Donors are increasingly adopting a value chain approach and the results for export crops, especially in the horticultural sector, are encouraging.

While the adoption of a more commercial approach towards agriculture is welcome, donors need to ensure that they do not create market distortions.

The major challenge is to scale up existing interventions and to move towards the commercialisation of food crop production.

After long neglect, agriculture is back on the international development agenda and attracting new donor funding. Donors are increasingly adopting a value chain approach. For example, in Ghana the new major agricultural programmes are targeting entire product chains. In Mali, the United States will merge three stand-alone agricultural projects into one large programme which will cover the whole value chain for certain products. Donors’ stronger market orientation is a welcome step forward, but it is not without risks. What are the challenges and opportunities linked to the value chain approach?

Rediscovering the Market

The major change in agricultural development due to the value chain approach is the focus on the market. Donors used to concentrate their interventions mostly on production and achieving food self-sufficiency. Now the analysis starts at the end of the value chain with the crucial question: is there a market for the product, and if so what needs to happen to make farmers produce for it?

Using the value chain approach means analysing all factors influencing agricultural performance, including access to and requirements of end markets; the legal, regulatory and policy environment; co-ordination between firms in the industry; and the level and quality of support services.

However, even if donors apply the value chain approach, actual practice varies. In Ghana’s horticultural sector, the American aid agency USAID operates through consultancy firms and its work includes linking smallholder farmers, via larger, so-called nucleus farmers, to big international companies such as Coca Cola or Chiquita. The African Development Bank (AfDB) is also active in Ghana’s horticultural sector but works through government structures and tries to avoid areas dominated by large international companies.

For the Netherlands, embassies play a crucial role identifying likely win-win situations where
linking a Dutch firm with farmers could meet a market demand at home. Its embassy in Mali is working with the Dutch retailer Royal Ahold to promote mango exports to the Netherlands. After exploring commercial opportunities for exporting mangoes at a time of year that presented a “window” in the Dutch supermarket system, the embassy invested in a packaging house in Mali to ensure a cold supply chain.

Making Farmers Fit for the Market

Donors can play a crucial role making farmers fit for the markets. Ides de Willebois, Director for Eastern and Southern Africa at the International Fund for Agricultural Development (IFAD), says it is important to make farmers aware that they are part of the value chain and that taking a more active role will benefit both themselves and the agribusiness company. Donor support for organising farmers into larger entities is also crucial because firms find it difficult to engage directly with a large number of smallholders. Furthermore, donors can help ensure that deals between farmers and firms are fair, through training to improve farmers’ business and bargaining skills.

Dr. Michael Brüntrup, agricultural economist at the German Development Institute, points out that farmers engage with big companies to obtain access to inputs such as fertiliser, seeds or credit. To reduce this kind of dependence – which may in the worst case imply that the farmer cannot produce without having a contractual arrangement with a larger agro-firm – alternative service providers need to be developed, and especially the problem of agricultural credit needs to be addressed.

The problem is that most farmers are not willing to pay for support services, especially if they used to be free. So farmers’ organisations remain dependent on donor funding which in turn reduces their accountability to their members. An information system clearly explaining the benefits of support services is necessary, and farmers should increase their contributions over time to ensure the sustainability of their organisations.

One example of such a strategy is Kilicafe, the Association of Kilimanjaro Speciality Coffee Growers, which groups about ten associations representing more than 10,000 smallholders. Kilicafe still receives donor funding, but should become sustainable in the next few years. While coffee farmers were at first reluctant to pay for Kilicafe’s services, they have started to pay as the organisation has demonstrated its value added. Supported by TechnoServe, Kilicafe has been successfully lobbying for coffee sector reform and increased producer prices.

Helping Agribusinesses to Engage with Smallholders

With the value chain approach donor interventions become more strongly oriented towards the commercialisation of agriculture. Actors to be considered are no longer only smallholder producers or poor farmers but also traders, wholesalers and exporters, who may not be poor but who are important intermediaries.

This presents a challenge for donors whose primary objective remains poverty reduction and potential conflicts with respect to overall development objectives need to be considered before interventions begin. At the same time, greater private sector involvement promises to make interventions more sustainable as the ultimate goal is to create commercially viable agribusiness ventures.

Donors can be facilitators for companies willing to engage in African agriculture. Facilitation can start by improving the agricultural business environment. Many agribusiness companies see the lack of transport infrastructure as one major impediment to expanding agribusiness in Africa. Another is insecurity of land rights, which makes it difficult to acquire property for larger agro-investments. When agribusiness companies engage with smaller farmers, the enforcement of contracts poses yet another major difficulty. Devising more efficient mechanisms for conflict resolution in the case of farmer side-selling could make the wider application of contract farming easier. According to Dr. Brüntrup, contract farming can so far be introduced only in
areas where a marketing bottleneck exists; e.g. if farmers do not have another buyer or need the access to inputs.

However, the challenge is to devise interventions which result in a win-win situation, which means combining development objectives with the private sector’s profit-making interest. Given the focus on poverty reduction, donors may be too centred on farmers. Strengthening farmers’ negotiating position is good; destroying the incentive for agro-firms to engage with farmers by setting producer prices too high is not. If donors link farmers to agribusiness, the major challenge is clearly to define their role as facilitators to minimise the risk of market distortions.

**The Challenge: Moving beyond Export Crops**

So far donor interventions using a value chain approach are found mostly in the agricultural export sector. Horticulture is an area where donors have been successfully linking smallholders to the market, mainly through outgrower schemes. In future, donors, governments and the private sector should capitalise on the supply chains developed so far and move towards the establishment of agribusiness clusters. Dr. Lucian Peppelenbos, Senior Advisor at the Royal Tropical Institute, says this is one strategic area for a good return on investments and provides a good opportunity since the interests of development agencies and the private sector are aligned.

At the same time, the current food price crisis has shifted the focus back to national and regional food markets. Urbanisation and rising demand for processed foods provide ample opportunities for developing local agro-industries. However, examples of commercialisation programmes for staple food crops are rare. In the food crops sector, product characteristics and market structure contribute to reducing the incentives for agribusiness firms to engage in these arrangements. It is also difficult to find strong local companies which can engage with smallholder farmers. For some food crops, such as maize, the current structure of smallholder production is a major impediment as commercial production becomes viable only when the scale is larger.

While public-private partnerships are more demanding in the food segment of the agricultural sector, their potential impact and outreach for poverty reduction are much greater. More efforts are necessary to develop and sustain local food industries in Africa. Recent initiatives such as IFAD’s Northern Rural Growth Programme in Ghana to promote the commercial production of food crops are a welcome development.

Further reading:


Five detailed case studies (Ghana, Mali, Senegal, Tanzania and Zambia) are available at: [www.oecd.org/dev/business](http://www.oecd.org/dev/business)

* The author would like to thank Doyle Baker (FAO), Dr. Michael Brüntrup (DIE/GDI), Jacob Chuwa (TechnoServe Tanzania), Karim Hussein (IFAD), Dr. Annemarie Matthess (GTZ), Dr. Lucian Peppelenbos (Dutch Royal Tropical Institute) and Ides de Willebois (IFAD) for their valuable insights provided during interviews.