on the basis of a facilitated participatory assessment process. Through interviews, mini-workshops and multi-stakeholder events, external consultants worked with actors within the local value chain to identify gaps and challenges in the local market environment, and developed strategies to overcome them. Two important findings involved a lack of skills among local fish farmers and the lack of security for the companies in terms of product quality.

In responding to these challenges, the business partners implemented targeted solutions, again in a participatory manner. In a first step, Naturland developed standards for organic catfish production and certification, securing the support of relevant Vietnamese institutions. A small pilot group of Vietnamese producers was then selected and trained in organic practices, strongly supported by the project members as well as by local consulting firms and institutions. Local partners thus acquired the relevant know-how and were subsequently able to train other local producers and processors. Local processors were trained to perform more processing steps locally and improve their own packaging techniques. Following these gains, an auditing company from Thailand performed the audit so that the farm could obtain the Naturland certification. One of the biggest challenges was to find suppliers of organic feed. In a next step, local feed suppliers were upgraded to organic production. In 2010, the farm established its own organic feed mill.

SOURCES:

- www.binca-seafoods.de
- GIZ (2008). *The Value Chain Approach for Organic Catfish in Vietnam within a Public-Private Partnership*. Bonn: GIZ.
- Cao Thanh Van (2008). *Upgrading Fish Farming in An Giang, Vietnam*. In: Jörg Meyer-Stamer (2008). *Building Competitive Rural Locations – Local Economic Development around Agriculture and Agriprocessing: Examples and Concepts*. Duisburg: Mesopartner.



Pangasius farm in Vietnam in accordance with the GLOBAL G.A.P standard.



Interactive workshop for mapping challenges and finding solutions along the value chain.

Photo: Binca

Photo: Mesopartner

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Plant!

Five solutions for inclusive agribusiness

Access to seed insurance enables farmers in Kenya to plan better for the future. Planting solutions seeds the growth of new inclusive agribusinesses.



Photo: Jeff Haskins

When planting, farmers select the strongest seeds available to make sure their field will produce high yields and can deal with adverse environmental conditions. For inclusive agribusinesses, the solutions to the challenges identified in the last chapter represent these seeds. Five core solutions have been identified that relate to innovations, production factors, knowledge, rules and value chain links.

CASE STUDY 8

Kilimo Salama in Kenya

Developing input markets with insurance and mobile-phone-based payments

Syngenta is a global producer of agricultural inputs. Its corporate foundation, the Syngenta Foundation for Sustainable Agriculture, seeks to increase smallholders' productivity and market access. In partnership with Safaricom, the largest mobile network operator in Kenya, and UAP, a major Kenyan insurance company, Syngenta developed an innovative input insurance programme. The Kilimo Salama ("Safe Agriculture") plan insures agricultural inputs such as seed, fertiliser or crop protections against a lack of rainfall, which reduces yields and thus the ability to buy new inputs the following season.

Kilimo Salama employs a number of solutions to offer a commercially sustainable product. Innovative technology was critical to the product's launch. The service relies on Safaricom's M-PESA mobile payments service, which is used across the country. Both payments for the policy and payouts in cases of damage are transferred via M-PESA, thus greatly reducing transaction costs and the risk of fraud.

The insurance programme is based on a simple set of rules that can be easily monitored and enforced. The policy costs five percent of the insured product. The insurance policy is registered and confirmed by mobile phone. Payouts are determined by the level of rainfall rather than by the actual damage to the individual farmer. This makes the scheme easy to administer. In contrast to most agricultural insurance products, Kilimo Salama insures the inputs rather than the entire post-harvest output. This makes the policy very affordable for the farmers.

Kilimo Salama builds on a network of well-established agricultural dealers, who themselves benefit from being able to offer the new service. Dealers educate farmers on the of-



Kilimo Salama payments and disbursements are made via mobile phone. This makes insurance convenient and affordable, giving smallholders access to effective risk management.

fer. In addition, farmers are informed of the opportunity via radio programmes.

The insurance allows farmers to invest in production factors that previously would have seemed too risky, and enables them to reinvest even after a failed harvest. As a result, farmers can better afford Syngenta products and other inputs. In 2009, the pilot model covered 200 farmers. The year 2012 brought a terrible drought. The country's two weather stations recorded variations in rainfall resulting in payouts of either 30% or 80% of the insured product. The following season, 12,000 farmers signed up – an important success given that insurance take-up is often difficult to achieve. Safaricom has already generated profits, and UAP expects profitability by 2012.

SOURCES:

- IFC (2011). *Kilimo Salama, Index-based Agriculture Insurance. A Product Design Case Study*. Washington, D.C.
- Syngenta Foundation for Sustainable Agriculture (2010). *Fact Sheet: Kilimo Salama ("Safe Agriculture")*.
- Grادل, Christina, Aline Krämer and Julia Winkler (2012). *Insurance for Inputs: Kilimo Salama, Kenya*.

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Five core solutions

Successful inclusive agribusiness models employ five core solutions to respond to the widespread structural challenges in smallholder markets:

- Conduct research and develop innovations
- Upgrade smallholders' production factors
- Inform, train and consult in order to transfer knowledge
- Agree on and enforce rules
- Strengthen links within the value chain.

Each of the five solutions can be employed to respond to each of the five structural challenges introduced in the previous chapter. The table on the next page provides solution examples for each combination. Rather than trying to be exhaustive, it aims to stimulate ideas. More detailed information on each solution follows in the next pages.

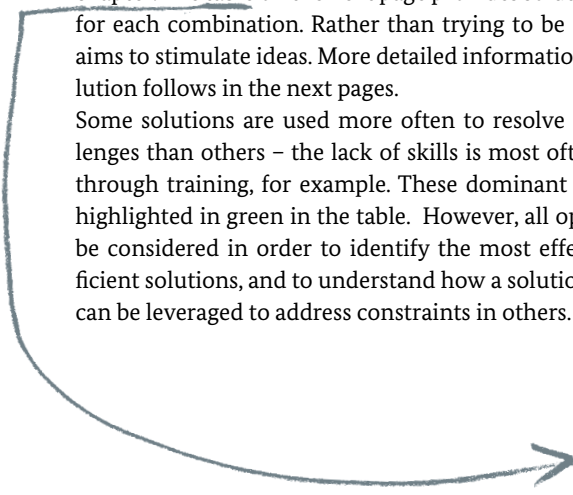
Some solutions are used more often to resolve specific challenges than others – the lack of skills is most often addressed through training, for example. These dominant solutions are highlighted in green in the table. However, all options should be considered in order to identify the most effective and efficient solutions, and to understand how a solution in one area can be leveraged to address constraints in others.

TABLE 1

Example solutions to challenges

Highlighted boxes are dominant solutions

SOLUTIONS	1. Conduct research and develop innovations
	2. Upgrade smallholders' production factors
	3. Inform, train and consult to transfer knowledge
	4. Agree on and enforce rules
	5. Strengthen links within the value chain



CHALLENGES: LACK OF...

...information	...skills	...security	...resources	...infrastructure
Develop technology-based information services	Develop easy-to-use products	Develop more resistant product varieties and more resilient farming technologies	Develop cheap and reusable inputs Develop farming technologies that don't require much investment	Develop localised processing and packing technologies Develop ICT solutions to reduce travel
Provide access to radio, cell phone or Internet	Provide access to easily used farming tools	Provide insurance Provide irrigation and resilient varieties	Provide production factors directly Facilitate access to credit	Provide local processing, storage and packaging solutions
Inform smallholders of market prices, marketing opportunities, product benefits etc.	Provide training on general and crop-specific business and agricultural skills	Train smallholders in pest management and other risk management techniques	Train smallholders on efficient usage of inputs	Train local trainers Train smallholders on conservation methods
Specify information exchange in agreements	Agree on production and documentation processes	Guarantee market access with minimum purchase agreements, linked to smallholder meeting standards	Grant access to inputs as part of an agreement	Invest in local facilities based on long-term agreement Hire local staff to monitor and enforce compliance
Communicate via network of retailers Strengthen market information services and other intermediaries	Support local training and extension services	Improve access to roads and up- and downstream facilities to ensure market access	Collaborate with local financial institutions Distribute via local retailers	Strengthen local retailers, traders and other service providers

Solution 1: Conduct research and develop innovations

**SEE CASE STUDY
ON PAGE 33*

By innovating and adapting products and processes to the local conditions as well needs and demands of smallholders, companies can create a more attractive value proposition and increase their sales. Innovative technologies can range from IT solutions to cropping systems. Research and development can hence be a critical enabler for inclusive agribusiness. This solution works in close combination with Solution 2, in which companies provide smallholders with access to production factors – often innovative ones.

Meeting challenges

With the help of ICT solutions, companies can inform smallholders about weather forecasts and new products or services. A number of SMS-based services in developing countries provide up-to-date market and price information. Smallholders can inform companies about production status and demand for inputs or support. A mobile-phone-based accounting system produced by SAP enables women in Ghana collecting shea nuts to report their yield to the Star Shea Network (SSN), the national shea butter company.

*SEE CASE STUDY
ON PAGE 69*

Resilient product varieties and innovative cropping systems can reduce the risks associated with pests, drought or floods. Insurance products like Kilimo Salama^{*} enable farmers to manage risks more efficiently. Micro-irrigation systems and new machinery can increase smallholders' productivity and reliability.

Furthermore, companies can “deskill” products and processes. Machinery and irrigation systems can be designed so that they are intuitive to use and components are easy to assemble and maintain. Crop protection can be packaged in a way that is safe to use. Agricultural practices and administrative processes can be adjusted to meet smallholders' skill levels.

Companies can develop cheap and reusable products that do not rely on infrastructure elements that may be lacking, such as electricity or clean water. Treadle pumps for irrigation, manual planting machines and pull-along crop sprayers are among the innovations that have already met with commercial success.⁴⁹ Products can be packaged in small quantities, enabling smallholders to pay per use (e.g., sachets of fertiliser). New farming technologies are being developed that don't rely on expensive machinery.

CASE STUDY 9

DADTCO in Nigeria

Creating a new market for cassava through processing innovation

Industry and consumer demand for cassava products is growing rapidly, especially in Africa, as the tuber is a valuable substitute for more expensive imported starches, glucose and wheat flour. Despite this potential, cassava has remained a subsistence crop, since it spoils within 48 hours after being harvested. Indeed, without appropriate market infrastructure and suitable processing technologies, it is largely impractical for anything beyond subsistence production.

To commercialise cassava in Nigeria, a partnership between the Netherlands Directorate-General for International Co-operation, the International Fertilizer Development Center

and the Dutch Agricultural Development and Trading Company (DADTCO) was initiated in 2010.

To process cassava before it spoils, DADTCO developed the so-called Autonomous Mobile Processing Unit (AMPU). This mobile mini-factory enables farmers to process fresh cassava on-farm or nearby rather than attempting to transport the crop long distances to a central factory. The AMPUs reduce transportation costs and bring the first processing step close to smallholders themselves.

Companies can now source remotely produced cassava. SAB Miller, one of the world's leading breweries, is purchasing processed cassava through the initiative and has launched the first cassava-

Promising approaches

The first step in innovating and adapting technologies is research. Companies selling input products such as seed, irrigation systems or machinery must understand smallholders' needs and local environmental conditions in order to develop input characteristics suitable to the local market. Companies sourcing from smallholder farmers need to know what products are being produced, and what inputs and practices are being used. Participatory approaches are critical in order to understand other relevant issues and potential solutions from the perspective of the business partners.

Once this information has been gathered, it can be used as the basis for new technologies. This includes the development of products such as new high-yield, resilient crop varieties or new irrigation systems and machinery. Companies often adapt existing products rather than starting from scratch, perhaps by changing the product's size, packaging, or available functions.

Along with new products, companies also develop innovative processes and practices adapted to local conditions, such as intercropping systems. To improve processes, they leverage, adapt and co-develop ICT solutions, with mobile phone technology often proving particularly fruitful.

The development of new products, processes and practices always involves repeated testing both under laboratory conditions and in the field. Pilot projects are critical in understanding how the new technology can be implemented and what other solutions are required to make the business model work.



Photo: SAB Miller Website

The immediate processing of freshly harvested cassava roots avoids spoilage.

based beer. Around 40,000 tonnes of raw cassava will be used annually in the beer's production. The company projects that the new Impala beer will contribute up to 10% of their annual sales in Mozambique over the next two to three years. Flour Mills of Nigeria, the largest Nigerian miller, has also started buying cassava flour produced by DADTCO.



Photo: DADTCO Website

Autonomous Processing Unit (AMPU), which prevents the spoilage of cassava, bringing the "factory to the field".

SOURCES:

- www.dadtco.com
- *Melissa Rudd (2012). SAB Miller's Cassava Beer Aims to Win over Home Brewers. In: African Business Review.*
- *Chevrollier, N. et.al. (2012). Access to Food and Improved Nutrition at the Base of the Pyramid. BoP Innovation Center.*

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Solution 2: Upgrade smallholders' production factors

Companies can help smallholders access, finance and upgrade production factors including seed, feed, fertilisers, crop protection products, irrigation systems and machinery. Thus, they help increase the productivity of their smallholder business partners.

Companies that source from smallholders often provide production factors as part of their business relationship in order to get the quantities and quality required. Other companies also sell production factors to smallholders as their core business, and facilitate access via financial services or provide additional upgrades to make their own products more attractive.

Meeting challenges

Providing support for the upgrade of smallholders' production factors is a direct response to farmers' lack of resources. Companies can either provide production factors directly or facilitate access to credit, enabling farmers to afford the upgrade.

However, by helping to upgrade production factors, companies also respond to other constraints, often through the new and innovative technologies described in Solution 1. They can provide access to radios, cell phones, or Internet services that enable smallholders to receive up-to-date information. They can respond to a skills gap by providing easy-to-use farming tools such as irrigation systems or processing units. They can provide improved seeds, fertiliser and crop protection products, or support the implementation of irrigation systems to reduce harvest insecurities. Storage and processing facilities can be created in response to gaps in local infrastructure.

CASE STUDY 10

Agrofinanzas in Mexico

Upgrading smallholder resources through innovative financial partnerships

Smallholders in Mexico face serious problems obtaining credit from financial institutions. In addition, their suppliers are generally too small to provide them with inputs on credit. Agrofinanzas is a financial institution that provides smallholders and food producers with short-term working-capital loans and medium-term loans, at lower rates than those offered by microfinance institutions. With over 23,000 active loans as of December 2011, Agrofinanzas made a profit of US\$2.6 million and a return on equity of 20% in 2011.

The business builds on the relationship with buyers such as traders, crop consolidators, or processors. Supported by Agrofinanzas, small-scale producers are put in contact with buyers. In return for a fee, the buyers help Agrofinanzas gather the borrower information and credit documentation required to comply with banking regulations. Agrofinanzas then provides the loan to the smallholders. The buyers collect a fee plus interest from the proceeds smallholders receive for their harvest.

This approach enables Agrofinanzas to reduce administrative requirements while providing finance to a large number of small producers who are generally difficult to reach. Agrofinanzas shares the risk with the buyers, and strengthens links between producers and suppliers as one means of reducing risk. Partnering with Agrofinanzas helps smallholders to build a credit history that can be verified by a formal intermediary.

*SEE "SOLUTION 3"
ON PAGE 92/93

Promising approaches

Companies sourcing from smallholders often provide resources directly as part of the relationship, particularly when dealing with contract farming or nucleus farm models. In this way, they can ensure that farmers plant exactly the varieties and use exactly the inputs they want. This model improves traceability and increases smallholders' productivity and reliability. The cost of inputs is usually recovered directly via the products, and is subtracted from payments to the farmer. In most cases, companies that upgrade smallholders' production factors also conduct information, training or consulting* sessions helping farmers understand how to use these factors efficiently.

Working to upgrade production factors may also help inclusive agribusiness companies selling to smallholders. Jain Irrigations Systems (JIS),** for example, sells micro-irrigation systems, but also provides inputs and buys products directly from smallholders. By covering the entire value chain, the company helps smallholders' incomes increase, thus enabling them to repay the loans for their irrigation systems and later purchase

more. The cost of the production factors is then incorporated into the product's end price. By buying in bulk, companies can also offer better prices than individual smallholders could secure on their own, facilitating access to high-quality production factors. In addition, they are in a better position to control the quality of inputs. Companies can also back up their product offerings with technical support such as veterinary, machine-repair or soil analysis services.

Companies can furthermore support smallholders in upgrading production factors by facilitating access to finance. Companies can provide partial guarantees based on smallholders' production capacities, making it easier for banks or microfinance institutions to extend credit. With many farmers in their portfolios, companies can hedge the risk associated with this activity comparatively easily. Alternatively, companies may adapt their payment schemes to smallholders' income and expenditure patterns. They can also work with insurance companies to offer insurance to a whole group of suppliers or customers. In some cases, companies even provide financial services directly.

**SEE CASE STUDY
ON PAGE 23

As a result, smallholders can gain access to other financial institutions and their services, and the overall market for agricultural inputs grows over time. Sourcing companies are no longer required to provide financial services directly to their smallholder suppliers, and new relationships between smallholders and sourcing companies are established.

SOURCES:

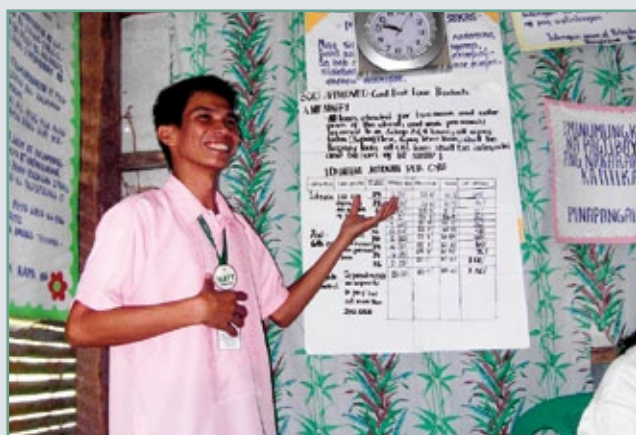
- www.agrofinanzas.com
- IFC (2012). *G20 Challenge on Inclusive Business Innovation*. Washington, D.C.

With the support of Agrofinanzas smallholders invest in their land and increase their yields.

Photo: Ana Saldana



Photos: Christine Ströhl de Martinez



A microfinance institute employee explains loan options to the local community.



A mobile bank visits customers in rural areas.



Bank staff visits rural clients – a new loan contract is signed.

Microfinance institutions provide financial services to low-income customers. As transactions are generally small, loans unsecured and formality limited, microfinance institutions and cooperative banks have developed a relationship-based and standardised approach to banking that has low transaction costs. For example, loans are secured through a group liability approach, in which all group members function as mutual guarantors, or based on a step-by-step model under which individual clients increase their loan amounts in increments over time.⁵⁰

Even though microfinance services are offered in rural as well as urban areas, providers have typically focused on serving non-agricultural clients. Agriculture is generally based on longer business cycles than are trade activities, and carries sector-specific risks related to natural and market-related changes that are largely unforeseeable. Hence, the general microfinance approach has often proved a poor fit for the needs of small-holder farmers.

Drawing on successful experiences in a variety of countries, agricultural microfinance is emerging as a model for providing targeted financial services to smallholders. This model combines the most relevant and promising features of traditional microfinance with traditional agricultural finance, establishing links to existing agricultural intermediaries and businesses.

Spotlight:

Financial solutions for smallholder farmers

Products

Savings: Smallholder financing needs to be linked to savings, as this enables producers to save for lean times and future investments.

Credit: Contractual arrangements should take smallholders' agriculture-related cash-flow patterns and investment needs into account. Repayment conditions need to consider smallholders' households as a single unit, and should not specify the loan's use. Character-based lending builds on a personal relationship between the financial institution and the client, but can be complemented by technical criteria for selecting borrowers, designing loan contracts and enforcing repayment.⁵¹

Agricultural insurance: Insurance helps to deal with the high risk related to specialised agricultural production in particular. The systematic interlinking of credit with insurance enables smallholders to move into higher-risk crops and cultivation methods, with a corresponding opportunity to achieve higher yields and incomes.⁵²

Micro-insurance contracts for agricultural customers often make use of index-based approaches. Rather than measuring the actual loss incurred, payout is triggered by a certain index benchmark. Indices can be based on area-wide yield, satellite images, weather data, or whatever mix is best suited to the risk at hand.⁵³ When designing such a programme, it is important to reduce the basis risk, or smallholders' risk of incurring a loss but not meeting the payout benchmark.⁵⁴ Further innovations in smallholder livestock insurance – which generally suffers from high transaction costs, animal identification problems and high rates of fraudulent claims – include technology-based identification methods (e.g., through radio frequency identification implants for cattle) and community-based models.⁵⁵

Financial service providers

Existing financial institutions and farmer organisations can be used to deliver financial services. Umbrella organisations often provide management support and help achieve efficiencies of scale. The services also receive backing from guarantee funds and capital from outside funds and investors, often stemming from the public sector.

However, many smallholders find that their main sources of credit are not banks or microfinance institutions, but rather agribusiness partners such as input suppliers, traders, processors or companies sourcing from smallholder farmers. Inputs and services can be advanced by a company before a harvest, with smallholders repaying the loans with their produce. This scheme is mostly applied within contract farming arrangements. Equipment leases can be applied to machinery, dairy cows, honeycombs, or irrigation systems. Smallholders pay a monthly fee until they have paid off and thus own the asset outright.⁵⁶

After the harvest, factoring allows farmers to sell their invoices to specialised firms that provide them with cash if they cannot wait for a processor or sourcing company's payment. As factoring may involve a fee of up to 20% of the invoice's value, companies can support smallholders by adjusting their payment rhythms to the farmers' income and expenditure needs. With warehouse financing, smallholders are provided with a loan when they can show a receipt for stored agricultural product as collateral. The loan and the warehouse storage fees are then deducted from the smallholder's revenues.⁵⁷

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Solution 3: Inform, train and consult to transfer knowledge

Smallholders' lack of knowledge and skills necessary for commercial agricultural production often results in low productivity and low product quality. Companies often need to build up partners' capacities by offering training, providing information and engaging in consulting services.

Meeting challenges

Providing information, training and consulting services directly addresses the lack of skills and information. Providing information lets companies raise awareness about their products and agricultural production techniques in general. They can provide information on market prices and other relevant data. For example, the information may be delivered in leaflets attached to seed sachets or other inputs, or provided during field demonstration days. Companies can also provide training and consulting on all aspects of agribusiness, including basic business and agricultural techniques and crop-specific modules.

The kind of knowledge imparted can also address the other three constraints. Smallholders can be given training on pest management, resilient crop varieties and crop combinations, thus increasing their ability to manage risks. Likewise, providing financial literacy and risk management skills also improves abilities to deal with insecurity. To respond to limited resources, smallholders can be taught how to use inputs efficiently, how to maintain machinery and irrigation systems properly, and how to best care for livestock. Post-harvest management techniques can avoid spoilage even when there are gaps in local infrastructure.

CASE STUDY 11

Partnership farming in India

Training smallholders to meet standards for sourcing bananas

Desai Fruits and Vegetables (DFV) is one of India's largest banana producers and exporters. It is majority-owned by the Swiss holding company Contract Farming India (CFI). When DFV decided to expand its banana export markets beyond the Middle East to Europe, the company found it challenging to meet EU quality requirements.

A specific smallholder education programme was introduced to enable CFI to source from Indian states such as Gujarat and Maharashtra. DFV worked with more than 1,000 smallholders with a collective production volume of more than 50,000 tons in the 2010–2011 financial year, with projec-

tions of twice as much for the next year. The company is planning to expand its business model into the five South Indian states.

The company's holistic Partnership Farming training and education programme seeks to enable smallholders to make self-sufficient decisions and become "agripreneurs". A first course teaches basic agricultural knowledge, including basic economics, resource management and planting practices. A second course focuses on agricultural practices that follow the GLOBALG.A.P. standard, with a focus on banana production, currently the main cash crop in both states. The last course offers farmers and their workers practical on-site training at the plantations, ensuring that workers

Promising approaches

Although training measures for smallholders are manifold and diverse, they can be broadly grouped as follows:

- General agronomic education teaches smallholders agricultural best practices and general farm management techniques.
- Product-specific training focuses on the cultivation and management of a particular crop or livestock. For instance, in their monthly farmer school sessions, Nestlé* teaches smallholders to understand the connection between cow nutrition and milk quality.
- Compliance training teaches smallholders to implement processes required to meet various standards and obtain certification. For example, cocoa producers in the Côte d’Ivoire were trained by Kraft Foods** to comply with the Rainforrest Alliance’s Sustainable Agriculture Standard.
- Business training provides smallholders with skills to manage their farm as a business, including accounting, stock management, cash flow management, and investment, planning and strategy techniques.
- Farmer-organisation capacity building educates smallholders on how to organise and manage cooperatives.

*SEE CASE STUDY ON PAGE 13

**SEE CASE STUDY ON PAGE 8/9

***SEE CASE STUDY ON PAGE 19

A variety of methods have been devised to impart knowledge to smallholders effectively. In general, the information is always more credible and relevant if it comes from a successful peer. Lead farmers, owners of nucleus farms and farmer-to-farmer training sessions therefore play an important role. Farmer field schools, farmer business schools, and women business clubs all rely heavily on the power of peer learning. Train-the-trainer approaches have proven effective in gaining scale and in creating local knowledge hubs. In general, it is important that women family members, sharecroppers and workers participate in training sessions as well as farm workers, as farmer owners often fail to transfer the knowledge gained to others involved.

Individual and group consulting and coaching can be implemented as a follow-up to training activities. This is often required when standards and certification processes are introduced. Sometimes this involves no more than quick advice during the sales process, sometimes a more in-depth process. In the METRO Group’s case,*** smallholders and their farms received individual assessments, with advice on how to improve post-harvest management and comply with hygiene and traceability standards.

too can improve their skills. At the end, certified participants are able to enter into contracts with DFV/CFI. The Partnership Farming training programme was developed in partnership with GIZ.

SOURCES:

- www.desaifv.com
- GIZ. Partnership Farming India – Basic Agricultural Education in Combination with Commodity-Specific Training for Farmers and Agricultural Workers. Bonn. 2012

A three-stage training programme enables smallholders to comply with quality requirements.

Photo: Simon Rawles



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Solution 4: Agree on and enforce rules

Clear rules are an important part of establishing common ground between the company and its smallholder business partners. These rules need to provide both sides with strong incentives to comply with commitments, especially in informal markets where contracts are not easily enforced.

Meeting challenges

In general terms, rules are a solution to the challenge of insecurity in informal markets, for both the company and the smallholder. Sourcing contracts can specify guaranteed market access with minimum purchase agreements when farmers meet standards. Companies selling durable products can provide guarantees along with (free) maintenance services. To ensure that inputs are not counterfeit, input providers can implement traceability, provide their own transportation and distribution systems, or certify existing providers.

Rules can also specify solutions to other common challenges. To address the lack of information, smallholders may be asked to document inputs and procedures, thus facilitating traceability. Companies may commit to provide training so that farmers can meet the specified production requirements. Often, companies advance payments or inputs as part of a contract, only to recapture the cost later from the delivered products, thus responding to insufficient resources on the smallholders' side. To deal with gaps in infrastructure, smallholders may agree to deliver products to particular collection points, with companies agreeing to pick them up at specified times.

CASE STUDY 12

COMPACI in sub-Saharan Africa

Enable and enforce compliance with sustainable cotton production standards

Many farmers in West Africa produce cotton in rotation with local staples. In western and southern Africa, cotton is cultivated exclusively by smallholder farmers. All in all, as many as 20 million people in sub-Saharan Africa live either directly or indirectly from cotton farming.

In an effort to satisfy the rising demand for this latter product, the Competitive African Cotton Initiative (COMPACI) was created to support the implementation of sustainable growing practices. Such methods include, among others, selective use of pesticides and better ap-

plication techniques, as well as sustaining soil fertility through the use of organic fertilizer. The project is guided by the ecological, economic and social sustainability criteria defined under the Cotton made in Africa (CmiA) standard. The label is owned by the non-profit Aid by Trade Foundation (AbTF). Textile traders are charged a licensing fee for using the label. The CmiA certification is used by 23 CmiA marketing partners, including large companies such as Mustang, Otto Group, Puma, C&A and Tschibo. In 2012, partners have sold more than six million CmiA articles of clothing in Germany using 8,000 tonnes of cotton under the licence fee agreement.

The public-private COMPACI partnership enables smallholders and their organisations to comply with the standard more easily. Smallholders receive intensive training in sustainable agronomic methods and are provided with microloans to finance means of

*SEE "SOLUTION 3"
ON PAGE 42/43

Promising approaches

Companies are typically unable to rely on formal enforcement systems when collaborating with smallholders. In order to overcome this constraint, and to establish a working relationship based on mutual trust and security, companies are well advised to design contracts with smallholders that are to a great degree self-enforcing. Agreements need to provide clear and significant incentives for compliance. Payment schedules, multi-year commitments and price agreements can all bind the farmer to the company, help to prevent side-selling to competitors, and enable investments in skills and infrastructure. Added exclusive benefits such as insurance or consulting services can further strengthen the relationship between company and smallholder. Loyalty to a company enables smallholders to improve their productivity and receive premiums for higher-quality and certified products. When selling to smallholders, companies can translate the logic of spot markets to schemes such as leasing arrangements that enable larger investments, possibly in collaboration with microcredit facilities. Payments can thus be made over a comparatively longer period of time, while the company retains a claim in the machinery or irrigation system as collateral.

**SEE SPOTLIGHT
ON NEXT PAGE

Setting rules must always be closely tied to information and training.* Companies cannot assume that smallholders will read a written contract or fully understand its consequences. Particularly in the case of extensive agreements involving standards and specific practices, companies must first build smallholders' capacities.

Companies can also make use of intermediaries to set and enforce rules. This may often be easier than interacting with thousands of farmers individually. Companies can establish contracts with cooperatives, traders or other aggregators, who are then responsible both for ensuring farm-level compliance and protecting farmers' rights.

Standards** and monitoring are essential tools in structuring the relationship between smallholders and sourcing companies. They provide concrete guidelines for product quality and production processes. In some cases, existing standards may be applied. In others, companies have to develop new standards, as Binca*** did when developing sources for safe and organic pangasius in Vietnam. In all cases, the implementation of standards needs to be combined with training that includes smallholders who as yet lack the required capacities.

***SEE CASE STUDY
ON PAGE 819

production and the purchase of draught animals, thus improving their livelihoods.

As of 2012, about 310,000 farmers have received training. The project also strengthens local cooperative structures and government cotton initiatives. Local cotton traders are contractually bound to guarantee compliance with the CmiA standards, and compliance is regularly verified by an independent third party.

SOURCES:

- www.compaci.org
- Interview with Roger Peltzer, DEG.

COMPACI strengthens the value chain with standards, trainings and microfinance.

Photo: Cotton Made in Africa



Increased globalisation in recent years, driven by factors such as the liberalisation of trade, foreign investment and the spread of advanced technologies, has led to a flurry of standard-setting in the agribusiness sector. This trend has resulted in a complex system of mandatory and voluntary standards and related certification procedures.⁵⁹

In many important world markets, companies will first need to comply with mandatory standards in order to operate. This may be due to legal regulations or simply because a significant proportion of buyers requires it. These standards are generally established by national or international public institutions such as the EU or local governments. They aim at ensuring product safety and quality (e.g., pesticide use, hygiene standards, traceability), but are also designed to reduce transaction costs by providing homogeneous and standardised requirements for all market participants. The GlobalG.A.P. standard, for example, was set up by major European supermarket chains and suppliers with the aim of defining farm management requirements. The majority of European retailers now require their suppliers to adhere to this standard.

At a secondary level, many international companies have adopted private, voluntary standards and certifications. They specify practices that carry certain social and environmental benefits in order to create a differentiated value proposition. Using such a standard enables a company to access high-value markets and gain a positive reputation for being socially responsible. This development has been driven by consumers' increasing demand and willingness to pay for sustainable products.* Independent third-party certifiers verify these private standards, ensuring that products conform to norms and requirements and allowing the supplier to label its product as certified.

*SEE "ON SOURCING FROM SMALLHOLDERS"
ON PAGE 18/19

TABLE 2

Selection of relevant standard and certification schemes

CLASSIFICATION
Basic quality and safety standards
Specific environmental and social standards

Spotlight:

Standards and certificates in the consumer market

STANDARD OR CERTIFICATION SCHEME

The Codex Alimentarius Guidelines: A collection of internationally recognised food standards, codes of practice, guidelines and other recommendations relating to food production and food safety, designed to ensure fair trade practices in the food trade. Its standards are de facto compulsory for producers and suppliers.

Global Good Agricultural Practices (Global G.A.P.): An extensively used standard governing farm management practices. It is now the world's most widely implemented farm certification scheme. Most European customers for agricultural products today demand evidence of GlobalG.A.P. certification as a prerequisite for doing business.

The International Organisation for Standardization (ISO): An international standard-setting body composed of representatives from various national standards organisations. The organisation promulgates worldwide proprietary, industrial and commercial standards including ISO 9000 (quality management), ISO 22000 (food safety), ISO 26000 (social responsibility) and ISO 14000 (environmental management).

International Trade Regulation by the World Trade Organisation (WTO): WTO trade regulations contain several agriculture-related rules, including: 1) the Sanitary and Phytosanitary Measures Agreement (SPS) agreement on food safety, animal and plant health standards, and 2) the Technical Barriers to Trade Agreement (TBT), which tries to ensure that regulations, standards, testing and certification procedures do not create unnecessary obstacles.

UTZ Certified: A worldwide standards programme focusing on responsible farming and sourcing of coffee, cocoa, tea and rooibos.

Fair Labour Association (FLA): An association dedicated to protecting workers' rights. Companies that join commit to following the 10 Principles of Fair Labour and Responsible Sourcing, and agree to uphold the FLA Workplace Code of Conduct throughout their entire supply chains.

Fairtrade International (FLO): An umbrella group for the fair trade movement, a market-based approach that aims to promote sustainability and help producers in developing countries secure better trading conditions. Using its FAIRTRADE Certification Mark, the movement supports paying higher prices to exporters, and pushes for adherence to social and environmental standards.

Forest Stewardship Council (FSC): A standard and certification programme rewarding sustainable forest management.

The International Federation of Organic Agriculture Movements (IFOAM): The worldwide umbrella organisation for the organic movement, uniting more than 750 member organisations in 116 countries. IFOAM has formulated the IFOAM Basic Standards (IBS), on the basis of which public and private standard-setting bodies can develop more specific organic standards.

Marine Steward Council (MSC): A fishery certification programme and seafood ecolabel recognising and rewarding sustainable fishing.

Rainforest Alliance Certified: Rainforest Alliance is an international NGO certifying farms that follow certain social, economic and environmental criteria for sustainability.

SA (Social Accountability) 8000: An international standard designed to promote workers' rights and enable employers to sustainably implement a systems-based approach to providing decent work and working conditions.

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Solution 5: Strengthen links within the value chain

Forging new and stronger connections between the various elements of a value chain will help inclusive agribusiness processes become more reliable and efficient. Companies can strengthen these links either by building new facilities or by upgrading existing local systems and enterprises. This may involve upgrading local shops, constructing new collection points, or implementing self-run logistics and distribution systems. Strengthening these links helps bring the company and its smallholder business partners closer together.

Meeting challenges

Creating better links in the value chain can directly address infrastructural challenges in the rural market. For example, roads and logistics systems can be improved, and shops, collection points, storage facilities and warehouses can be upgraded. Improved linkages save resources that would otherwise be expended in travel. In combination with proper storage and processing facilities, they can help prevent post-harvest losses, thus increasing security. Information can also be distributed more easily through strong value-chain linkages, and skills training is often combined with collection or distribution processes.

CASE STUDY 13

Farm Shop in Kenya

An innovative franchise model for agro-dealers

Agro-dealers in Kenya's rural areas play a critical role in enhancing smallholder access to basic farming inputs such as seeds, fertilisers and credit. They also facilitate access to markets, helping smallholders sell their products. However, agro-dealers suffer from the same challenges as smallholders: they often find it difficult to access information, get product deliveries and pay for stock in advance.

Farm Shop was founded with the aim of establishing a comprehensive and innovative micro-franchise system for agro-dealers. The system is set up to be profitable for the franchisees, while creating incentives for input sales, increasing

local smallholder productivity and improving smallholders' market linkages. Although it is a non-profit Kenyan trust, Farm Shop ultimately aims to be commercially viable. The target is to reach 500 franchisees – 5% of Kenya's agro-dealers – by 2015.

The Farm Shop Franchise Package provides agro-dealers with business operations systems, management capacity training, access to product and financial services suppliers, management information systems, and dedicated marketing support. Input suppliers and distributors in turn benefit from larger and regular order sizes, because Farm Shop bundles its franchisees' purchases. This enables agro-dealers to improve revenues and increase

Promising approaches

Companies often build or upgrade shops in order to sell their products locally. Micro-franchise systems have been established for this purpose with local agro-dealers or for veterinary services. Sidai Livestock Services in Kenya works through a network of 150 branded and franchised Livestock Service Centres.⁶⁰ Training and employing people from the local community as input vendors has proven to be a particularly good way for companies to secure smallholders' trust and loyalty. In this way, vendors also gain an additional income source.

Companies sourcing from smallholders often need to install or upgrade facilities for the collection, transport, cooling and processing of agricultural products. Two main approaches are used to accomplish these ends: In one, companies bring the processing facilities to the farmer; in the other, they arrange to bring the farmers to the processing facilities. In the first, companies

use mobile trucks or small storage, processing and sales facilities, enabling them to move closer to the smallholders land. In the second option, companies provide incentives for smallholders close to existing processing capacities or near large nucleus farms to grow certain crops. In either case, companies are able to establish closer contacts with smallholders, which in turn allows them to provide further training and support and stay up to date with their partners' other needs. Separately, companies can also upgrade roads, bridges and logistics systems to speed up and ease transport.

The five solutions are closely interrelated, as the links between promising approaches have shown. Thinking through the business model as an integrated system helps to discover synergies. Still, implementing these solutions may seem daunting to agri-business companies, especially if they have little or no experience dealing with smallholders. Cooperating with business partners at different levels can reduce effort for the company and leverage the capacities of others, as the next chapter will show.

their incomes. Smallholders gain access to a broad range of high-quality agriculture products and services, and can sell their products to the agro-dealers. Thus, Farm Shops facilitates efficiencies of scale both for those companies selling to and those that source from smallholders, while strengthening value chain linkages from input provision to sourcing.

SOURCES:

- www.farmshop.co.ke
- Interview with Madison Ayer, Farm Shop, www.ashoka.org/fellow/madison-ayer

A new Farm Shop opens to supply production factors to local farmers and explain their handling.

Photo: Farm Shop Kenya



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Nurture!

Three levels of collaboration

A worker cares for young coffee plants in the nursery.
Inclusive agribusinesses need to be nurtured
with collaboration at different levels.



Like fertiliser, collaborating with other actors nurtures solutions and helps inclusive agribusinesses to grow. Three levels of collaboration – with smallholders themselves, with partner organisations and on the level of the business environment – are all critical. Collaboration at each level can be employed to implement each of the five solutions.

CASE STUDY 14

Olam in Cameroon

The joy of collaboration

Olam CAM SARL is an agribusiness company that has operated in Cameroon since 1995, producing and processing several commodities. For the last seven years, it has been Cameroon's leading coffee exporter, accounting for about 50% of the market.

Historically, coffee was one of Cameroon's main cash crops. However, low prices and liberalisation of the sector in the late 1980s and early 1990s led to a drastic drop in production. The country currently produces only 34,000 mt per year. The Cameroonian Arabica sector is under threat, as exporting becomes unprofitable below a certain volume of production. Against this backdrop, Olam embarked on a project to improve yields so as to increase the volume of beans available for export. In implementing solutions, it worked with partners at all three levels of cooperation.

Olam established farmer cooperatives designed to organise smallholders in a more structured manner. By March 2012, 30 major farmer groups in various villages had been established, with an average of 100 members per group.

Olam initiated a formal partnership with Douwe Egberts Foundation and the Cameroon Coffee and Cocoa Board to support the project financially and technically. In addition, Olam has brought in banks and other credit institutions to leverage Olam's experience of credit profiling in these areas. It also partnered with the local radio to promote the cultivation of Arabica coffee.

With support from the Cameroon Coffee and Cocoa Board, Olam encouraged the government to refocus its attention on the sector.



Photos: OLAM



Members of a farmer cooperative inspecting the quality of coffee plants.



Partnerships along the value chain increased yields significantly.

The project has already led to significant improvements in yields, with a rise from an average of 267 kg/ha during the baseline study to 450 kg/ha by the third year of operation. The best of the farmer groups sold 14 mt of coffee directly to OLAM, and received in turn payments 20% above the market price. Moreover, the fully traceable coffee can be certified thanks to proper organisational structures and increased volumes.

SOURCES:

- Olam. *Creating Value in the Cameroon Arabica Coffee Business Chain*.
- www.olamonline.com
- www.defoundation.org

Three levels of cooperation

The solutions presented in the previous chapter can address the widespread structural challenges in smallholder markets. However, taking on all these different tasks may seem like a daunting and complex task for companies. Collaboration can leverage the unique capabilities, resources and networks of partners and thus make the implementation of inclusive agribusiness models more efficient and effective.

Three levels of collaboration are critical:

- Cooperating with smallholders is the foundation of any inclusive agribusiness.
- Partner organisations with different capabilities can be called upon to complement the company's own strengths.
- The broader business environment can be improved through collective action and policy dialogue with governments.

Collaboration at each level can be employed to implement each of the five solutions, as the table on the next page shows. At each level, different structures are required to organize collaboration.

- Smallholders need to be aggregated to make business relationships with hundreds or hundreds of thousands of small and often remote farmers viable.
- The relationship with other organisations can range from purely transactional to very close partnerships, for example, in the form of joint ventures.
- Special platforms exist in the domain of agribusiness to facilitate collective action and policy dialogue for a better enabling environment.

Companies combine these structures to work efficiently on the different levels and nurture their inclusive agribusinesses.

TABLE 3
Cooperation levels and example solutions

		SOLUTIONS				
		Conduct research and develop innovations	Upgrade farmer production factors	Inform, train and consult to transfer knowledge	Agree on and enforce rules	Strengthen links within the value chain
LEVELS OF COOPERATION	Smallholders	Co-create products and processes using participatory methods.	Support smallholder organisations in making joint investments.	Provide knowledge via lead farmers, nucleus farms or smallholder organisations.	Create processes within smallholder organisations to lead dialogue and establish rules.	Strengthen smallholder organisations, lead farmers and nucleus farms as links in the value chain.
	Partner organisations	Conduct market research with market research firms or NGOs. Design products with academic institutions or service providers.	Collaborate with microfinance institutions and micro-insurance providers.	Provide training via NGOs or government extension services.	Build on standard-setting body and certification agency processes. Implement rules together with NGOs and local service providers.	Use local partners as links in value chain.
	Business environment	Codevelop innovations with other companies. Ask government to provide incentives and facilitate innovation.	Work with government to develop smart subsidies for smallholders.	Leverage extension services. Implement farmer training through collective action.	Agree on and enforce common standards.	Agree on public-private investment plans with governments. Invest jointly with partners in new infrastructure.

Level 1: Smallholders

Smallholders are by definition at the centre of any inclusive agribusiness. However, the relationship between company and smallholder is rarely on a one-to-one basis. In order to achieve volumes that make sense commercially, companies need to work with thousands of smallholders, who are often widely dispersed across rural areas. Companies can interact with them effectively and efficiently only through structured relationships and some form of aggregation. These structures enable companies to implement solutions jointly with smallholders.

Ownership of land and production

This guide focuses on the collaboration of companies with independent smallholders who carry out production on their own land. As shown in Chapter 1, this kind of collaboration presents companies with promising opportunities. However, it should be noted that this particular combination of land and production ownership is but one approach used in developing country agribusiness. The matrix below shows the approaches that arise from the three other combinations of land and production ownership. There can be many mixed forms, and the structuring models introduced here for the company-smallholder relationship can be relevant to all.

Structuring the company-smallholder relationship

To organise collaboration with smallholders, companies make use both of horizontal and vertical structures. Vertically, company-smallholder relationship models structure a company's relationship with its smallholder partners. Horizontally, smallholder aggregation models organise cooperation between farmers themselves. The two dimensions are usually combined.

Which combination proves most effective depends on the intended business and the local context. Political, legal, economic and social factors all need to be taken into account. In a post-communist country, for example, cooperatives may be associated with forced collectivisation and may therefore meet with some resistance. The type of agricultural product and the characteristics of the value chain also make a difference. A highly perishable good will demand close links between the company and the smallholders, for example. All models have advantages and disadvantages, and need to be adapted to each specific business undertaking.⁶¹

FIGURE 12

Typology of company approaches with smallholders by landholding and agricultural production

		LAND HELD BY	
		SMALLHOLDERS	COMPANY
PRODUCTION LED BY	SMALLHOLDERS	Smallholders cooperate with company through contract farming , deep procurement or a smallholder linking firm (retailer networks relevant for all quadrants).	Company includes smallholders through tenant farming (based on fixed rental fee) or through sharecropping (land owner and smallholders divide the crop using a predetermined percentage).
	COMPANY	Smallholders allow company to operate their land under management contracts (lease or tenancy) or through a joint venture (each party contributes resources and participates in profits/ losses).	Company employs smallholders through labour arrangements .

SOURCE: Sonja Vermeulen and Lorenzo Cotula (2010). "Making the most of agricultural investment: A survey of business models that provide opportunities for smallholders". Washington, D.C. and London: FAO and IIED.

Smallholder relationship models

Smallholder relationship models structure collaboration with the smallholder, or more usually with an aggregate of smallholders. The various types of relationship models can themselves be structured by degree of intermediation. The model with the highest degree of intermediation is the open market model, in which a broker purchases directly from the farm gate and sells to another middleman, with the product potentially going through several other traders' hands before reaching the company. At the other end of the spectrum, no intermediation is necessary when the company itself owns the land and production facilities, and simply employs workers. Companies can work with specific intermediaries such as retailer networks or smallholder linking firms, who coordinate transactions between the two parties. When this last intermediary is cut out, companies work directly with smallholders via deep procurement, where purchasing agreements are negotiated before the season, or through contract farming, where smallholders are contracted to grow certain crops. The degree of control companies can exert over smallholder production increases as intermediation decreases. For example, in purchase agreements, buyers may specify quality standards but not the farming method. However, conditions governing farming methods are possible in contract farming.

For inclusive agribusiness, neither the open market nor the fully integrated model is of specific interest. Hence, the four remaining models – retailer networks, smallholder linking firms, deep procurement and contract farming – are summarised in the table.* Some models such as retailer networks are more suitable to companies that sell inputs, while others such as contract farming are better fits for sourcing companies. However, companies selling inputs may also decide to add contract farming to their business model in order to increase smallholders' abilities to buy their products. Similarly, companies sourcing from smallholders may use their relationship model to provide inputs and other services. Thus, all four models are relevant for selling and sourcing companies.

*SEE NEXT PAGE

FIGURE 13

Structuring relationships with smallholders

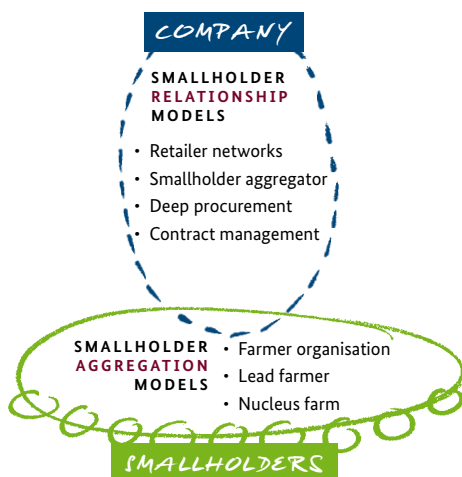
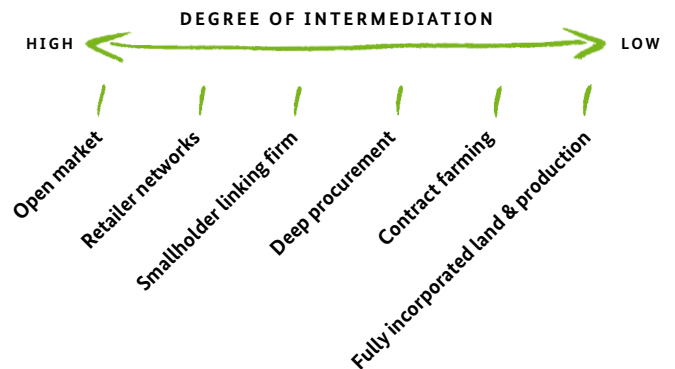


FIGURE 14

Typology of models at decreasing levels of intermediation



SOURCE: adapted from Monitor Group (2011), Market-Based Solutions to Poverty in Africa Project. In-Depth Business Model Analysis #1: Smallholder Farmer Aggregation Models'. Monitor Group.

TABLE 4

Smallholder relationship models

RETAILER NETWORKS	SMALLHOLDER LINKING FIRMS
IDEA	
<ul style="list-style-type: none"> • Sales of agricultural inputs through existing informal shops. • Shops are improved and become part of a network (e.g., franchising). • Variation “Buy & Sell”: upgraded shops also buy and sell the smallholders’ products. 	<ul style="list-style-type: none"> • Linking firms such as cotton traders collect agricultural products from smallholders and sell them to large end-buyers. • Variation “Buy and Provide”: Companies selling inputs can use aggregators as a distribution channel to smallholders.
WHEN TO CHOOSE IT	
<ul style="list-style-type: none"> • Company lacks access to a retail network or trusted agents that can reach smallholders directly. • Existing agro-dealers do not provide information on how to use inputs. • Informal agro-dealers exist and are willing to participate. 	<ul style="list-style-type: none"> • Large numbers of smallholders need to be reached. • Company does not have its own product-collection infrastructure, and does not want to build one. • Local linking firms exist and are willing to cooperate.
HOW IT WORKS	
<p>Company uses the following steps to build a network of shops:</p> <ul style="list-style-type: none"> • Selects shops based on past performance (sales and customer satisfaction) and existence of well-developed customer base. • Invests in shopkeeper training (business and specialist knowledge on agricultural inputs). • Sets standards and provides branding and certificates of product authenticity in order to increase customer trust. • Builds a sales support structure for the shop in order to better reach smallholders (e.g., providing training on inputs). • Stimulates demand for products by adapting existing products to local conditions (e.g., creating small packs of pesticide), providing sales and marketing support, and improving product availability. 	<p>Company contracts with linking firm that can:</p> <ul style="list-style-type: none"> • Provide forward commitments, premium pricing. • Offer volume purchase agreements to smallholders, in order to ensure reliable business relationship. • Provide value-added services (e.g., sorting, drying, storage, transport services, on-delivery cash payment) and inputs to ensure stable supply. • Apply some of the following measures to lower costs while collecting products from a large area: <ul style="list-style-type: none"> – Upgrade or create farmer associations or clusters. – Use lead farmers to distribute seeds and collect produce. – Create joint-liability rules for farmer groups, in which group members share responsibility for individually delivered products.
BENEFITS	
<ul style="list-style-type: none"> • Company can leverage customer base and coverage of existing informal or unorganised shops. • Company can build on existing shopkeepers’ knowledge about customers, trusted reputation and access to credit. • Shops get competitive advantage and business support. • Smallholders gain access to original and high-quality inputs as well as support services (e.g., advice on use of inputs). 	<ul style="list-style-type: none"> • Company saves cost of setting up own sourcing / distribution channels. • Profitable especially when alternative is importing goods from abroad.
CHALLENGES	
<ul style="list-style-type: none"> • Company and shop have conflicting interests with respect to exclusivity of inputs on offer; partnering with manufacturers of complementary inputs offers potential solution. 	<ul style="list-style-type: none"> • Company is dependent on aggregator’s reliability; traceability and quality management will often be issues.

SEE CASE STUDY FARM SHOP ON PAGES 48/49

SEE CASE STUDY DSV ON PAGES 42/43

SEE CASE STUDIES ON PAGES
819, 13 & 19

SEE CASE STUDIES ON PAGES
23 & 31

DEEP PROCUREMENT

CONTRACT FARMING

IDEA

- Company purchases directly from many smallholders, bypassing traditional middlemen.
- Establishes market linkages between major buyers and smallholders; allows direct transmission of information on pricing, required quality, volumes, etc.

- Company sources from smallholders based on a buy-back arrangement with fixed prices.
- Smallholders grow and deliver specific quantity of products at specific quality at agreed date.
- Company often provides inputs upfront.

WHEN TO CHOOSE IT

- No effective intermediaries exist.
- Company is dealing with delicate products that need constant quality control (e.g., fresh products).

- Company wishes to source a specific product that is not yet being produced (e.g., gherkins in India) or has specific quality requirements (e.g., organic products).

HOW IT WORKS

Company deals directly with smallholders. Relationship has the following typical features:

- Procurement takes place on spot-market basis, without guaranteed prices or quantities (smallholder delivers what she has produced).
- Collection of agricultural products often takes place at company-owned collection centres, where smallholders can deliver their products before grading and shipping.
- Collection centre managers are often chosen in consultation with the participating communities (trust is crucial).
- Quality control is usually performed at the collection facilities, pushing smallholders to improve quality. Quality assurance, grading and sorting move closer to the source.
- Training of smallholders and instruction on market requirements is performed by company's own instructors or is outsourced to extension services.

Company concludes sourcing agreement with smallholders, typically committing itself to:

- Purchase future agricultural products at an agreed price or at the prevailing market price, with terms such as delivery dates, volumes and quality previously specified.
- Provide inputs (e.g., seeds, fertiliser, animals) to each contracted smallholder, usually on credit. Cost is typically deducted from harvest payments.
- Monitor and provide technical assistance. Especially important when smallholders begin producing unfamiliar crop.
- Organise direct collection, usually at the farm-gate or village level.
- Provide processing services if required.
- Pay smallholders in instalments if required, in order to ensure continuous cash flow.

BENEFITS

- Company can guarantee proper quality management, especially of fresh goods (e.g., storage and cooling).
- Easy to scale, as company can autonomously decide on replication in other locations.
- Smallholders can increase their incomes due to lower transaction costs (collection centres).

- Company can source safely and regularly and at required levels.
- Smallholders gain access to inputs and management skills.

CHALLENGES

- Local middlemen may try to boycott the scheme.

- Fixed price arrangements mean the company assumes complete market-price risk.
- Side-selling is a danger when market prices rise; risk mitigation strategies include a) choosing varieties without local spot markets, or b) establishing pre-arranged price margins for when market prices change.

SOURCES: Based on case study analysis, interviews and:

Michael Kubzansky, Anselie Cooper and Victoria Barbary (2011). *Promise and Progress: Market-Based Solutions to Poverty in Africa*. Monitor Group.
 Ashish Karamchandani, Michael Kubzansky and Paul Frandano (2009). *Emerging Markets, Emerging Models. Market-based Solutions to the Challenges of Global Poverty*. Monitor Group.
 Charles Eaton and Andrew W. Shepherd (2001). *Contract Farming. Partnerships for Growth*. Washington, D.C.; FAO Agricultural Services Bulletin.
 Sonja Vermeulen and Lorenzo Cotula (2010). *Making the Most of Agricultural Investment: A Survey of Business Models that Provide Opportunities for Smallholders*. Washington, D.C. and London: FAO and IIED.

Smallholder aggregation models

Smallholder aggregation models allow farmers to organise among themselves through farmer organisations, lead farmers or nucleus farms, each of which can be combined with all four smallholder relationship models. Companies can benefit from aggregation models by working with multiple smallholders at once, thereby decreasing transaction costs.

Farmer organisations are member-based associations of smallholders that pool their resources to achieve common objectives. They come in a variety of forms, from farmer co-operatives to trade associations to farmer-owned sourcing and trading companies. Generally, they are commercial organisations that provide business-oriented services to their members and need to be financially sustainable in the long run. Although they might initially have been facilitated by external actors, farmer organisations are owned and controlled by the smallholders themselves.

Farmer organisations primarily serve to procure and sell collectively, thus securing greater negotiation power. Occasionally, they also purchase machinery that is then used jointly, or they produce, store and process products jointly.⁶² Farmer organisations often secure access to finance for their members, either through the creation of their own savings and credit schemes or by establishing partnerships with microfinance institutions. Finally, they also represent smallholders collectively with government on all levels and lobby for improvements in regulatory conditions and other beneficial policies.

Companies can support the development and professionalisation of farmer organisations, often by tapping into existing social structures and working with local producer groups, microfinance institutions or self-help groups. Strengthening management and accountability within farmer organisations facilitates interaction with their members. Companies can also employ information technology to better organise collaboration with farmer organisations, as has been done with Ghana’s virtual cooperatives.⁶³

The concept of **lead farmers** builds on the leadership of outstanding and innovative farmers in a certain locality. Lead farmers act as a point of aggregation for surrounding smallholders, and often conduct training sessions or help raise awareness of company offers. As successful and reputable farmers, they enjoy the trust and respect of their peers; information provided by these individuals is thus adopted much more readily than if it came from a neutral source.

Nucleus farms are generally well-developed commercial farms with processing capacities and strong links to the market. Under contract farming models in particular, nucleus farms are used or even created to organise a company’s collaboration with smallholders. The farm introduces the required production technology and trains surrounding and participating smallholders. It manages the scheme, provides material inputs and services such as breeding, collection and processing, and serves as a collection point for products.⁶⁴

CASE STUDY 15

Cafédirect in the UK

Towards market leadership with smallholder power

Cafédirect was founded in 1991 in response to rapidly falling coffee prices by Oxfam, Traidcraft, Equal Exchange and Twin Trading. Cafédirect grew out of a concern for coffee, tea and cocoa smallholder farmers and their communities. Focused on delivering tangible positive impact to these communities, Cafédirect is owned in part by producer groups and has producer representatives on its board of directors to ensure smallholders’ interests are reflected in business decisions.

Cafédirect works exclusively with smallholder organisations and cooperatives. When founded on principles of voluntary membership and democratic control, cooperatives are effective mechanisms of community development. Cafédirect works directly with 38 grower organisations in 13 countries across Latin America, Asia and Africa, representing more than 280,000 farmers.

Purchasing agreements are based on Fairtrade principles. The company pays a minimum price to secure sustainable livelihoods. When world market prices rise above these minimum prices, the company pays the market price. In addition, both quality differentials and quantity-based “social premiums” are paid. Establishing long-term relationships with producer

Implementing solutions with smallholders

Smallholders and their organisations can directly support the implementation of all five solutions. As they seek to **innovate and adapt agricultural technology**, companies can co-create products and processes with smallholders. Participatory methods include an information-gathering process, but also involve deeper interactions with the target group to identify solutions jointly. Employees of the Dripteck irrigation company, for example, worked with farmers in Ethiopia for several months and developed an affordable, easy-to-use drip irrigation system that improved on existing in-use components that consisted of an elevated water container and a perforated hose.

Smallholder organisations such as cooperatives or self-help groups usually support their members in efforts to **upgrade factors of production**. For example, cooperatives often make joint investments in storage facilities, machinery or irrigation systems. Smallholder organisations also operate their own savings and credit associations, or provide loans that can be repaid with harvested crops. Companies can collaborate with them to share costs and help operate services more efficiently.

Smallholders and their organisations may also play a key role in knowledge transfers through **training and consulting**. Again, allowing smallholders to learn from their peers is often most effective here. Lead farmers and the owners of nucleus farms are natural trainers who inform and consult with other smallholders regularly. Smallholder organisations can attract participants, provide locations and implement training sessions. Train-the-trainer courses are necessary in order to maximise collaboration efficiency.

Companies can also work with smallholder organisations, which already have the capacity to convene members and facilitate dialogue, in reaching shared commitments. Smallholder organisations typically have a governance structure already in place that is used to **set and enforce** rules. Established structures and processes can thus be used to implement new rules. Unsurprisingly, the existence of smallholder organisations is a prerequisite for many standards such as fair trade.

Finally, smallholder organisations can themselves act as **links** in the value chain by purchasing and selling inputs or collecting farmers' products, especially within local markets. More sophisticated organisations may also connect to national or international markets. Lead farmers and nucleus farms can function as hubs for the provision of inputs, the collection of agricultural products and the provision of services, as they are in close geographic proximity to smallholders.

Overall, the success of an inclusive agribusiness will rely to a great extent on the performance of the smallholder relationship and aggregation models chosen. Minor adjustments in the design of incentives can yield considerable loyalty and performance. Here again, seeking to understand the realities and constraints faced by smallholder partners is critical.

organisations, the company provides smallholders with a secure sales market. A unique feature of the business model is Cafédirect's commitment to re-invest at least one-third of its profits – beyond Fairtrade requirements – into grower communities. Cafédirect has also helped create the Cafédirect Producers' Foundation. Since 2009, this registered charity implements community projects that strengthen smallholders' access to training, education and information services. The foundation is led by growers for growers.

By 2011, Cafédirect had become the UK's largest fair trade coffee company and the ninth largest hot beverage company in the UK with a turnover of €20m in 2011.

In Uganda a member of Cafédirect partner cooperative Kayonza Growers Tea Factory Ltd. waters his plants.

SOURCES:

- www.cafedirect.co.uk
- Iain A. Davies, Bob Doherty and Simon Knox (2010). *The Rise and Stall of a Fair Trade Pioneer: The Cafédirect Story*. *Journal of Business Ethics* 92:127–147.



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Level 2: Partner organisations

Companies may partner with other organisations in order to complement their own capabilities. These project-based alliances can be useful for several reasons:

- Companies tend to focus on what they are good at, while leveraging others' expertise where they cannot compete. Working with smallholders requires competencies many agribusiness companies do not possess, such as providing extension or financial services.
- Challenges in the business environment make it more costly and risky for companies to work with smallholders than is typical of business in higher-income sectors. Working with partners can reduce transaction costs and risks. Partners can also share costs.
- Some tasks are simply impractically large for a single company to take on. This may include the construction of local infrastructure or building distribution channels from scratch, for example. Partnering with other organisations enables companies to share costs.

Types of partners

Though the relationship between the company and the smallholder represents the core of the business venture, a variety of other organisations can be involved in order to make it viable. While many types of businesses work with other companies, those implementing inclusive agribusiness models often work with non-traditional partners as well, including governments, NGOs, donors, academic institutions and the media. All these actors may fulfil different roles in the business environment, and can bring different capacities to the table to support inclusive agribusiness. The table on the next page provides a summary of the typical functions served by various types of actors. How well suited an organisation is for a partnership obviously depends on its specific capacities and the characteristics of the business venture. This must be assessed in each individual case. Intermediaries can help identify partners with complementary capacities, and can facilitate the development of a partnership.

CASE STUDY 16

Bayer CropScience in India

Partners across the value chain

Bayer CropScience is one of the world's leading innovative crop science companies, with sales of EUR 7.25 billion in 2011. It provides integrated crop solutions in line with sustainable agricultural principles. These customer-centric solutions include high-value seeds and innovative crop protection products. More than 40% of the company's sales already come from Asia, Latin America, Africa and the Middle East. Building the smallholder market was thus a clear growth opportunity.

In 2006, Bayer CropScience launched its "Food Chain Partnerships" programme. Initiatives in the programme bring together all the actors in the food chain – farmers, food producers and processors, wholesalers, retailers, importers, and exporters – in order to facilitate sustainable solutions "from seed to shelf". Partners on the production side help smallholders improve their agricultural yields and raise the quality of their harvest. Partners on the sourcing side boost marketing opportunities. Today, five years after launch, Bayer CropScience supports some 240 partnerships involving more than 40 different crops in more than 30 countries.



Photos: Bayer CropScience

The Gherkin Food Chain Partnership has helped farmers increase their yield.

One example is the Indian Gherkin Food Chain Partnership, in which Bayer CropScience collaborates with the Reitzel Group, a Swiss condiment specialist that sells gherkins, sauces and other gourmet products. In this initiative, Bayer CropScience provides the gherkin variety. Field agronomists from Bayer India and Reitzel train participating smallholders to handle plant protection products safely and to use modern application technologies, and provide support throughout the growing season. Smallholders increase their net profits by improving production quantities and qualities. Reitzel can ensure a continuous supply of fresh gherkins to its factories and Bayer CropScience builds a market for both its seeds and crop protection products.

SOURCE: www.bayergroupindia.com/cropscience.html

TABLE 5

Overview of potential partners

* SEE SPOTLIGHT "FINANCIAL SOLUTIONS FOR SMALLHOLDER FARMERS" ON PAGES 40/41

TYPE OF ACTOR	ROLE	EXAMPLE
COMMERCIAL ACTORS		
Companies	<ul style="list-style-type: none"> Category includes buyers of agricultural products, processors, vendors, input producers and investors. Even competitors can become partners for specific tasks where there is a shared interest (co-opetition). 	In Côte d'Ivoire, Nestlé partnered with Olam, a leading global integrated supply chain manager, to organise the training of a large number of farmers in pre- and post-harvest techniques.
Financial service providers	<ul style="list-style-type: none"> Category includes commercial banks working with smallholder farmers, micro-finance institutions, cooperative banks and insurance companies. Help smallholders secure access to financial services. 	Agrofinanzas in Mexico provides smallholders with capital to finance inputs, working in collaboration with sourcing firms. <i>PAGE 38/39</i>
Information and communication technology (ICT) providers	<ul style="list-style-type: none"> Provide access to information on market prices, weather forecasts, agricultural practices and new products, etc. Facilitate connections between smallholders and others in the value chain, such as processors, transport services and buyers. 	Safaricom works with Syngenta foundation and UAP to provide micro-insurance via its M-PESA mobile-phone-based payments service in Kenya. <i>PAGE 33</i>
Consulting companies	<ul style="list-style-type: none"> Category includes specialised consulting companies as well as traditional strategy consulting companies, on the local and international level. Offer services such as supply chain development, market assessments, local procurement strategies, training for supply chain partners, etc. 	SAB Miller, one of the world's leading breweries, commissioned Price Waterhouse Cooper (PWC) to review their smallholder sourcing programmes in South Africa, India, Uganda, Zambia and Tanzania in order to find the right partnership model in each country. ⁶⁷
Media	<ul style="list-style-type: none"> Category includes radio stations, TV channels and newspapers. Help generate awareness for particular issues such as changes in agricultural practices. Important channel through which to inform smallholders about products, markets, production techniques, etc. 	In Burkina Faso, smallholders were withholding their cashew nuts in the (false) hope of winning higher prices. Cashew processors could not purchase the necessary stocks at market price. They initiated a three-day radio broadcast to inform smallholders about international price levels and sensitised them to the risk they faced by further withholding their nuts.
NON-COMMERCIAL ACTORS		
Public sector	<ul style="list-style-type: none"> Category includes governments on the municipal, regional and national levels, administrative bodies, public services. Performs many different functions in a country, from the local to the national level. May facilitate inclusive business by making infrastructure investments (ports, roads) or by offering special incentives such as tax breaks or low-interest loans. Sometimes acts as anchor buyer of agricultural products, ensuring a critical minimum level of demand for companies. Public agricultural extension services still operate in many countries (although with decreasing frequency); these provide smallholders with knowledge and information on agricultural practices, marketing, etc. 	Ecuador's PRONERI programme for rural inclusive business works with inclusive agribusiness companies to improve market access, secure access to financial services and facilitate technology transfer, among other goals. ⁶⁸
Donors and development agencies	<ul style="list-style-type: none"> Category includes traditional donors such as international organisations (e.g., United Nations, World Bank), bilateral donors, development agencies (e.g., USAID, BMZ, GIZ) and a growing number of private foundations (e.g., Bill and Melinda Gates Foundation, Rockefeller Foundation). Provide funding to match company investments. Invest with the goal of improving the business environment (e.g., by strengthening farmer organisations or building smallholders' capacities). Assist companies in collaborating with the public sector and in entering policy dialogues. Are perceived by companies and governments as "honest brokers"; are thus well placed to make introductions and instigate cooperation. 	A development partnership between Contract Farming India AG and GIZ gives smallholders access to practical agricultural education and sustainable agricultural concepts. <i>SEE CASE STUDY ON PAGE 42/43</i>
Non-governmental organisations	<ul style="list-style-type: none"> Category includes development and environmental NGOs. Often possess critical information, useful local contacts and experience, and legitimacy in the eyes of smallholders. Help build smallholders' skills and knowledge; support farmers in building aggregation structures, quality assurance and management processes, etc. May function as intermediaries between companies and smallholders, helping to bridge communication gaps and balance various interests. Positive reputation may help to overcome smallholders' reservations towards working with multi-national companies. 	In Kenya and Uganda, a partnership between Coca Cola and Technoserve – an NGO that has been working with farmers' organisations for 40 years – enables smallholders to participate in Coca Cola's raw materials supply chain. <i>SEE CASE STUDY ON PAGE 70/71</i>
Academic institutions	<ul style="list-style-type: none"> Category includes universities and research institutes. Conduct research aimed at improving agricultural production technologies and techniques. Support market research and impact assessments. 	In Pakistan, a partnership between Nestlé, local universities and the Swiss College of Agriculture conducted research and developed a method whereby smallholders can recycle cow manure into fertiliser. <i>SEE CASE STUDY ON PAGE 13</i>

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Structuring collaboration with partner organisations

Cooperation with partners can be structured in many different ways. Where services are available on the market and can be implemented by various partners, companies may opt for a simple transactional relationship, in which the company simply pays an NGO or private contractor for a service. When working with partners from the public sector, the partnership is usually formalised via a memorandum of understanding. Where companies depend critically on the capabilities of a specific organisation, or when two organisations can realise their objectives better through joint investment, creating a joint venture may be the best solution.⁶⁵

Formal partnerships that go beyond the purely transactional need common goals and guiding principles to hold them together. These principles should be developed as part of the partnership-building process, and agreed upon by all partners in order to create a common foundation. Three core principles – equity, trust and mutual benefit – have frequently arisen in cross-sector partnerships. Equity implies an equal right to be at the table for important decisions. Huge disparities in power, resources and influence can destabilise relationships. Transparency, openness and honesty in working relationships are critical in establishing trust, and ensure that stakeholders will be accountable to one another. Indeed, ensuring that the relationship is one of mutual benefit, in which each partner achieves specific benefits over and above the common benefits, is critical to assuring the various parties' continuing commitment.⁶⁶

A healthy partnership means also being able to cope with closure or departures in a positive way. When building a partnership, companies should think of an exit plan, or at least provide for a future partnership evaluation in order to ensure the partnership is serving its purpose.

While other organisations enable and support inclusive agribusinesses, managing these relationships can add to the complexity of a project. Indeed, it might sometimes make more sense to go it alone. Fewer partners of course means fewer resources devoted to coordination efforts, a lower level of dependency and a correspondingly higher level of self-determination. Partners should be chosen with care, and partnerships should be structured strategically from the beginning in order to enable smooth implementation.

Implementing solutions with partner organisations

Companies often work with other organisations to implement solutions. This allows each side to benefit from their partners' complementary capabilities, leverage their networks and reputations within a particular field, and share costs.

In seeking to **innovate and adapt technologies**, companies often work with market research institutes and NGOs to conduct market research in rural communities. Market research requires not only specific skills and methods, but also familiarity with the local environment in order to be able to communicate effectively with the target group. For product design, companies often engage with universities or specialised service providers.

Companies can collaborate with microfinance institutions to help farmers **upgrade production factors**. A (partial) guarantee from the company may make it easier for smallholders to qualify for credit. By working with insurance companies, companies can collectively provide insurance for a large group, such as all their suppliers or customers. Companies may also outsource technical services to NGOs or local companies.

In seeking to **inform, train and consult** with smallholders, companies often draw on the assistance of NGOs, whose experience enables them to provide farmer training sessions using participatory learning techniques such as demonstration plots, showcases and group discussions.

Companies often use established **standards** as a basis for agreeing on and enforcing rules. To obtain certifications, companies use the services of standards-setting bodies and local or international certification agencies. NGOs and local service providers are usually tasked with helping farmers modify their traditional practices and meet standards. Input suppliers may use ICT-based tracing solutions to ensure that products are not counterfeit.

To strengthen **value chain links**, companies usually work to upgrade the capacities of local partners such as retailers, traders and logistics companies to meet the requirements of global value chains, through means such as training and investment.

Spotlight:

develoPPP.de – Development partnerships with the private sector

The develoPPP.de programme supports cooperation between the private sector and development cooperation. Hence the three 'Ps' in develoPPP.de, which stand for Public-Private Partnerships: development partnerships with the private sector.

Development partnerships bring together the innovative energy of the private sector with the resources, knowledge and experience of development cooperation. Their goal is to sustainably improve people's living conditions in partner countries of the German Federal Ministry for Economic Cooperation and Development (BMZ) and at the same time enhance the economic, ecological and social framework for economic activity. In these joint projects and programmes, both partners share the responsibility, costs and risks.

A development partnership can help lower the costs involved in pioneering inclusive business models for sustainable development. It can also help reduce risks and facilitate the transfer of know-how needed to upscale successful pilots. Companies can harness the long-standing and wide-ranging expertise of the BMZ and its implementing organisations in developing and emerging countries to realistically assess the obstacles and opportunities inherent in low-income markets. The BMZ and its implementing organisations contribute financial and human resources to assist in the design and implementation of inclusive business models for sustainable development and have access to an extensive network of civil society, private sector and state organisations in the cooperation countries of German development cooperation. develoPPP.de is implemented by Deutsche Investitions- und Entwicklungsgesellschaft (DEG), Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH and sequa GmbH and commissioned by BMZ. Since the programme first started in 1999, around 1,500 projects in over 70 countries have been carried out. Agriculture is among the top three sectors with regards to contributed funds.

Several times a year DEG, GIZ and sequa hold idea competitions for interested German and European companies. The best approaches can receive up to EUR 200,000 in co-financing.

*FOR MORE INFORMATION VISIT:
WWW.DEVELOPPP.DE*

Level 3 – Business environment

Some challenges are so pervasive or intractable that they cannot be solved by one company or set of partners alone.

- National policies can have a strong impact on inclusive business projects, in both a negative and positive sense. For example, export bans can reduce incentives for farmers to increase production volumes and alienate companies interested in investing. Subsidies, on the other hand, can boost demand. Either way, it is important for companies to stay engaged in dialogue with policy-makers in order to maintain and shape a policy environment conducive to their business goals.
- Public goods such as transport infrastructure or education are often lacking in developing countries. Solving this problem at the single-company level would entail impractically high costs. It is thus more effective to leverage the complementary competencies and resources of several partners. Regional or nationwide public goods such as airports or other important logistical hubs usually need to be provided by the government.
- Coordination is important, even between competitors. To enhance efficiency in value chains, companies often need to align their processes and production standards. Such collaboration can be achieved by industry-wide associations.
- Cross-sector collaboration is increasingly required to organise complex agribusiness systems. Companies – especially foreign ones – seeking to engage in inclusive business practices will often find governments and NGOs sceptical of their motives. Moreover, practices common in one sector can be harmful for a different sector. When governments or NGOs freely distribute goods such as fertiliser or irrigation pumps, for example, it makes it difficult for companies to compete in the same market. Forums in which governments, donors and companies are able to exchange ideas on inclusive business can enable dialogue, which in turn breaks down misconceptions and allows various actors develop joint solutions.

In these cases, collective action or policy dialogue with governments may be necessary to improve the business environment on a broader level.

Collective action

Collective action can be defined as a coordinated and sustained process of collaboration among various parties (companies, governments, NGOs, media) that invest resources to achieve a common goal.⁶⁹ Collective action can take multiple forms depending on the character of the common goal, the degree of formalisation and the time frame of the specific action. In general terms, collective action describes the group efforts of several parties to push forward an agenda agreed upon by all involved parties. Examples include the World Economic Forum’s New Vision for Agriculture or the German Initiative for Agriculture and Food Security.

SEE BOX ON THE NEXT PAGE

CASE STUDY 17

SAGCOT in Tanzania

Forming a large multi-sectoral growth corridor

With 44 million hectares of fertile land and ample water resources, Tanzania has enormous agricultural potential. Yet only a fifth of the country’s arable land is currently cultivated, mainly by smallholders. In 2010, a number of global agribusiness companies under the leadership of the World Economic Forum initiated the Southern Agricultural Growth Corridor of Tanzania (SAGCOT), which is aimed at rapidly developing the agricultural potential of an area covering one-third of mainland Tanzania in an environmentally sustainable and socially beneficial way. The multi-stakeholder platform brings together government, companies, donors and the farming community to pool resources and coordinate action. The project aims to mobilise US\$3.4 billion in private and public capital. Most of this will be spent to build necessary basic infrastructure components such as railway lines, roads and electricity, thus making it possible to attract further agricultural investments. Found-

In a nutshell, collective action platforms can serve a number of purposes, including:

- Building knowledge and forging relationships between the private and public sectors, while enabling the exchange of insight and experiences.
- Leveraging partners' complementary competencies and resources, thus creating positive synergies.
- Acting as a catalyst for structural and behavioural change, and as an advocate for policy changes.
- Institutionalising change by enforcing existing rules and standards, creating new rules, correcting market failures, and building the capacities to sustain innovations.

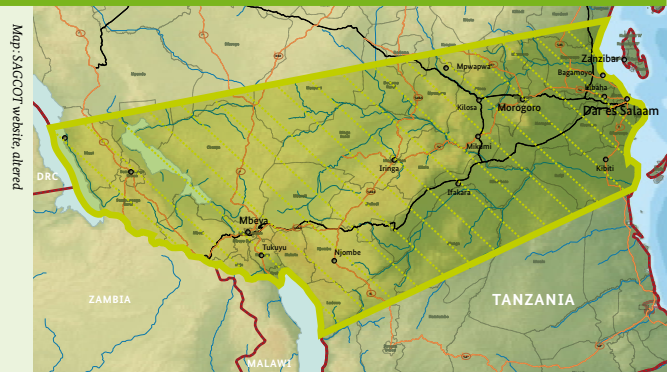
Typical platform characteristics include the presence of a formal network structure, often with a technical secretariat (a neutral party or dedicated organisation); participation by multiple stakeholders in strategic direction-setting and programming (often with fee-based membership); and broad and aspirational objectives.⁷⁰

A large number of platforms already exist; for companies interested in collective action, joining an existing platform* is likely the easiest way to begin. When considering the various choices available, companies should be aware of the actors involved as well as a platform's focus. Even if a broad, globally engaged platform does not obviously influence a company's business, it may facilitate meetings with other global actors, and thus provide an opportunity to develop joint projects. The more specific and local a platform is, the more directly it will be able to impact a company's day-to-day business and specific concerns.

* SEE
"POLICY DIALOGUE PLATFORMS"
ON PAGE 77

ing partners include among others the Tanzanian government, Unilever, Yara International, the Agricultural Council of Tanzania and USAID. An independent and professionally staffed centre has been created to coordinate and support the investment and activity of the various stakeholders.

SAGCOT's main strategy is to involve stakeholders along the entire value chain to build the infrastructure and policy environment necessary to increase agricultural productivity. The partnership aims to create incentives for stronger links between smallholders and commercial agribusiness companies, including "hub and out-grower" schemes that allow smallholders in the vicinity of large-scale farms to access inputs, extension services, value-adding facilities and markets. Furthermore, SAGCOT aims to strengthen links between smallholder producer associations and agri-processing and marketing companies. As a first step, a series of dedicated working groups were launched to identify private investment partners and bring together stakeholders in strategic agribusiness sectors starting with rice and sugar.



The Southern Agricultural Growth Corridor of Tanzania aims at developing agricultural potential by involving different stakeholders.

SOURCES:

- www.sagcot.com
- Beth Jenkins (2012). *Mobilizing the Southern Growth Corridor of Tanzania: A Case Study. The CSR Initiative at the Harvard Kennedy School.*

Policy dialogue

Policy dialogue can be defined as a means of addressing regulatory, policy and community issues through the exchange of opinions and information between the public and private sectors (as well as other relevant stakeholders), with the aim of influencing policy development and implementation.⁷⁰ Through policy dialogue, the public and private sectors provide each other with important information and find practical solutions to complex problems. Simply put, whenever government needs to act, policy dialogue becomes relevant. The WEF’s New Vision for Agriculture project can again serve as an example here, as it offers a platform through which companies can engage with governments in high-level public-private dialogue (e.g., in order to improve conditions for inclusive agricultural markets).

Policy dialogue can serve the following purposes:⁷¹

- Working with governments to formulate policy, by lobbying for better regulation.
- Fighting red tape and burdensome bureaucracy.⁷²
- Pushing governments to fulfil development goals and other commitments.
- Building the capacity of public institutions to implement policy.
- Encouraging governments to nurture enterprise development and capacity.

Policy dialogue can be initiated by a single company or in collaboration with other partners. Policy dialogue on an individual basis can be an effective strategy in response to specific concerns on the national and local level. However, collaborative policy dialogue is much more common, and takes place through collective action platforms, in partnership with donors, or in conjunction with business associations and chambers of commerce. Collective approaches have many advantages: the cost of lobbying is shared, the representation of multiple interests increases legitimacy, and transparency is enhanced through the public documentation of collective statements.

Policy dialogue can also target different levels, addressing global, national and local entities. For specific agricultural public investments such as processing units, for example, the local government might be the right target. For broader topics such as land titling or agronomic education, the national government should be addressed. Finally, regional and global issues can be raised through the various regional economic communities or with supranational bodies such as the World Trade Organisation (WTO).

CASE STUDY 18

Tiviski dairy in Mauritania

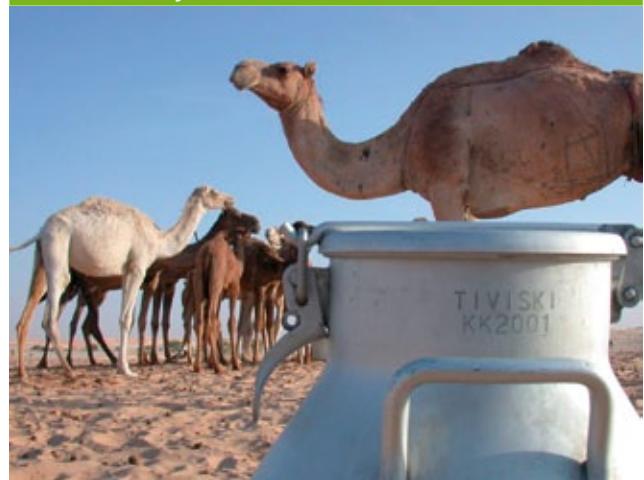


Photo: Tiviski

Tiviski successfully lobbied for camel milk in the EU.

Engaged in policy dialogue

Founded in Mauritania in 1987 by entrepreneur Nancy Abeiderrahmane, Tiviski was Africa’s first camel milk dairy. In 1989, when Mauritania’s capital Nouakchott experienced a shortage of fresh milk, Tiviski decided to bridge the gap between pastoral milk herders and newly settled urban consumers. The company began to collect raw milk from herders and sell it pasteurised in cartons. Despite many hurdles, the general business approach proved extremely successful, leading gradually to a total investment level of EUR 4 million and annual turnover exceeding EUR 3 million, a thousand suppliers and 200 employees.

Tiviski also developed the world’s first camel cheese for export. However, the plan to export “Caravane” to the European Union has been hampered by a number of obstacles raised by European legislation. Tiviski’s lobbying work has yielded some success. Camels are now included on the list of animals whose milk can be imported. In addition, Mauritania was recently included in the list of countries that can export dairy products to the European Union. Nonetheless, specific legislation allowing camel milk from Mauritania to enter the EU will need to be passed before Tiviski can start exporting.

SOURCES:

- Mamadou Gaye (2008). *Tiviski Dairy: Africa’s First Camel Milk Dairy Improves Livelihoods for Semi-Nomadic Herders in Mauritania*. UNDP Growing Inclusive Markets Initiative.
- Brussels Policy Briefing No. 26 (2012). *New Challenges and Opportunities for Pastoralism in ACP Countries*.

Implementing solutions on the level of the business environment

Collective action and policy dialogue can also be tools for implementing solutions that benefit all actors within a sector or region, or which broadly improve the business environment.

Governments can facilitate innovation and the adaptation of agricultural **technology**. Governments often maintain agromomic research institutes that can collaborate with companies if policy allows it. Moreover, governments can establish incentives for innovation such as tax reductions or subsidies. Companies can join forces with other companies and actors from other sectors to develop new technologies such as high-yield resilient crop varieties or new farming systems.

Companies can lobby governments to upgrade smallholders' **factors of production** or to facilitate access to credit and insurance. Through policy dialogue, companies can ensure that government programmes support rather than hinder inclusive agribusiness. Many governments have implemented fertiliser subsidies. Subsidies can easily destroy a market, but they can also enable markets. Smart subsidies for agricultural micro-insurance development, for example, can be applied to increasing demand by reducing initial insurance premiums, supporting intermediaries, gathering relevant data, or installing weather-measurement stations.⁷³

Extension services that help to **inform and train** smallholders have been on the decline across the world. Companies can lobby for renewed support for these services, or join forces with the public sector to co-fund and co-manage these services. Companies may also lobby national governments for improved general education. Collective action platforms such as COMPACI* jointly implement smallholder training programmes.

Collective action is required to agree on and enforce common **rules**, particularly in the case of common standards. A variety of platforms and initiatives, especially those addressing specific commodities, focus on setting quality, environmental or social sustainability standards.

Value chain **links** can also be strengthened on the regional or national level. Companies might enter into dialogue with governments in order to coordinate investments and improve the overall state of national infrastructure. Companies may also join forces with others to invest in missing infrastructure such as roads or logistics systems. Crop-specific platforms enable companies to fill gaps in the value chain jointly, perhaps by creating intermediaries or building new distribution and collection systems.

*SEE CASE STUDY ON PAGE 44/45

SEE SPOTLIGHT ON P. 96/97

The World Economic Forum's New Vision for Agriculture

Launched in 2009, the World Economic Forum's (WEF) New Vision for Agriculture works "to develop a shared agenda for action and foster multi-stakeholder collaboration to achieve sustainable agricultural growth through market-based solutions". To date, it has helped to foster major agricultural development partnerships in Tanzania (the SAGCOT partnership), Vietnam, Mexico, and Indonesia. In 2012, WEF along with the New Partnership for Africa's Development (NEPAD) and the Comprehensive African Agricultural Development Programme (CAADAP) launched "Grow Africa", a partnership platform designed to accelerate growth in the agriculture sector on a regional level.

Through the New Vision for Agriculture platform, stakeholders are encouraged to create a shared action agenda for sustainable agricultural development. The platform encourages high-level leaders in industry, government, international institutions and civil society – with support from leading experts – to define joint priorities, recommendations and opportunities for collaboration.

SOURCE:
www.weforum.org

GIAF – A new German initiative to foster joint programmes

In June 2012, a number of German companies launched the "German Initiative for Agribusiness and Food Security" (GIAF), in collaboration with the Federal Ministry for Economic Cooperation and Development (BMZ). The initiative is coordinated by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH. Founding members are agribusiness companies AGCO, BASF, Bayer, Beinlich, Europlant, GRIMME, IRRI, K+S, Mars, Lemken and Metroas well as Deutsche Investitions- und Entwicklungsgesellschaft DEG.

The initiative aims to bring together private and public actors in order to implement comprehensive long-term projects and programmes that will create functional agribusiness value chains and expand sustainable agricultural production.

The contribution made to food security and economic development in rural areas is to be measured by increased agricultural productivity and income, improved access to food and nutrition, food self-sufficiency, and long-term global food security.

SOURCE:
GIAF brochure

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Harvest!

Share the benefits and review results



Cashew farmers assess the harvest before taking it to market. Companies also need to evaluate their inclusive agribusinesses and share the benefits with stakeholders.

At the end of the season, farmers harvest the fruits of their labour, assess the results, and share benefits among the family and other participants. Companies are well advised to do likewise in their inclusive businesses. In this way, the business can be strengthened for the next season, grown further and ultimately replicated elsewhere.

CASE STUDY 19

SAP in Ghana



A mobile app makes it possible to manage the entire cashew nut value chain.



Tracing the produce.



The application ensures a transparent payment.

ICT-based real-time monitoring

Consumers increasingly want to know where the products they buy come from and how they have been produced. Recognising this trend, SAP, a market leader in business software solutions, identified a promising business opportunity: providing mobile applications that can increase efficiency and transparency along the whole value chain, including the smallholder level. To this end, it partnered with GIZ to create a programme called Virtual Cooperatives, as part of the African Cashew initiative (ACI).⁷⁴ The partnership aims at developing a tool to improve business linkages and transparency within the cashew value chain through a combination of organisational change and technological innovations. In 2011 and 2012, the software system was tested in West Africa, in several pilot projects supporting trade of over 850 tons of raw cashew nuts and shea nuts produced by about 5,000 smallholders.

The Virtual Cooperative software provides cooperatively organised cashew smallholders with mobile applications able to administer cooperative members, coordinate and trace transportation and logistics, support bulk sales, trace prod-

ucts and access market information as well as agricultural advice. The system electronically tracks all cashew transactions by first assigning a unique barcode to each smallholder, and then tagging each cashew bag with the appropriate bar code. Buyers scan the supplied bags with their smartphones and input the weight into the mobile application, which calculates the unit price for the bag based on recent market data. The cashew smallholder and the farmer cooperative immediately receive a digital receipt of the transaction. The system's increased transparency helps prevent fraud and loss among smallholders and the farmer cooperatives. Consumers may soon be able to look up the precise origin of their cashew nuts. And SAP has successfully tested a new tool that it can offer to other agribusiness companies to enhance transparency and traceability.

SOURCES:

- www.africancashewinitiative.org
- GIZ (2011). *Virtual Cooperatives: ICT for African Cashew Farmers*. Bonn.

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Sharing benefits

With proper management, inclusive agribusinesses can produce a fruitful harvest. When the harvest is shared equitably, this will further improve results in the next season. To define what is equitable, the perspectives and priorities of all stakeholders need to be well understood. In particular, companies need to understand the way smallholders' interests are shaped by their family-led farming systems. If these interests go unrecognised, the foundations of the business can quickly erode, leading to side-selling, poor documentation or declines in quality.

Four dimensions should be considered in sharing the harvest:

- Ownership: Who owns the business and production factors?
- Voice: Who takes business decisions? Who can influence decisions?
- Risks: How are commercial, political and reputational risks shared, managed and mitigated?
- Rewards: How are economic costs and benefits shared?⁷⁵

SEE CASE STUDY
ON PAGE 44 / 45

All these dimensions should be considered as early as possible when designing the business, and continuously reviewed during implementation. For example, an increase in income is certainly important for smallholders. But if this is associated with substantial risk, smallholders may not have the flexibility to engage in the business opportunity in the first place. Empowering smallholders by giving them ownership and voice can enhance the success of an inclusive agribusiness; ownership creates responsibility, and voice makes sure that all parties' concerns and ideas are heard.

Decisions regarding these dimensions will to some extent be shaped by the structure of the company-smallholder relationship. Cooperatives or other formal smallholder organisations, for example, can own processing machinery jointly, whereas under the lead farmer or nucleus farm models, these facilities are typically privately owned. However, the sharing of benefits is always a matter of design. A cooperative can be facilitated in such a way that it is likely to develop into a trusted forum and be genuinely representative of smallholders' interests. But it can also become little more than a tool to implement certain business procedures on a company's behalf, or be taken over by local leaders who reap the benefits and leave smallholders holding the risk. Here, monitoring and evaluation is key in order to continuously review and adjust structures and processes.

COMPACI provides an example of how the four dimensions can be applied. The same analysis can be conducted for any inclusive agribusiness relationship, including links with partner organisations and even with entities within the broader business environment. In this latter case, the company might ask itself how partners in collective action initiatives or government bodies benefit from the current business activities or proposed actions.

CASE STUDY 20

The Coca-Cola Company in Kenya and Uganda

Photos: The Coca-Cola Company



50,000 smallholders will be included in the fruit value chain.

Sharing the fruits of labour

As part of its vision for growth, The Coca-Cola Company aims to triple its global juice business by the year 2020. To achieve this goal, the Company needs to expand both local sourcing channels and local markets. Project Nurture has been set up as a partnership between The Coca-Cola Company, TechnoServe and the Bill & Melinda Gates Foundation to bring more than 50,000 smallholder fruit farmers in Kenya and Uganda into the fruit value chain by 2014. This programme has been designed for replication in other markets to help The Coca-Cola Company grow its juice business around the world.

Project Nurture includes a whole set of activities to support smallholder farmers in growing and selling mango and passion fruit. TechnoServe helps to strengthen existing and establish new smallholder farmer organisations. These farmer organisations provide farmers with greater **voice** in negotiating with the project partners and other market players. The project team is also working with financial institutions to facilitate better access to credit for smallholder farmers, thus giving them the opportunity to invest under their own **ownership**. Training programmes for lead farmers and government extension workers help farmers acquire good agronomy practices, which not only increase the quantity and quality of production but also help to mitigate **risks** such as pests and diseases. Finally, Project Nurture is establishing market channels for fruit at different levels, from local open-air markets to export markets. Thus, farmers can increase their **rewards** from growing fruits by selling more and at better prices.



Project Nurture also works closely with local juice processors. The team encourages them to invest in facility upgrades and advises them on how to meet the standards of international buyers. The Coca-Cola Company stands ready to become a buyer, thus promising tangible rewards. By the end of 2010, Minute Maid Mango Nectar became the first Coca-Cola product in Kenya to use locally sourced puree from a processor certified to Coca-Cola standards as part of the project. With this well-known customer, processors find it easier to sell to other international buyers. In addition, direct customers reduce their dependency on agents who are not transparent about prices and margins as they gain a stronger voice in negotiations.

To measure results and identify successes and opportunities for improvement, the project team has established a monitoring and evaluation system. A comprehensive baseline survey taken in 2010 documented household expenditures, incomes, gender participation and other factors, against which progress is measured. As of October 2012, more than 42,000 farmers had been recruited to the programme and incomes from fruit have more than doubled due to increased productivity and better sales outlets. The programme is targeting a minimum of 30% female participation rate by 2014; to date 14,000 women farmers have been trained. Partners discuss progress in regular meetings of the core operating committee and the steering committee. These meetings provide scheduled opportunities for partners to address issues as they arise and to resolve them before they endanger project progress.

SOURCE:

Technoserve, The Coca-Cola Company, The Bill and Melinda Gates Foundation (2012). *Project Nurture Case Study*.

Assess performance and adjust the business

Clear monitoring and evaluation procedures enable efficient and transparent relationships between stakeholders across the value chain. While monitoring should take place on an ongoing basis in order to manage business processes effectively, evaluations are conducted periodically to review performance in a more substantial manner. Performance assessments follow a generic standard procedure, with the following components define questions, set up processes and revise business approaches.

Define questions:

Assessments always start with a clear set of targets and questions. Business objectives and standards or norms must be examined, but the venture's results also need to be assessed from the smallholders' perspective. This is required for communication and reporting, but also generates information regarding business opportunities. Participatory approaches can help define objectives and targets for all stakeholders.

Set up processes:

Structured performance-assessment processes need to be implemented and performed on a routine basis. A whole range of tools for this purpose exist that have been developed by a variety of actors and in a variety of contexts for a wide variety of purposes. In order to minimise costs, the tool chosen must fit the company's needs and integrate well with its business processes.

The examples of social performance management (SPM) and randomised controlled trials (RCTs) illustrate the different approaches and how they relate to different objectives. Social performance management (SPM) is a method designed to monitor objectives beyond simply a company's financial results on an on-

going basis, and is also used to manage results.⁷⁷ Importantly, assessment is conducted in a participatory manner so as to capture the opinions of smallholder clients and other business partners. Alternately, randomised control trials (RCTs) offer a scientifically rigorous means of understanding differences between product or process design choices.⁷⁸ This method is used primarily when a new business is being established, or when business processes are being revised. In RCTs, one contractual arrangement, service or product design is compared to another by randomly assigning clients to either a treatment or control group. The method can be implemented with the help of specialised providers such as Innovations for Poverty Action, an NGO.

Revise business approaches:

Areas in need of improvement can be identified through the results of the assessment. In this way, the business can be adjusted on a continuous basis to enhance performance. It is therefore critical that relevant information be collected and analysed, and that key personnel from the company, its partners and smallholder organisations be involved throughout the business season, from planting to harvest.

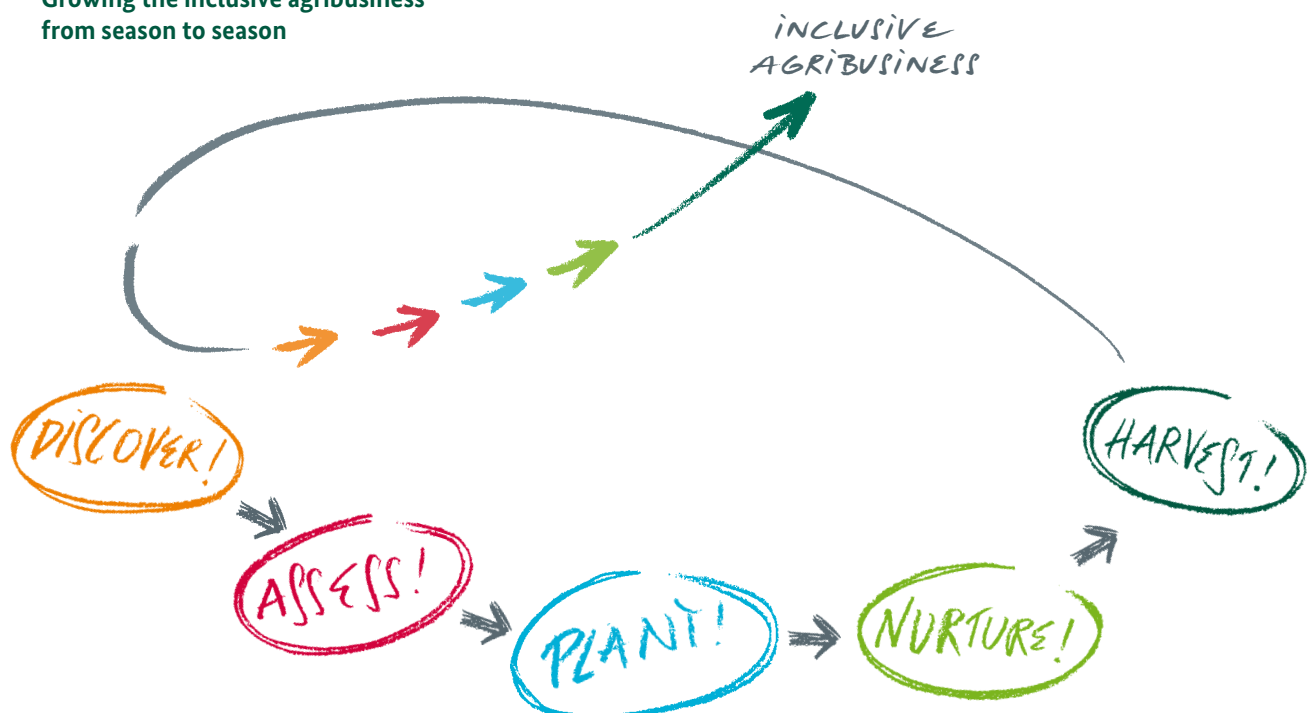
However, assessment doesn't only happen on paper or through the analysis of data. Direct and open exchanges between the partners enhance mutual understanding and reduce the potential for conflict. Within an atmosphere of open communication, concerns can be voiced and ideas can come to light. Regular meetings, ongoing communication and a deliberate focus on relationship-building is thus critical to identifying opportunities for improvement. Finally, the company's senior management may need to accumulate at least some field experience in order to fully grasp the agribusiness opportunity, understand ongoing challenges and find solutions.

Grow your inclusive agribusiness in the next season

The next season starts again from the beginning, with the identification of new business opportunities. Every season brings new experiences, challenges and successes, all of which can teach a company how to improve its business further. Some challenges are persistent, requiring renewed attention and recalibrated solutions. Companies also need to cultivate new relationships and nurture existing ones in order to keep them productive. If the harvest has been fruitful, companies can work to replicate the business in other locales, either through their own subsidiaries or via partners. They can also copy insights gained from other successful business models. To further grow the business, companies undergo the entire season cycle once more, from discovering opportunities to assessing and planting, to nurturing and harvesting, only to discover new opportunities yet again the next season.

FIGURE 15

Growing the inclusive agribusiness from season to season



Directory



The development of an inclusive agribusiness is a bumpy road – the directory provides some assistance.

Finding support

A wide range of institutions supports companies and entrepreneurs in their efforts to work with smallholders as business partners. The following list includes institutions that offer support in the areas of implementation support, financing, research and in cultivating the business environment. In addition, a list of suggested further reading provides links to useful documents and websites.

Implementation support

Partners with a local presence often have deep knowledge of the target group and can prove invaluable in a number of ways. This includes capacity building above all, but many organisations also offer market research, business model development, or monitoring and evaluation services.

AgDevCo

Invests “social venture capital” to create commercially viable agribusiness investment opportunities in sub-Saharan Africa.
www.agdevco.com

Agri-ProFocus

A partnership with Dutch roots that promotes smallholder entrepreneurship in developing countries.
www.agri-profoc.us.nl

Agromisa

NGO providing practical information for smallholders on sustainable agriculture practices.
www.agromisa.org

BoP Innovation Center

An independent organisation that develops, researches and accelerates programmes dedicated to sustainable, private-sector-led innovation at the base of the pyramid (BoP).
www.bopinc.org

Innovations for Poverty Action

Support the application of randomized controlled trials (RCTs) for product development etc.
www.poverty-action.org

International Development Enterprise (IDE)

Non-profit development organisation supporting market-driven projects and technologies such as irrigation, drinking water supply, and post-harvest processing.
www.ideorg.org

International Institute for Communication and Development (IICD)

Helps organisations use ICT to meet development goals and develop inclusive businesses.
www.iicd.org

Mesopartner

Firm that facilitates local market development processes, particularly in rural areas, with stakeholders from all sectors.
www.mesopartner.com

Oxfam International

International NGO focusing on food security and agriculture, often working in collaboration with the private sector.
www.oxfam.org

Practical Action

International NGO that uses technology to address poverty issues, often working in collaboration with the private sector.
practicalaction.org

Prorustica

Company that facilitates partnerships in order to foster growth in agricultural commodity markets.
www.prorustica.com

SNV

Non-profit development organisation that works with local partners to equip communities, businesses and organisations with the tools, knowledge and connections they need to increase their incomes and gain access to basic services.
www.snvworld.org

Technoserve

Focuses on developing entrepreneurs, building businesses and industries, and improving the business environment in the agriculture sector.
www.technoserve.org

Welthungerhilfe

German initiative focused on fighting hunger and developing solutions to ensure food security worldwide.
www.welthungerhilfe.de

Financing

This section provides an overview of various financing options available to companies building inclusive agribusinesses.

PUBLIC DONORS AND DEVELOPMENT FINANCE INSTITUTIONS

Public donors offer challenge funds, public-private partnership programmes, and preferential debt and equity financing.

African Development Bank (AfDB)

Supports efforts in Africa to reduce poverty in a sustainable way through projects, financing, technology assistance and other services.
www.afdb.org

The Africa Enterprise Challenge Fund (AECF)

Private-sector fund hosted by the Alliance for a Green Revolution in Africa (AGRA). Its aim is to encourage competition among private-sector companies in investment support for new and innovative business ideas.
www.aecf.africa.org

Asian Development Bank (ADB)

Supports efforts in Asia to reduce poverty in a sustainable way through projects, financing, technology assistance and other services.
www.adb.org

BMZ

The German Federal Ministry for Economic Cooperation and Development (BMZ) is responsible for formulating the principles and strategies underlying German development policy. These form the basis of cooperation projects and programmes developed in conjunction with BMZ's cooperation countries and other international organisations.
www.bmz.de/en

DANIDA

The Danish International Development Agency coordinates humanitarian and other types of assistance in developing countries.
www.um.dk/en/danida-en

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Deutsche Investitions- und Entwicklungsgesellschaft (DEG)

German development agency financing private-sector investments in developing countries.
www.deginvest.de/deg/EN_Home/index.jsp

Department for International Development (DfID)

A UK development agency for promoting development and reducing poverty.
www.dfid.gov.uk

European Bank for Reconstruction and Development (EBRD)

Promotes environmentally sound and sustainable development from Central Europe to Central Asia.
www.ebrd.com

International Fund for Agricultural Development (IFAD)

Specialised U.N. agency focused on financing agricultural development projects, primarily in the area of food production in developing countries.
www.ifad.org

Inter-American Development Bank (IADB)

Supports efforts in Latin America and the Caribbean to reduce poverty in a sustainable way through projects, financing, technology assistance and other services.
www.iadb.org

International Finance Corporation (IFC)

Supports developing countries' private sectors through investment and advisory services.
www.ifc.org/sustainableenergy

Swedish International Development Cooperation Agency (SIDA)

Responsible for the bulk of Swedish development assistance to developing countries.
www.sida.se

Swiss Agency for Development and Cooperation (SDC)

Responsible for the overall coordination of development activities and humanitarian aid delivered by the Swiss Confederation.
www.sdc.admin.ch

USAID

U.S. government agency providing economic and humanitarian assistance worldwide.
www.usaid.gov

PRIVATE FOUNDATIONS AND FUNDS

Private foundations and funds support entrepreneurs and collective action initiatives through the provision of grant funding and risk capital.

Acumen Fund

A non-profit global venture fund that uses entrepreneurial approaches to solve the problems of global poverty.
www.acumenfund.org

Bill & Melinda Gates Foundation

Supports inclusive agribusiness development as one of its focus areas.
www.gatesfoundation.org

Grassroots Business Fund

A hybrid non-profit/for-profit model, partnering with businesses to provide them with both long-term investment capital and business advisory services needed to overcome challenges.
www.gbffund.org

GroFin

Connects the growth finance sector, which provides risk finance, with small and medium-sized businesses in emerging markets.
www.grofin.com

Rockefeller Foundation

Works to promote growth with equity by granting the poor greater access to life-improving opportunities, and by enhancing community and institutional sustainability in the face of crises and chronic stress.
www.rockefellerfoundation.org

Root Capital

Non-profit social investment fund that grows rural prosperity in poor, environmentally vulnerable places in Africa and Latin America by lending capital, delivering financial training, and strengthening market connections for small agricultural businesses.
www.rootcapital.org

Research

Public initiatives, research centres and think tanks conduct research on market data, business models and technologies that affect inclusive agribusiness.

Consultative Group on International Agricultural Research (CGIAR)

A strategic alliance that unites organisations involved in agricultural research for sustainable development with the donors that fund such work.
www.cgiar.org

Food and Agriculture Organisation of the United Nations Statistics (FAOSTAT)

Provides data on agriculture investment, land and irrigation, labour, machinery, fertilisers and pesticides.
faostat.fao.org

International Assessment of Agricultural Knowledge, Science and Technology for Development (IAASTD)

Global research initiative tracking the latest advances in agricultural science.
www.agassessment.org

International Institute for Environment and Development (IIED)

Conducts research on sustainable agriculture, inclusive agribusiness and agricultural markets.
www.iied.org

International Institute for Sustainable Development (IISD)

Conducts research on sustainable development, in particular in agricultural commodity markets.
www.iisd.org

Seas of Change

Research project investigating scaling inclusive agribusiness upwards.
seasofchange.net

Tropical Agricultural Research and Higher Education Centre (CATIE)

Research centre focusing on improving conditions for small and medium-sized farmers.
www.catie.ac.cr/magazin.asp?CodIdioma=ESP

UNDP Growing Inclusive Markets (GIM)

Conducts research on inclusive business models and their ecosystems.
www.growinginclusivemarkets.org

Business environment

Collective action and policy dialogue is often required in order to facilitate cross-sector coordination or enhance the general business environment. Networking initiatives can be general or crop-specific.

NETWORKING

Networking platforms provide opportunities for knowledge exchange and collaboration.

Business Call to Action

Fosters progress of the Millennium Development Goals by challenging companies to develop inclusive business models.
www.businesscalltoaction.org

The Practitioner Hub

Platform for inclusive business practitioners to connect, communicate and share experiences.
www.businessinnovationfacility.org

Value Links: International ValueLinks Association e.V.

Network of practitioners focusing on value chain development.
www.valuelinks.org

World Business Council for Sustainable Development (WBCSD)

Forum for companies to discuss sustainable development.
www.wbcsd.org

Collective action platforms

African Cashew initiative (ACi)
ACi works to increase the competitiveness of African cashew production and reduce poverty in five African countries.
aci.africancashewalliance.com

Beira Agricultural Growth Corridor (BAGC)

A joint venture including governments, private investors, donor agencies and regional organisations, aiming to boost agricultural productivity in Mozambique and the wider region.
www.beiracorridor.com

Better Cotton Initiative (BCI)

A collaborative multi-stakeholder initiative that promotes environmental and social improvements in the cotton farming industry. Countries currently involved include Brazil, India, Mali and Pakistan.
bettercotton.org

Biodiversity Partnership Mesoamerica (BPM)

A joint initiative that aims at protecting biodiversity in Mesoamerica.
www.bpmesoamerica.org

Competitive African Cotton Initiative (COMPACI)

Promotes improvements in cotton production in sub-Saharan Africa in compliance with ecological, economic and social sustainability criteria.
www.compaci.org

Ethiopian Coffee Trademarking and Licensing Initiative

Initiative facilitating dialogue and cooperation between Ethiopian coffee farmers and exporters, with the goal of setting long-term strategies for brand management and promotion.
www.ethiopiancoffeenetwork.com

German Initiative for Agribusiness and Food Security in Emerging and Developing Economies (GIAF)

Aims at fostering cooperation between the German private sector and public sector institutions, with the objective of encouraging sustainable growth in the agricultural production and food sectors in emerging and developing countries
www.germanfoodpartnership.org
(as of February 2013).

Rainforest Alliance

Works to conserve biodiversity and ensure sustainable livelihoods by transforming land-use practices, business practices and consumer behaviour.
www.rainforest-alliance.org

Round Table on Responsible Soy Association

A multi-stakeholder initiative which aims to facilitate a global dialogue on soy production that is economically viable, socially equitable and environmentally sound.
www.responsiblesoy.org

Roundtable on Sustainable Palm Oil (RSPO)

A non-profit association that brings palm oil industry stakeholders together to develop and implement global standards for sustainable palm oil.
www.rspo.org

Southern Agricultural Growth Corridor of Tanzania (SAGCOT)

Multi-stakeholder partnership aimed at developing the agricultural potential of a geographically defined area in Tanzania in an environmentally sustainable and socially beneficial way.
www.sagcot.com

Sustainable Agriculture Initiative (SAI)

A food industry initiative to support the development of sustainable agriculture worldwide.
www.saipatform.org

The Sustainable Trade Initiative (IDH)

Accelerates and scales sustainable trade by building impact-oriented coalitions involving partners from different sectors.
www.idhsustainabletrade.com

UTZ Certified

Certification for sustainable farming practices. Enables farmers to learn better farming methods, improve working conditions and protect the environment.
www.utzcertified.org

West Africa Seed Alliance (WASA)

Seeks to provide smallholder farmers in Ghana, Mali, Nigeria, Burkina Faso and Niger with access to high quality seeds and planting materials.
www.icrisat.org

POLICY DIALOGUE PLATFORMS

A number of platforms facilitate dialogue between public and private actors in order to develop policies conducive to inclusive agribusiness.

Alliance for a Green Revolution in Africa (AGRA)

Public-private initiative to achieve food security and prosperity in Africa through the promotion of rapid, sustainable agriculture growth based on smallholder farmers.
www.agra-alliance.org

Comprehensive Agriculture Africa Development Programme (CAADP)

The multi-stakeholder platform addresses policy and capacity issues across the entire agricultural sector and African continent to increase agriculture-led growth.
www.nepad-caadp.net

Farming First

Farming First is a multi-stakeholder coalition of organisations, including many agricultural input companies. It supports comprehensive stakeholder consultation processes aimed at establishing stable, long-term policy and regulatory frameworks.
www.farmingfirst.org

Grow Africa

Partnership platform that seeks to accelerate investment and transformative change in African agriculture based on national agricultural priorities.
www.growafrica.com

Sustainable Commodity Initiative (SCI)

A joint initiative by the International Institute for Sustainable Development (IISD) and the United Nations Conference on Trade and Development (UNCTAD), aiming to ensure that sustainable practices are adopted in commodity production and trade worldwide.
www.sustainablecommodities.org

Sustainable Trade Initiative

Convenes coalitions of leading companies, civil society organisations and governments with the aim of boosting sustainable production and consumption worldwide; goals include poverty reduction, safeguarding the environment and spreading fair and transparent trade practices.
www.idhsustainabletrade.com

World Economic Forum – New Vision for Agriculture

Involving public and private actors, the platform aims to develop a shared action agenda and foster multi-stakeholder collaboration to achieve sustainable agricultural growth through market-based solutions.
www.weforum.org/issues/agriculture-and-food-security

Further reading

Cotula, Lorenzo and Rebeca Leonard (2010)
Alternatives to Land Acquisition: Agricultural Investment and Collaborative Business Models. Maputo: IIED.

Presents various case studies on farmer-owned businesses in Africa.

FAO (2010)

How to Feed the World in 2050. Washington, D.C. Discusses the outlook for food security up to the year 2050.

Gradl, Christina and Beth Jenkins (2011)

Tackling Barriers to Scale: From Inclusive Business Models to Inclusive Business Ecosystems. Cambridge, MA: The CSR Initiative at the Harvard Kennedy School.

Describes the concept of an inclusive business ecosystem, and presents three structures companies can employ to strengthen these ecosystems.

Gradl, Christina and Claudia Knobloch (2010)
Inclusive Business Guide – How to Develop Business and Fight Poverty. Berlin: Endeava.

General introduction to the inclusive business approach for practitioners.

Hazell, Peter (2011)

Five Big Questions about Five Hundred Million Small Farms. Rome: IFAD.

Describes small farms and their development.

IAASTD (2009)

Agriculture at a Crossroads: Synthesis Report – A Synthesis of the Global and Sub-Global IAASTD Reports. Washington, D.C.

Outlines current conditions, challenges and solutions for the agricultural sector.

IFAD (2011)

Access to Markets: Making Value Chains Work for Poor Rural People. Rome.

Provides insights on how poor rural people can be integrated into value chains.

IFAD (2010)

Rural Poverty Report 2011: New Realities, New Challenges: New Opportunities for Tomorrow's Generation. Rome.

Provides a coherent and comprehensive look at rural poverty, its global consequences and the prospects for eradicating it.

Making Markets Work Better for the Poor (M4P) (2008)

Making Value Chains Work Better for the Poor – A Toolkit for Practitioners of Value Chain Analysis. Asian Development Bank.

Toolkit for conducting a value chain analysis, with a focus on poverty reduction.

Oxfam (2010)

Think Big. Go Small. Adapting Business Models to Incorporate Smallholders into Supply Chains. Briefing for Business. Oxfam International.

Discusses how smallholders can be integrated into value chains.

Prahalad, C.K. and Stuart L. Hart (2002)

The Fortune at the Bottom of the Pyramid. Strategy + Business 26, no. 1st quarter (2002): 14.

Argues in favour of a business and profit-oriented approach to fighting poverty.

Penrose-Buckley, Chris (2007)

Producer Organisations: A Guide to Developing Collective Rural Enterprises. Oxfam Skills and Practice. Oxfam GB.

Describes the characteristics of producer organisations and how to implement them.

Stoian, Dietman, Jason Donovan, John Fisk and Michelle F. Muldoon (2012)

Value Chain Development for Rural Poverty Reduction: a Reality Check and Warning.

Enterprise Development and Microfinance 23 (1): 54–69.

Torero, Maximo (2011)

A Framework for Linking Small Farmers to Markets. Rome: IFAD.

Describes how smallholders can be linked to world markets.

UNDP (2008)

Creating Value for All: Strategies for Doing Business with the Poor. New York.

Identifies constraints and solutions in doing business with low-income people.

UNDP (2012):

The Roles and Opportunities for the Private Sector in Africa's Agro-Food Industry.

UNDP African Facility for Inclusive Markets. New York

Vermeulen, Sonja and Lorenzo Cotula (2010)
Making the Most of Agricultural Investment: A Survey of Business Models that Provide Opportunities for Smallholders. FAO and IIED.

Overview of smallholder aggregation and relationship models.

Vorley, Bill, Mark Lundy and James MacGregor (2009)

Business Models That Are Inclusive of Small Farmers. In: Agro-Industries for Development, edited by Carlos A. da Silva, Doyle Baker, Andrew W. Shepherd, Chakib Jenane, and Sergio Miranda-da-Cruz, 186–222. Wallingford, UK; Cambridge, MA; Rome: CABI ; FAO.

Describes inclusive agribusiness models.

Wegner, Lucia and Jim Woodhill (2012)

Underlying Dynamics of Inclusive Agri-Food Markets. Working Document. Wageningen UR Centre for Development Innovation

Discusses underlying issues affecting inclusive agribusiness including demographics, food demand, regional differences, climate change, etc.

Wegner, Luica (2012)

Scaling up Inclusive Business – Insights from Different Commodities. In: What Works When Scaling Inclusive Agr-food Markets? The Hague: Wageningen UR Centre for Development Innovation.

Reviews main trends, strengths and challenges of selected agricultural food commodity chains, as well as efforts to set up and scale up inclusive business models.

World Bank (2007)

Agriculture for Development – Full Report 2008. Washington, D.C.

Captures all relevant aspects of agriculture and development, including poverty reduction, performance, risks, challenges, instruments, trade regimes, market options, institutions and sustainability.

World Economic Forum (2010)

Realising a New Vision for Agriculture: A Roadmap for Stakeholders. Geneva.

Discusses necessary steps to improve global agriculture by describing opportunities for various players to enhance the functionality and productivity of global agriculture.

Endnotes

- 1 For the sake of brevity, the term “developing countries” will be used throughout this publication and is meant to include all countries classified by the World Bank as low-income, lower-middle and upper-middle income countries.
- 2 UNDP (2008). *Creating Value for All: Strategies for Doing Business with the Poor*. New York.
- 3 United Nations (2012). *World Population Prospects – The 2010 Revision*. New York.
- 4 IFAD (2012). *Food prices: smallholder farmers can be part of the solution*. Rome.
- 5 *ibid.* The World Food Summit 1996 defined global food security as existing when all people at all times have access to sufficient, safe, nutritious food to maintain a healthy and active life.
- 6 CAGR calculated based on FAO (2012). *FAO Food Price Index*. Washington D.C.
- 7 FAO (2012). *FAOSTAT Resources*. Washington D.C.
- 8 World Bank (2007). *Agriculture for Development. Full Report 2008*. Washington D.C.
- 9 Kanayo F. Nwanze (2011). *Smallholders Can Feed the World*. Rome: IFAD.
- 10 Maximo Torero (2011). *A Framework for Linking Small Farmers to Markets*. Rome: IFAC.
- 11 Fairtrade Foundation (2011). *Fairtrade and Cocoa*. London.
- 12 C.K. Prahalad and Stuart L. Hart (2002). *The Fortune at the Bottom of the Pyramid*. In: *Strategy + Business*; UNDP (2008). *Creating Value for All: Strategies for Doing Business with the Poor*. New York.
- 13 The value chain referred to here is derived from: World Economic Forum (2010). *Realizing a New Vision for Agriculture: A Roadmap for Stakeholders*. Geneva.
- 14 Richard Dobbs, Jeremy Oppenheim and Fraser Thompson (2012). *Mobilizing for a Resource Revolution*. McKinsey.
- 15 FAO (2010). *How to Feed the World in 2050*. Washington D.C.
- 16 Lorenzo Cotula, Nat Dyer and Sonja Vermeulen (2008). *Fuelling Exclusion? The Biofuels Boom and Poor People’s Access to Land*. London: IIED.
- 17 Euromonitor International (2012). *Green Buying Behaviour: Global Market Online Survey, 2011*.
- 18 Datamonitor (2011). *Organic Food: Global Industry Guide 2010*.
- 19 The GLOBALG.A.P. is an international standard primarily designed to reassure consumers about how food is produced on the farm by minimizing detrimental environmental impacts associated with farming operations, reducing the use of chemical inputs, and ensuring a responsible approach to worker health and safety and animal welfare.
- 20 Sunil Sanghvi, Rupert Simons and Roberto Uchoa (2011). *Four Lessons for Transforming African Agriculture*. McKinsey.
- 21 GRAIN (2007). *The End of Farm-saved Seed? Industry’s Wish List for the Next Revision of UPOV*. Barcelona.
- 22 Jonas Kathage, Matin Qaim, Menale Kassie, Bekele Shiferaw (2012). *Seed Market Liberalization, Hybrid Maize Adoption, and Impacts on Smallholder Farmers in Tanzania*. Foz do Iguaçu/Iguaçu/Iguaçu, Brazil: IAAE.
- 23 Jelle Bruinsma (2003). *World Agriculture: Towards 2015/2030. An FAO Perspective*. Washington D.C.
- 24 E.C. Oerke (2005). *Crop Losses to Pests*. *Journal of Agricultural Science*.
- 25 John M. Antle, Donald C. Cole and Charles C. Crissman (1998). *Further Evidence on Pesticides, Productivity and Farmer Health: Potato Production in Ecuador*. In: *Agricultural Economics*.
- 26 FAO (2012). *FAOSTAT Resources*. Washington D.C.
- 27 World Bank (2011). *Missing Food: The Case of Postharvest Grain Losses in Sub-Saharan Africa*. Washington D.C.
- 28 IPCC (2007). *Climate Change 2007: Synthesis Report*. Valencia.
- 29 BMZ (2011). *Ready for REDD – Erfahrungen der deutschen Entwicklungszusammenarbeit mit REDD – Reducing Emission from Deforestation and Forest Degradation*. Bonn.
- 30 This shift is advocated by the International Assessment of Agricultural Knowledge, Science and Technology for Development (IAASTD), an international research consortium. A global consultative process was initiated in 2002 by the World Bank and FAO to assess “the role of agricultural knowledge, science, and technology (AKST) in reducing hunger and poverty, improving rural livelihoods, and facilitating environmentally, socially, and economically sustainable development” (IAASTD 2009). Multiple public and private stakeholders, including governments, NGOs, private sector entities, international organizations, and producer and consumer groups, were involved in coordinating the process and were supported by nearly 400 experts, both local and academic. The results were published in 2008, providing an in-depth analysis of the economic, social and environmental impacts of agriculture, the major challenges it faces, and the strategies and technologies that facilitate development and sustainability goals. IAASTD (2009). *Agriculture at a Crossroads Global Report*. Washington D.C.
- 31 The definition of smallholders employed here is based on that used by Sudha Narayanan and Ashok Gulati (2002): *Globalization and the Smallholders: A Review of Issues, Approaches, and Implications*. IFPRI. Smallholder farmers are most commonly defined on the basis of the size of landholding or livestock numbers, an approach driven primarily by the availability of internationally comparable empirical data. However, this approach is limited because it fails to properly account for the quality of resources, the types of crops grown, disparities across regions, or the institutional and market arrangements available to farmers, each of which play a critical role in determining income opportunities. Using landholding size or livestock numbers as a definitional base also fails to capture labour arrangements such as the relative shares of family

- and hired labour which can have substantial implications for a farm's efficiency and productivity. For a discussion of this, see: Oksana Nagayets (2005). *Small Farms: Current Status and Key Trends*. Wye College.
- 32 Peter Hazell (2012). *Five Big Questions about Five Hundred Million Small Farms*. Rome: IFAD.
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Approach

Goals and method

This guide aims to consolidate existing experiences and accumulated lessons on how agribusiness companies can collaborate with smallholders as business partners. It distils findings into a practical guide for companies working on inclusive agribusiness projects. To that end, we reviewed the existing literature, analysed case studies and conducted interviews with experts.

The research was guided by three central questions:

- Challenges: What are the challenges agribusiness companies face when working with smallholders?
- Solutions: What solutions do agribusiness companies use to overcome challenges and establish successful business relationships with smallholders?
- Actors: Who supports agribusiness companies in collaborating with smallholders? What roles are played by various partners? How is the collaboration organised?

Information from a variety of data sources was consolidated and clustered. The structure of the guide follows these clusters with regards to constraints, solutions and cooperation with partners at different levels.

Interviews

We conducted 40 interview with experts from agribusiness companies, business associations, development agencies, research and consulting institutes, and NGOs. Interviews were based on a standardised questionnaire with open-ended questions. In selecting our interview partners, we aimed to speak with those who are actively involved in developing inclusive agribusiness models or who have conducted research on the subject. Please refer to the acknowledgements for a list of interview partners.

Case studies

In a first step, we collected a list of 500 inclusive agribusiness examples. We then selected 40 cases from this list for in-depth analysis. We gathered information on these examples from a variety of sources, including case studies, company websites and interviews, in order to answer our research questions. The selected cases not only demonstrate successful examples of inclusive agribusinesses, but also contain a sufficient level of detail for our analysis. Our selection was in part determined by the need for a diverse set of cases in terms of region, type of agriculture and type of smallholder collaboration. Figure 16 illustrates the classification of our selected case sample.

FIGURE 16

Overview of case studies by category

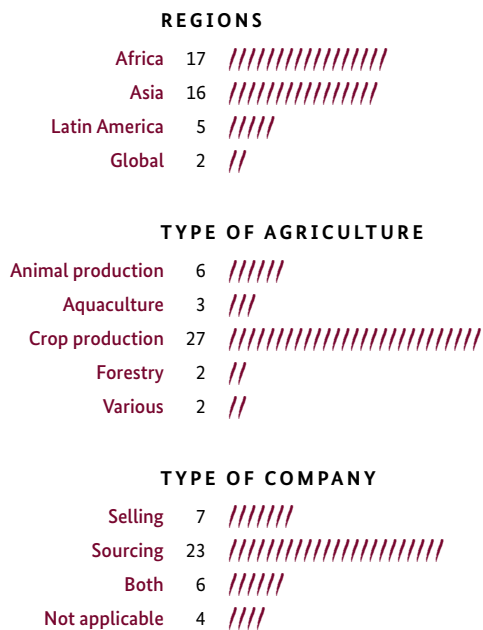


TABLE 6

In-depth case study sample

COMPANY/ INITIATIVE	TYPE OF MODEL	COUNTRY	TYPE OF AGRICULTURE	SPECIFIC PRODUCT
African Cashew Initiative	Sourcing	Benin, Burkina Faso, Côte d'Ivoire, Ghana, Mozambique	Crop production	Cashew
AgroFinanzas	–	Mexico	Various	Credit
Amul	Sourcing	India	Animal production	Dairy
Ballarpur Industries Limited (BILT)	Sourcing	India	Crop production	Pulpwood
BASF: Samruddhi farmer training	Selling	India	Crop production	Crop protection
Bayer CropScience: Foodchain Partnership Gherkin	Selling	India	Crop production	Crop protection, seed
Beijing Kingbo Biotech	Selling	China	Crop production	Crop protection
Binca Seafood	Sourcing	Vietnam	Aquaculture	Pangasius
Cafédirect	Sourcing	13 countries in Africa, Asia and Latin America	Crop production	Coffee, tea, cocoa
Cargill: Outgrower Scheme	Sourcing	Sri Lanka	Crop production	Passion Fruits
The Coca-Cola Company: Project Nuture	Sourcing	Kenya	Crop production	Mango, passion fruit
Competitive African Cotton Initiative (COMPACI)	Sourcing	Benin, Burkina Faso, Côte d'Ivoire, Malawi, Mozambique, Zambia	Crop production	Cotton
Contract Farming India (CFI): Partnership Farming	Sourcing	India	Crop production	Banana
DADTCO: Cassava Plus	Sourcing	Nigeria	Crop production	Cassava
Driptech	Selling	India, China	Crop production	Irrigation solutions
ECOM	Sourcing	Mexico, Guatemala, Nicaragua, Honduras, Costa Rica	Crop production	Coffee
efarm Direct	Both	India	Crop production	Various
Farm Shop	Selling	Kenya	Crop production	Various
Farmer Business Schools	–	Ghana, Cameroon, Côte d'Ivoire, Nigeria	Crop production	Various
Honey Care Africa	Sourcing	Kenya	Animal production	Honey, beeswax
Jain Irrigation Systems Ltd.	Both	India	Crop production	Onions
Juan Valdez® Coffee Shops	Sourcing	Mexico	Crop production	Coffee
Katalyst	Both	Bangladesh	Aquaculture	Pond fish
KickStart	Selling	Kenya, Tanzania, Mali	Crop production	Irrigation solutions
Syngenta Foundation: Kilimo Salama	–	Kenya	Crop production	Insurance
Kraft Food: Food of the Gods (PPDC)	Sourcing	Côte d'Ivoire	Crop production	Cocoa
Mekong Bamboo Consortium	Both	Vietnam	Forestry	Bamboo
Metro: StarFarm	Sourcing	China	Crop production	Fruit & vegetables
Migros: Sustainable palm oil	Sourcing	Indonesia	Crop production	Palm Oil
Nestlé: Milk district development	Sourcing	Global	Animal production	Milk
Novozymes: CleanStar Mozambique	Both	Mozambique	Crop production	Various
Olam: Arabica Coffee Business Chain	Sourcing	Cameroon	Crop production	Coffee
SAGCOT	Both	Tanzania	Various	Various
SAP: Virtual cooperatives	–	Ghana	Crop production	ICT
SC Johnson: Pyrethrum farmers	Sourcing	Kenya	Animal production	Pyrethrum
Sidai Africa Ltd	Selling	Kenya	Animal production	Various
Tiviski	Sourcing	Mauretania	Animal production	Camel milk & cheese
Unilever	Sourcing	Global	Crop production	Various
Votorantim Celulose e Papel (VCP)	Sourcing	Brazil	Forestry	Timber
Yayasan: Yayasan Tumbuh Mandiri	Sourcing	Indonesia	Aquaculture	Crabs

About the training “Growing Business with Smallholders”

An interactive training programme is available for company representatives intending to implement, or already implementing agribusiness models with smallholders.

The 2-day workshop builds upon the findings from the practitioner guide. It offers participants:

- An introduction to the unique market structure and challenges present for building inclusive agribusiness models.
- Guidance on developing or enhancing a business model that helps build effective relationships with smallholder farmers.
- Interactive sessions that allow participants to actively work on their business models and explore partnerships.

*MORE INFORMATION:
WWW.GIZ.DE / INCLUSIVE-BUSINESS*

*SEE CASE STUDY
ON PAGE 20* ←

Title picture

Women in the state of Madhya Pradesh in central India weeding a chickpea field. BASF crop protection products help them manage weeds and increase yields. The BASF Samruddhi farmer training informs them of correct and responsible product use. They also learn how to calculate the benefits of the investment, which generates greater prosperity for farmers and better sales for BASF.

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GIZ offices

Bonn and Eschborn, Germany

Friedrich-Ebert-Allee 40

53113 Bonn

Germany

Tel. + 49 (0) 228 4460 – 0

Fax + 49 (0) 228 4460 – 1766

Dag-Hammarskjöld-Weg 1-5

65760 Eschborn

Germany

Tel. + 49 (0) 6196 79 – 0

Fax + 49 (0) 6196 79 – 1115

info@giz.de

www.giz.de/inclusive-business

GIZ is responsible for all the contents of this publication

On behalf of

German Federal Ministry for Economic Cooperation and Development (BMZ)

BMZ offices

BMZ Bonn

Dahlmannstraße 4

53113 Bonn

Germany

Tel. + 49 (0) 228 99 535 – 0

Fax + 49 (0) 228 99 535 – 3500

BMZ Berlin

Stresemannstraße 94

10963 Berlin

Germany

Tel. +49 (0) 30 18 535 – 0

Fax +49 (0) 30 18 535 – 2501

poststelle@bmz.bund.de

www.bmz.de

Authored by

Endeva UG

Christina Gradl, Christiane Ströh de Martinez, Christina Kükenshöner, Juliane Schmidt

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Growing an inclusive agribusiness is a process much like cultivating crops. The Guide for All Seasons helps practitioners create and expand inclusive business models along the following steps:

- **Discover!** Identify your inclusive agribusiness opportunity along the entire value chain from selling to sourcing.
- **Assess!** Understand the specific challenges of working with smallholders.
- **Plant!** Consider five core solutions to various challenges, and enable your business to grow.
- **Nurture!** Learn about opportunities to collaborate effectively with smallholders, with other partner organisations, and on the level of the business environment.
- **Harvest!** Develop a plan for assessing results and ensuring mutual benefit for all business partners.

Following these steps will help your business grow from season to season!