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MARKET ACCESS FOR SMALLHOLDER PRODUCERS IN EAST AND SOUTHERN AFRICA

THE ISSUE

Following two decades of near stagnation, Africa's growth performance has improved enormously since the start of the 21st century. Since 2000 the continent has seen a prolonged, sustained growth trend. The global financial crisis and steep food and fuel prices slowed growth in 2009 from an average of 5.6% in 2002–2008 to 2.2%, but Africa quickly recovered with growth of even more than 5.0% in 2012 despite the general global slowdown. This remarkable performance is supported by a variety of factors, such as surging domestic demand associated with rising incomes and urbanization, increased public spending (especially on infrastructure) and bumper harvests in some regions.

But this impressive growth has yet not translated into faster social development. African nations usually are at the bottom of any list measuring small-size economic activity. In 2012, some 34 of 45 nations identified as having "Low Human Development" on the United Nations Human Development Index were in Sub-Sahara Africa. Among the last 25 positions, 23 were occupied by African countries, all of the ten poorest ones being in Africa. Despite large quantities of arable land south of the Sahara, many African nations have become net importers of food.

INTRODUCTION

In the last 30 years the number of people in Sub-Saharan Africa living on less than US$ 1.25 has more than doubled and is still increasing; nevertheless the poverty rate which hit a high of 60% in 1993, fell to 49% in 2010. One-third of the world's poorest people live in Sub-Saharan Africa.

Poverty in Africa is predominantly rural. More than 70 per cent of the continent's poor people live in rural areas and depend on agriculture for food and livelihood. In recent decades, economic policies and institutional structures have been modified to close the income gap. Structural adjustments have dismantled existing rural systems, but have not always built new ones. In many African economies, the rural situation is marked by continuing stagnation, poor production, low incomes and the rising vulnerability of poor people. Lack of access to markets is a problem for numerous small-scale enterprises in Africa. Studies show that in many cases poor families are excluded from all kind of formal markets, i.e., they cannot participate systematically in interactions between different market actors. They may put up for sale some products from time to time, but due to the fact that they have only very small quantities to sell, and that they lack information about recent developments such as prices or opportunities, they are in a weak position without bargaining power. Encouraging smallholders to increase their production is not effective if they do not have the possibility to sell the surplus products on a market and if they do not have access to the commodities necessary for production. This insight is not new, but for a long time it was not given enough attention. Interventions by donor-driven projects have often even aggravated the trend rather than reversed it.

In a market system (figure 1), a number of formal and informal operators are involved, who need to interact according to various rules with one another to make a market operate. The approach called "Making Markets Work for the Poor" (M4P) tries to identify the constraints within a value chain and to recognise the reasons why a market is not properly functioning. Project interventions address these limitations, not by bypassing them, but by developing ways to overcome the bottlenecks and by facilitating different market players. The idea behind the approach is that involving smallholders will bring income and employment benefits to them. Therefore the question is not "what problems does the target population have and how can we solve them?", but "how can we address the constraints

Market place in Juba, South Sudan

that prevent the poor from participating on a market?". The focus is then on developing market systems, considering the different roles and functions public and private, formal and informal, stakeholders have and finding ways that smallholders can participate in the market. Therefore M4P is an indirect intervention into market systems, which means that the "project" facilitates market activities by catalysing market actors and inducing systemic changes, while staying external to the system.

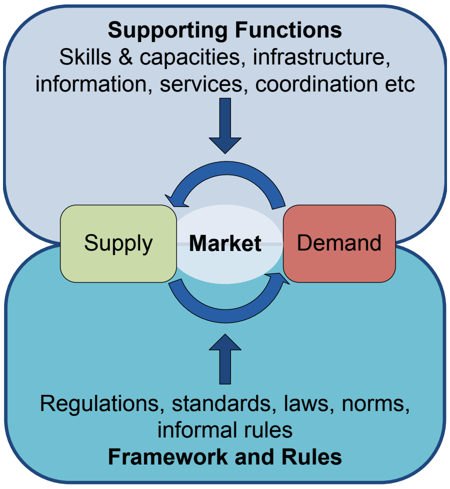

Figure 1 The core of a market system represents the central set of exchanges between providers (supply-side) and consumers (demand-side) of goods and services, which is at the heart of any market. The aim of the M4P approach is to enhance market integration of the poor. Supporting functions and rules need to have a clear pro-poor focus if market access is to be improved for the disadvantaged groups of the population. The pro-poor focus implies that both supporting functions and framework and rules are considered.

Facilitating activities may differ over a broad range: technical assistance to supply-side players; coordination between small producers to improve their bargaining and purchasing power in markets; offering information to market players; introducing new business idea and providing technical support to develop this; limited financial support to defray initial risk; providing technical assistance and some financial support to regulators and researchers to improve the process of policy analysis; and developing new commercial services and other measures. Markets that are "working for the poor" offer job opportunities, adequate returns on commodities and products, and enhanced affordability of products and services for the poor.

SDC has a long track record on working with the M4P approach. In 2002, the project named Katalyst began to be implemented in Bangladesh. To date, more than 1 million small enterprises and farmers have benefited from the project. Between 2008 and 2011, an additional income of 130 million US dollars was created. In East and Southern Africa, SDC started to work with the M4P approach in 2008, relying on an increasing involvement of the private sector and on markets specially focused on women. Two projects of SDC's programmes in East and Southern Africa applying the M4P approach are exposed here as examples. The projects are in different periods of their life cycle. Nevertheless, both have the aim to act pro-poor and gender sensitive and to empower people in a way that enables them to take matters into their own hands.

SDC'S EXPERIENCES WITH M4P PROGRAMMES IN EAST AND SOUTHERN AFRICA

TANZANIA: Rural Livelihood Development Programme (RLDP)

Tanzania's economy is highly dependent on agriculture, which accounts for about 45% of the GDP and two thirds of the export earnings. The agricultural sector is the main source of employment and livelihood for three quarters of the population. Women constitute the major part of the agricultural labour force. Tanzania has a dual agricultural economy: smallholder farmers on one side dominate the agricultural sector, carrying out rainfed agriculture, and producing a variety of subsistence crops, such as maize, sorghum, millet, cassava, sweet potatoes, pulses, paddy rice, wheat and fruit and vegetables. On the other side, cash crops are grown on large-scale commercial farms. Agricultural land is allocated to smallholder farmers either through formal titles or customary rights. Rural households own an average two hectares each. There are many major constraints in the agriculture sector as e.g., poor and disease-prone seed, declining land productivity due to outdated farming methods and impoverished soils, a decreasing labour force due to urban migration, and unreliable weather conditions.

Nevertheless 85% of Tanzania's poor people live in rural areas and rely on agriculture as their main source of income and livelihood. The agricultural sector fails to make significant inroads into high levels of rural poverty and household food insecurity. Reality is characterized by very low wages, regular food shortages, and barely functioning markets. Despite the fact that women represent the major part of

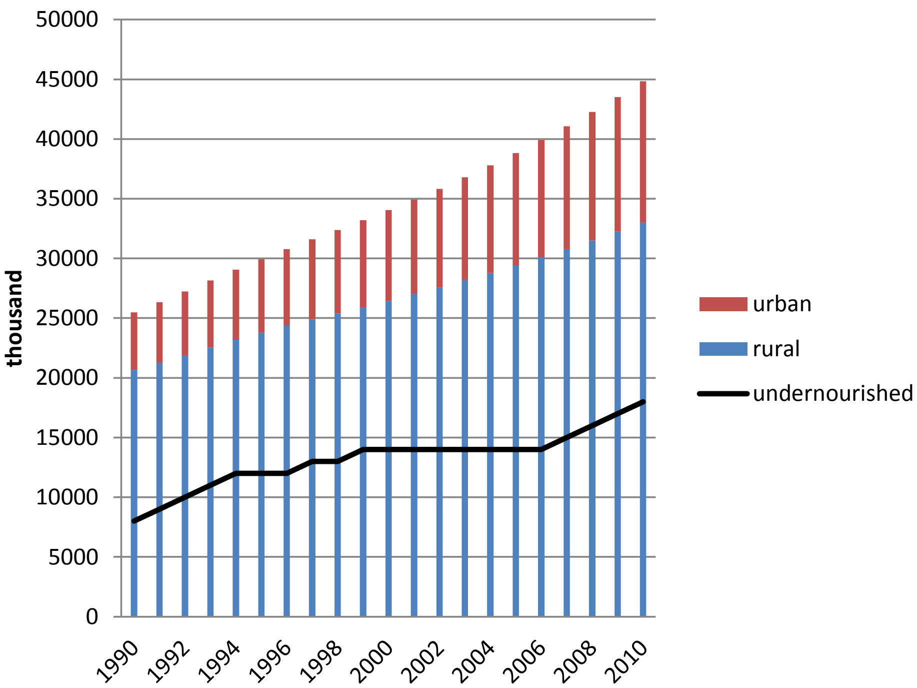

Figure 2 Between 1990 and 2010, Tanzania's population continued its strong growth and the rural share decreased only slightly.

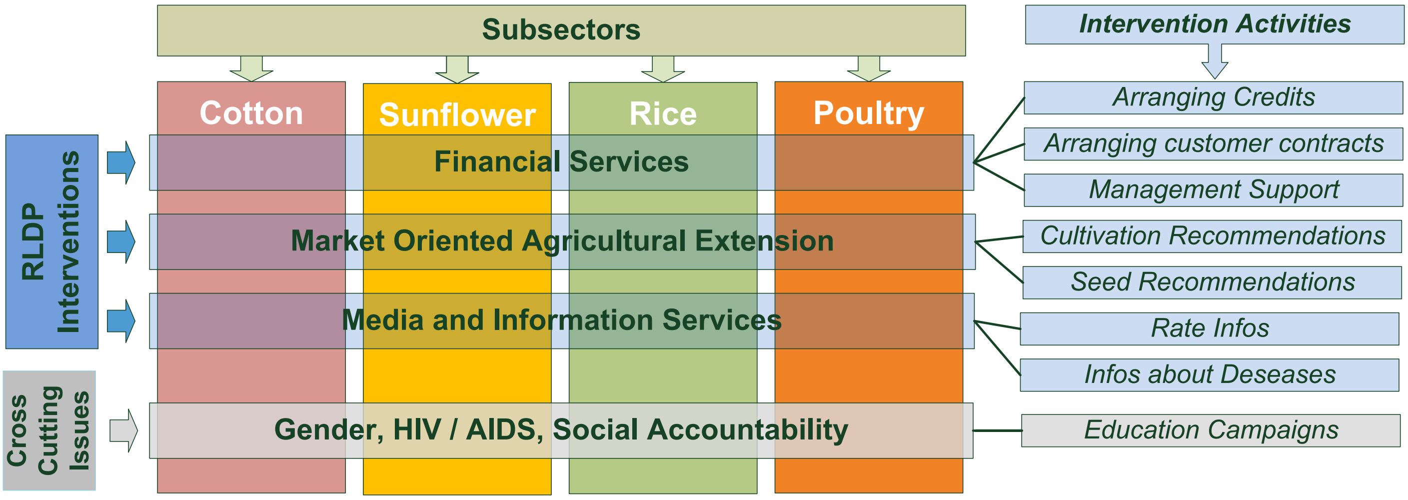

Figure 3 M4P approach as applied in the RLDP: the agricultural value chains (cotton, sunflower, rice and poultry) are supported with different intervention activities. Moreover, crosscutting themes are addressed specifically.

agricultural labour force, they do not have equal access to productive assets, inputs and services, and therefore they produce less. More than 40% of the population is considered undernourished (figure 2). Since 2006, the number has once again begun to increase due to long spells of drought, increase of poverty level in some regions, emerging crop pests, etc.

In this context, SDC's first experience with the M4P approach in East and Southern Africa started in 2008 with the Rural Livelihood Development Programme (RLDP). The programme, implemented by a consortium consisting of Helvetas Swiss Intercooperation and Swisscontact, aims at making market systems work better for the welfare of rural producers in the Central Corridor of Tanzania. Its overall goal is to improve the livelihood of target households by opening up their access to local, regional and national markets. Being able to sell and buy products on a market is important for improving the fragile balance between food production and income, so access to a market will finally contribute to finding a way out of extreme poverty.

The project supports four key value chains, namely cotton, sunflower, rice, and poultry. It also facilitates a radio programme and rural advisory services (figure 3).

All interventions add to the creation of win-win situations: producers improve their access to information, knowledge, inputs and market services, which contributes to generate additional income; on the other hand, processors, through investments in the respective sub-sector, can enhance their business. Mutual mistrust has to be reduced; participants are increasingly willing to accept the interdependence. Private companies realise that they have to invest in their business instead of simply purchasing products from farmers. These investments cover infrastructure and hardware such as transport systems, ginneries, warehouses, etc., and superstructure or software such as agricultural extension, inputs distribution systems, seeds, etc.

RLDP facilitates the establishment of long-term collaboration between value chain partners (producers, processors, traders, retailers) and local government authorities e.g., for the pro-vision of extension services to producers. Depending on the sector, the income of house-holds has risen between 28% and 96%; in the commodity sectors, the cumulative outreach of RLDP is more than 75,000 households.

Sunflower value chain

Sunflower is a major cash crop in Tanzania and involves around 250,000 households with an area of one to five acres, mainly cultivated by hand. More than 60% of sunflower in Tanzania is produced in the Central Corridor. The sector contributes 40% of edible oil. Business opportunities exist along the entire value chain; the cultivation of sunflowers requires only low investments by farmers. The market demand for sunflower oil and cake is steadily increasing: demand stands at 330,000 tons per year, while the actual production is only 200,000 tons.

RLDP has started facilitating a broad range of market activities, e.g., producers benefit from various services ranging from improved access to inputs such as seeds, fertilizers, pesticides, tractor services, canvases for post-harvest management, and they benefit from advisory services as well. RLDP furthermore introduced a contract farming model as a way of improving productivity and sales of sunflower at farmers' level (Box). Other interventions are aimed at building a better relationship and harmonization between small farmers and sun-flower oil processors. This and the higher yields per unit area along with the better prices have led to an expansion of cultivated area – for customers an important point, because it has also improved the profitability of their investments. It further stimulated sunflower oil seeds cultivation in other areas outside the Central Corridor and now the production in the country has increased annually from 305,000 tons to 786,000 tons. More than two thirds of the nearly 30,000 households reached have established contracts with buyers. Of these, almost 30% are female producers. Due to improved agricultural practices, ameliorated sun-flower seeds are now available to farmers and the quality of the grains reaching processors is good. The use of quality seeds coupled with the improvement of other agronomic practices has increased the yields from 200 kg up to 350 kg per acre, i.e., a 67% increase.

The banking sector has been reluctant to extend credits to borrowers because of the low repayment rate. RLDP worked out with a Bank an intervention that linked a sunflower processors' association to finances: the bank accepted sunflower already bought as collateral for loans. As a result, processors acquired new and competitive technologies for processing oils. Finally, US$ 3.5 million was able to be invested by over 40 processors to increase their processing capacities. This, in turn, has increased the sales potential of smallholder producers.

Contract Farming:
In order to secure the procurement of a certain crop, the system of contract farming is often adopted: both farmers and purchasers conclude an agreement in which the obligations of both partners are defined: on one hand, the conditions for the production of a crop (quality, quantity, production technology, prices, delivery terms, etc.); on the other hand, the obligation of the buyer to purchase the products (sometimes at a predetermined price), to support production through the supply of farm input and land preparation, and to provide technical advice, etc.

COTTON SECTOR

Cotton is the second largest agricultural export product in Tanzania. As a cash crop it represents a major source of income and employment, offering economic opportunities to 500,000 households. Most producers are smallholders who own between 0.5 and 10 acres. RLDP developed several types of interventions to address constraints and to generate opportunities to benefit stakeholders such as, e.g., the promoting of contract farming systems, getting better access to improved advisory services, or strengthening farmers' organisations in order to enhance capacities to collaborate with public and private actors. The improvement of agronomic practices and the use of quality seeds have reasonably increased the yields from 500 kg up to 750 kg, i.e. a 50% increase.

In a region contributing in the 1980s up to 40% of Tanzania's cotton, a strong decrease of production occurred. A careful analysis of the situation through RLDP identified two detrimental causes. The first problem was the cheating by buying agents who used tampered weighing scales. It is said that farmers lost up to 60% of what should have been paid. The peasants in turn tried to influence the weight in their favour by adding sand, water and salt to their products to increase the weight. As a consequence, there was a reduction in quality. As a result of these practises, everyone was losing. In order to turn this loss-loss situation into a win-win, RLDP together with the authorities established a "village cotton development committee". This committee has the responsibility to check the weight and quality of a farmer's products before he goes to a buyer. The producers now know the exact weight; on the other side, the buyer knows that he is getting good quality. This in turn makes the cultivation of cotton more interesting for farmers because they know that they are not depending on some extortionate middlemen.

Women selling vegetables in Morogoro, Tanzania

Soya threshing near Gurue, Mozambique

"Thanks to the RLDP we successfully increased sales of our products. In earlier years, one ox cart corresponded to between 7 and 8 bags of 90 kg each: Now that our cotton is checked by the Control Committee, we know the weight of our cotton and the ox cart load corresponds to 10 bags – the additional income amounts to a minimum of TZS 200,000 (approx. CHF 120). Now we have to develop ownership of the system, so that it can continue working in the long run."
Farmers from Ikungulyabashashi Village. (Source: RLDC, Dodoma)

Challenges for RLDP

- While interventions have achieved improvements in stakeholder relationships and livelihoods of individual actors, changes on a systemic level are difficult. Especially in a region with many donor activities, it is difficult to explain the role of a market facilitator such as the RLDP. Rather than seeing the RLDP as a source for advice, information and technical support, RLDP is much more easily assumed to be "another ordinary donor" who provides additional funds to run activities that increase business.
- Sustainability, especially institutional sustainability, constitutes another challenge. For instance, local advisory services and lead farmers that were created and that constitute key factors for sector development, risk to collapse without financial support from outside sources. Farmers must learn to pay for these kinds of services, but this is something unusual and they have very limited resources.
- A third challenge is that of addressing gender issues. There is on one side the difficulty of mainstreaming gender in the RLDP interventions, e.g., with commercial partners not having gender issues as a priority in their commercial relations. On the other side, the impact of activities must be carefully observed in order to identify wrong trends early enough, e.g., when women do a large part of the work, but the use of the revenue is decided outside of their control and hinders spending on aspects conducive to poverty reduction such as health and education.
- Furthermore, RLDP has good contacts on the local and regional policy level, but to change the market system in a sustainable manner, it is necessary to have connections to national stakeholders.

MOZAMBIQUE: INOVAGRO

Of the total land area, only six percent is utilized for cultivated crops, while no measurable amount of the total land supports permanent crops such as fruit- and nut-bearing trees. Family or smallholder farms account for nearly 95% of the country's agricultural production. Family farmers often hold multiple small plots where they grow several crops, mostly traditional varieties. Almost everything is rain-fed. There is little or no mechanization and the use of fertilizer and pesticide is very low due to the difficult access and high prices. Altogether the productivity is low. Most households diversify to cope with low productivity and income.

Despite impressive figures, economic growth has not had a clear and strong positive effect on social development and, particularly, on poverty. Mozambique remains an extremely poor country with an underdeveloped smallholder's agricultural sector. Investments and supports to this type of agriculture, which is

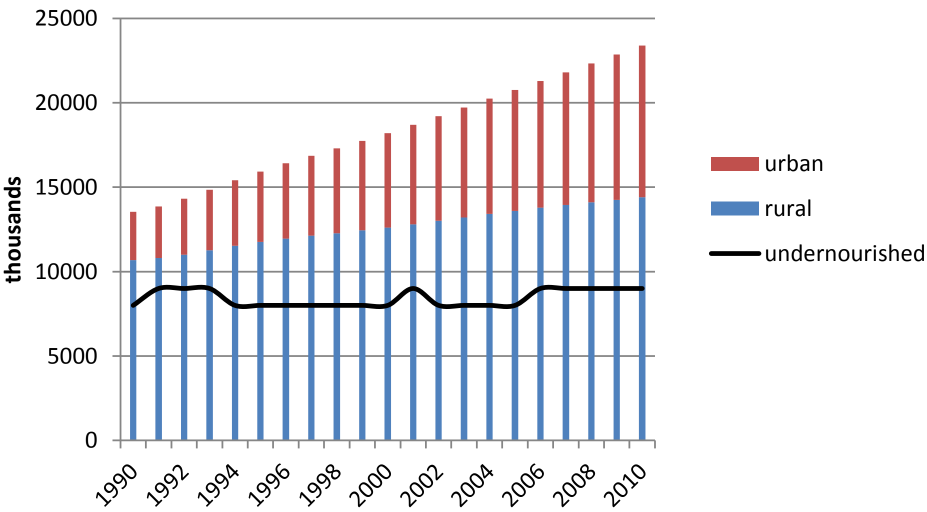

Figure 4 In Mozambique, population growth between 1990 and 2010 showed a similar trend as in Tanzania (figure 2). The main difference is that the number of undernourished in Mozambique has remained constant, while in Tanzania it has continued to grow.

the base for 70% of the population, have failed. Nevertheless agriculture contributes up to 30% to the Mozambique gross domestic product. Today nearly 10 million persons are considered undernourished (figure 4); but at least since 2006, the proportion has decreased compared to the total population.

Based on the principles of M4P, SDC is reducing poverty in northern Mozambique by pro-moting private sector development and increasing the economic involvement of the poor in selected agricultural value chains. The project mandate is to work in the northern provinces of Mozambique, which, despite having the greatest agricultural opportunities, have been hardest hit by rural poverty. The project called Inovagro (Innovation for Agriculture) proposes the strategy of taking another approach to promote "pro-poor" private sector growth by targeting specific niches in investment and trade promotion, as well as reinforcing the dynamics of the rural and local economy as an important engine for broad-based growth. One niche identified is the soybean sector: the demand for soybeans is on the move upward, pulled by the fast growing poultry production and soybean oil sector. Poultry meat consumption is predicted to grow continuously over the next decade and will lead to a further increase in soy-bean demand. The focus is on developing the market system; on considering the different roles and functions, public and private, formal and informal, that stakeholders have; and on finding ways that smallholders can participate in the market. It aims to stimulate growth that raises the income of the poor by providing both increased employment and improved and expanding market opportunities for small and medium-sized enterprise and farming business that are operated by poor women and men (figure 5).

Inovagro is implemented by ECIAfrica/DAI and COWI. The project started in 2011 and is planned to end in 2019.

Quality seeds coupled with improved agronomic practices have more than doubled the yields per acre and the income per household. However, although availability and affordability of seeds remain a challenge, sales are nevertheless booming thanks to a new customer: a regional poultry producer. In earlier years, farmers had made the experience that seeds they bought did not germinate and they had to replant, but afterwards the harvest was

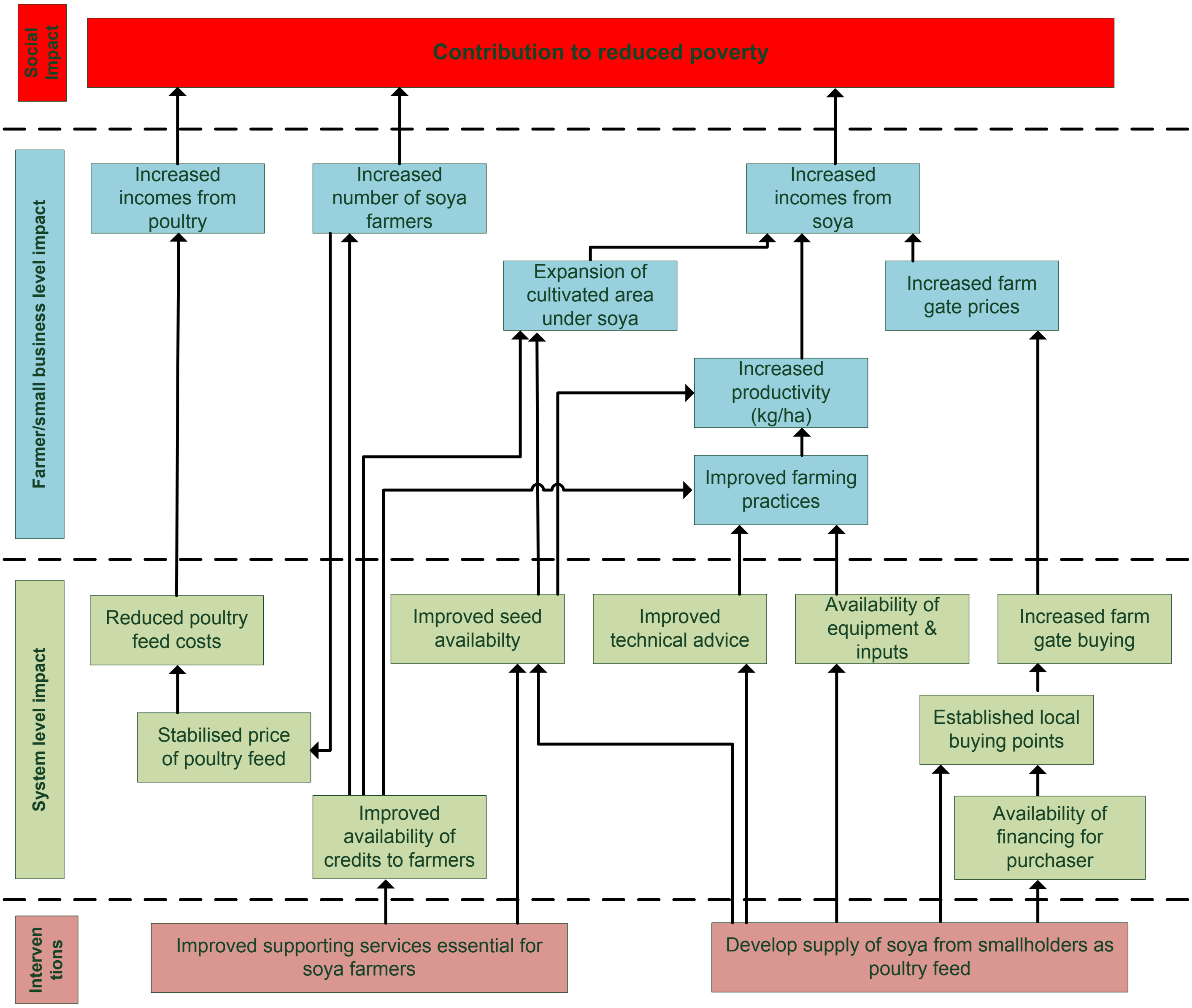

Figure 5 Intervention logic for Soybean value chain in Mozambique

so small that they were unable to repay even the seed loan. These farmers are sceptical about buying seed, and they first have to be convinced. On field days, they see the benefits of certified seeds. More and more farmers are interested in certified seeds, even when they have to pay more. Seed companies have become active in the local market, and this has led to 25% cheaper inputs compared to the first year. In the first year, more than 700 family farmers with nearly 1,200 hectares used certified seeds. Working with local and regional research institutions, Inovagro facilitated the multiplication of new varieties of soya bean seed. Since project inception, around 1,150 soya and pigeonpea farmers (20% women) have doubled their productivity, and they anticipated more than $ 1 million in net sales. Furthermore Inovagro has opened doors for farmers whose basic needs were hard to meet: tractor services to clear land, certified seed, and soil inoculants to accelerate maturity. Perhaps most important of all, the project brokered a relationship between local farmer, farmers associations and one of Mozambique's largest purchasers. Due to this success, private sector stakeholders started to invest in the region without being partnered by Inovagro. Due to improved efficiency, "Inovagro-soya bean farmers" can today compete with imported soya from Brazil and Argentina.

Challenges for Inovagro

- Small farmers growing soya were able to increase their income tremendously. There is a risk, however, that these farmers are going to grow soya on the same plot continuously, even if they know that soya is self-incompatible.
- In Northern Mozambique the number of feed producers is limited. Scaling-up in the sense that on the demand side more purchasers will buy soya, is a challenge. There is the risk that a monopoly situation may develop.
- Free seed supplies are a popular ploy used by Mozambican politicians. However, interventions of this kind undermine the business of private companies, with the result that farmers will have access to certified seeds only from time to time.

DISCUSSION AND CONCLUSION

The M4P approach is a potent tool to influence local and regional markets. Interventions by a M4P-project address limitations impeding smallholder farmers to access markets. This is done by facilitating different market activities. The facilitator has a difficult task to perform well without causing distortions to, or even becoming part of, the market system. In particular, the effects of grants and subsidies are difficult to pre-estimate. This facilitator's role is difficult to communicate: farmers and purchaser often see a project as a provider of services free of charge or even as a sponsor to run specific activities to increase business. Despite the name of the approach, in order to integrate the poor, a specific arrangement must be introduced. The poorest, e.g., the landless, may only benefit indirectly, for instance due to job creation caused by the higher turnover in a market system. Furthermore, not every small-holder is automatically a small entrepreneur. To reach a substantial number of farmers, scaling-up requires working with a large purchaser. At the beginning, it may be somewhat disturbing or even distressing for a project designed to assist the poor, to work with profit-oriented companies, but their extended network of partners can be extremely useful, and they are part of the market. Private companies have to realise that it is in their interest to invest in their businesses instead of simply purchasing products from the farmers.

M4P is not automatically gender sensitive. In its orientation, the approach is even "gender blind". It concentrates on developing markets without accentuating gender equality. An active involvement and targeting of women by an M4P project is crucial, but it is a challenging topic to promote gender equalities in ways that are acceptable in the prevailing sociocultural context. Some sectors may be traditionally male strongholds. Even more difficult to deal with is the fact that sectors having reached a certain size can be taken over by men. Gender balance and gender promotion in M4P activities require careful attention.

To become a member of a market system also usually means entering into mutual dependency: the building up of trust is an important element in a market relationship. A certain critical mass in the number of participants is important in order to prevent monopolistic positions. This is particularly essential on the buyer's side. It also means that investments to establish a trust relationship with producers and other stakeholders may be necessary. Good coordination with other donors is important, because their approaches must be compatible with M4P.

At the centre of all programs is the achievement of sustainable benefits. In an M4P, this means focussing on the long-term capacity of market systems and players to function effectively. It requires the M4P programme to carefully define how the "system" should function before targeting interventions aimed at delivering this vision. M4P programmes must take a pragmatic approach to targeting interventions that not only result in lasting change, but which are also within the capacity of the programme to deliver. Sustainability and on-going facilitation processes can only be achieved with an explicit empowerment of local people, both women and men. The improved skills and knowledge of the market actors will accelerate changes in attitude, so that behaviour towards markets and opportunities can thus be turned into action and lead to increased benefits and enhanced livelihoods.

SUMMARY

In M4P the integration of the poor into a market system is the target. Poor producers should be given the opportunity not only to sell achieved surpluses at a good price, but also to buy essential goods such as seeds, fertilizers, etc. This should ultimately contribute to poverty reduction. The approach is challenging in its implementation because market distortions must be avoided; a market system implies competition not every producer may be able to cope with. Gender is a further challenge because very often women are the most vulnerable and have to overcome particular difficulties in a market system. Market also means to volunteer in a mutual dependency; this is a difficult undertaking and the building of trust takes time.

NINE LESSONS LEARNED FROM THE FIELD

1. **M4P is a powerful approach to fight poverty.** With the identification and overcoming of obstacles in value chains, sustainable changes in market systems may be possible in which the private sector provides avenues for smallholder participation.

2. **Mutual trust and dependence are basic requirements for trade.** Win-win situations stabilise market relations.

3. **Building of trust is a long-term task.** In many African countries – particularly those with a conflict in the more recent past – people are used to working on their own. However, the market demands cooperation, and trust is an important part of a commercial relationship. People have to get used to this. They also need to know the meaning and the handling of contracts.

4. **The focus of M4P is on changing the market system**. This is an important step to-wards sustainability. To be able to influence the framework and the rules requires a certain size and political clout. For instance, in some countries the legal framework for contract farming is missing; to elaborate the respective laws and regulations may require some time, time the project may not have even with the facilitation of the project.

5. **M4P concentrates on developing markets.** A market means by definition a sort of competition, a contest between individuals, groups and/or commercial firms. Not all the poor may be able to face up to this situation, especially the poorest. For instance, landless people may benefit only indirectly from interventions, i.e., by getting new jobs. But it can also happen that they may lose jobs, e.g., thanks to increasing mechanisation.

6. **M4P is as such not automatically gender sensitive.** Interventions leading to a higher output in a sector may even worsen a situation, e.g., an economic success in a production sector may stimulate men to take over the lead from their wives and so, in end effect, the situation for wives becomes worse.

7. **Money is tight.** To be able to expand operations, investments are often needed. In most cases, farmers and small entrepreneurs are short of cash and they do not have the necessary collateral to get credit from a regular commercial bank; access to credit is a problem. “Facilitation” in such a situation is very difficult. A project becomes part of the market faster than one would think. This holds especially true if there are no microfinance institutions, which is the case in many parts of Africa.

8. **Monopoly situation is a risk.** In remote areas with little manufacturing industry, there are not too many purchasers for agricultural products. A large customer who is making a good offer and is buying the whole harvest may hardly have to compete: he will be in a position to dictate prices. A cluster risk may arise. What would happen if such a buyer were suddenly to change his business strategy?

9. **Facilitation is not a long-term activity.** The facilitative intervention must promote the creation of trust, new relationships, new ways of working, contracting and collaborating. In different contexts, different solutions must be sought: there is no “best practice”. It is possible that the facilitation role in the long term is taken over by private stakeholders as a commercial business, but it is also possible that it becomes an on-going task for the public sector. In many countries, the private sector has to learn to live without public-sector support.

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