CAADP

THE COMPREHENSIVE AFRICA AGRICULTURE DEVELOPMENT PROGRAM

PILLAR II

AREA D

Framework for the Improvement of Rural Infrastructure and Trade-Related Capacities for Market Access (FIMA)

STRATEGIC AREA D

Strengthening the Commercial and Technical Capacities of Farmer Organizations and Trade Associations

The smallholder sector dominates much of Africa's productive activity and its labor market, and will continue to do so for the foreseeable future. The sector therefore constitutes a core component of long-term growth and poverty-reduction strategies and should be at the heart of efforts to expand the supply base and raise the competitiveness of African economies—in particular the agribusiness and agriculture-related segments. Given the large number of farmers involved, the limited size of holdings, and the fragmentation of production, such efforts must target farmer organizations and trade associations (FO/TAs) in order to achieve economies of scale and improve efficiency. The focus of this strategic area is to illustrate how African countries can implement programs to successfully revitalize the smallholder sector and accelerate its integration into the growing and higher-value chains of tomorrow. Effective integration of smallholder farmers into the modern and higher value chains is critical to achieving the competitiveness and market access objectives under Pillar II of the Comprehensive Africa Agriculture Development Program. The Pillar's objectives and activities are summarized in Box 1. Box 2 describes the core program components under the current strategic area.

Challenges and Emerging Trends

Key areas of challenge related to efforts to deepen and broaden the integration of smallholder farmers into agribusiness value chains include the following:

- **A rapidly changing and increasingly complex market environment**. The increasing globalization of agricultural markets presents African smallholders with considerably more complex challenges than those faced by Asian producers during the Green Revolution era. African smallholders today need not only to produce more efficiently, but also to contend with far more logistically complex and competitive markets. Growing specialization in distribution channels and logistics; rapidly changing and differentiated consumer preferences; and increasingly complex norms, standards, and other technical specifications place increasing demands on the production and management skills of the average smallholder.
- **Scale and fragmentation of supply**. The challenges faced by the smallholder sector in an environment such as the one described above are augmented by the limited size and spatial dispersion of production units. These factors tend to raise the unit costs of access to services and markets and limit the range or capacity utilization of technologies that can be economically applied at the farm level.
- **Low and slowly increasing productivity**. The factors discussed in the preceding section tend to keep the level of productivity of individual holdings far below their potential. Consequently, and despite the sector's recent growth recovery, total factor productivity has grown by only about 50 percent over the past quarter century, and average productivity per hectare and per farmer ranges between US$60 and US$120, with the lower levels observed in southern Africa and the higher ones in West Africa. Average yields in Africa have hovered around 1 metric ton over the past 20 years compared with an increase of 2 to almost 3 metric tons for the average developing country.
- **Inefficient integration into value chains**. With the exception of producers of major traditional and some high-value export commodities, the large majority of African smallholders tend to be cut off from the remaining segments of the agricultural value chains. The set of constraints related to the market environment, production conditions, and access to services has the combined effect of raising the cost and logistical difficulty of linking the smallholder sector to these segments. Issues such as the quality, quantity, and reliability of supplies often constitute significant constraints, in addition to the cost of assembly, storage, and transport.
- **Absence of adapted financial services products**. The fragmentation and scale of smallholder production complicates the provision of financial services and raises the cost of financial intermediation. The problem here is on both the farming and the financial sector sides. The lower levels of productivity and limited integration into

value chains negatively affect the rate of return and thus smallholders' propensity to invest. The size of operations and the dispersion of holdings raise the cost of delivering financial services by the banking sector, which in turn raises the cost of credit to smallholders who are ready to invest. Hence, individually, smallholders are unlikely to generate the necessary demand for financial services to stimulate significant investment by the banking sector to meet their requirements. The banking sector, for its part, offers a limited range of services that do not meet the requirements of the bulk of smallholders.

Responses and Opportunities for Action

Opportunities to respond to the challenges described above lie in the areas outlined below.

- **Rapid expansion of local demand and growing cross-border trade**. A multitude of factors will lead to significant changes in domestic food value chains in the near future. Such factors range from the ongoing, sustained economic recovery among a growing number of African countries, the continued population growth, the rapid rate of urbanization, and the expanding demand for food based on local staples, to the greater integration of local and regional markets and the expansion of cross-border trade, as well as the responses by the fast-growing packaging, processing, and distribution sectors. The consequence is that in most African countries, smallholder farmers will be facing rapidly expanding markets at their doorstep. With good planning, smart and innovative interventions, and strategic partnerships between the public and private sectors and FO/TAs, this demand potential can be tapped to boost supply, create wealth, and reduce poverty in rural areas.
- **Modern technology advances**. The constraints related to technology, market logistics, and access to services can be overcome to a large extent through innovative use of modern technologies, in particular information and communications technology (ICT) and biotechnology. ICT is already being used to solve market information and intermediation constraints. It can also be used more aggressively to revolutionize extension services and overcome physical and human capital constraints to disseminating and accessing better technologies and improved cropping practices. Technologies are also being piloted in the area of financial intermediation. Great value exists in building strategic partnerships to advance corporate interests, while providing the kinds of solutions suggested above.

  Biotechnology's potential contribution goes beyond expanding the space for seed technology innovation to making a significant contribution to relaxing constraints related to cropping practices and the need to customize technologies to meet the conditions of smallholders. For that to happen, however, African countries will need to adopt an entirely different attitude in the biotechnology debate, which ought to address the imperative need for African countries to master biotechnologies for their own use by creating domestic capacities in terms of skills, laboratories, and equipment to generate technical solutions to the problems their local producers face.

Strengths to Build Upon

Areas and factors of strength to support future strategies to integrate smallholder farmers into value chains include the following.

- **Increasing FO/TA capacity for mobilization, advocacy, and partnership**. The growing number of relatively autonomous farmer organizations in the smallholder sector and their growing role in the post–structural adjustment era provides an effective entry point to plan and implement interventions to reach the large number of smallholders at a much lower cost. The increasing organizational capacities of farmer organizations also facilitate the establishment of partnerships and alliances with the public sector and other private-sector actors to broaden access to and reduce the cost of services and technology, as well as accelerating the integration of smallholders into the local agricultural value chains.
- **Relative flexibility and adaptability of production structures**. Smallholders have few sunk investments and can thus easily adapt production to new market and technology demands to the extent allowed by physical cropping conditions. Moreover, the important yield gap that is frequently observed among smallholder farmers should make it easy to significantly boost supply in a relatively short period of time. Efforts under this pillar should therefore seek to link the market potential referred to above to the smallholder supply base by augmenting the use of conventional policy, institutional, and technical instruments through innovative tools using current advances in technology and organizational management.

Smallholder Farmer Integration Pathways

Farmer organizations can follow different strategies to promote successful smallholder integration into agribusiness value chains. In the case of commodities with high potential demand, the starting point for smallholders who have not yet entered the market is to work on improving key products to meet the requirements of the first segment of the market that they are in contact with and to help them enter the value chain as "product specialists." The objective here is to upgrade the position of the smallholders to become effective *chain actors.* In cases where smallholders have already entered the chain, farmer organizations face three options to intensify integration: (a) to develop partnerships through *horizontal integration* with other chain members, with specialization of smallholders in production and management through their organizations, which act as *chain partners*; (b) to add value to smallholder products through *vertical integration* without involvement in chain management activities, so that smallholder organizations act as *chain activity integrators*; and (c) to develop ownership over the chain by expanding management and other activities along the value chain, such that smallholder organizations act as *chain owners*.

Interventions to support FO/TAs to implement value-chain integration strategies are required at three levels. At the sectoral level, such interventions would include the creation of a sound input- and output-sector policy environment and development of the required basic infrastructure, such as roads, communication facilities, rural electricity, and water infrastructure. At the individual farmer level, intervention should target the strengthening of the technical and management skills that smallholders need in order to master the commercial requirements of producing for a competitive market and to successfully manage business risks and product innovations. At the FO/TA level, the focus ought to be on developing the chain competence of farmer organizations by expanding their access to chain knowledge and on modernizing their management and business alliance practices.

The Role and Evolution of FO/TAs in Promoting the Integration of Smallholder Farmers into Agricultural Value Chains

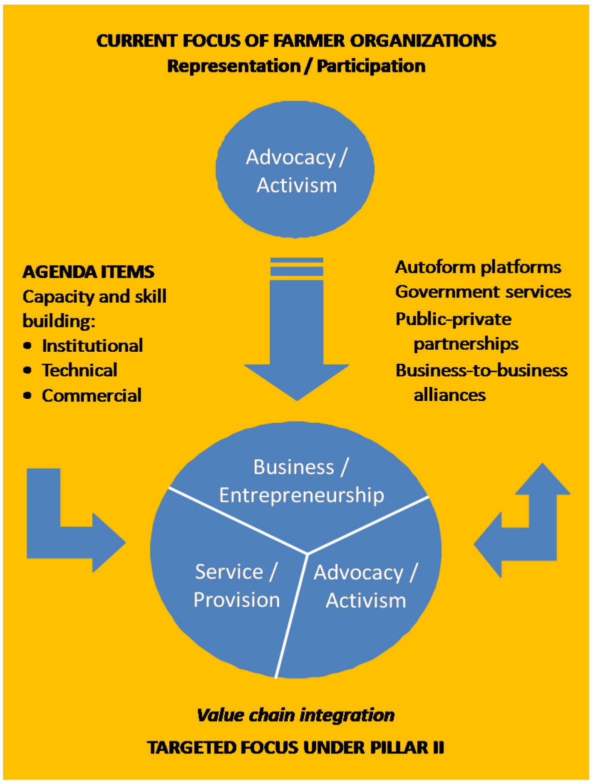
A major challenge in using FO/TAs as a locus of intervention to deepen the integration of smallholder farmers into agricultural value chains is the lack of sufficient customer service and business orientation among the majority of organizations and associations, which hinders their ability to deal with the commercial and technical issues facing their members. In addition, in most cases such organizations and associations are not considered as credible partners by service and finance providers or other actors along the value chain. As a result, they fail to exploit the potential for PPPs and B2B alliances, which are critical to the development of smallholder agriculture in the post–structural adjustment era. Consequently, a critical component of the Pillar II agenda focuses on investing in the transformation of leading, non-apex organizations and associations, as well as their affiliates from primarily advocacy-oriented organizations into market-driven organizations that can efficiently provide technical and commercial services to their members and serve as credible partners to banks, traders, processors, input dealers, and other actors along the value chain. Such a transformational process pursues three complementary subobjectives (see Figure 1):

- *institutional maturation*, reflected in the capacity of FO/TAs to apply effective governance and management practices that ensure transparency and accountability;
- *operational diversification*, whereby FO/TAs act more as credible economic agents with greater business orientation and focus on service delivery to members as well as partnership with other actors along the supply chains; and
- *policy and regulatory alignment* to create the necessary legal and regulatory framework to allow for the registration and effective operation of FO/TAs as business entities, as well as eliminate disincentives in the areas of pricing, marketing, input distribution, financing, and technology, which discourage the emergence of efficient FO/TA-based agribusiness enterprises.

Proposed Early Actions under Pillar II, Area D

- The proposed early actions under each strategic area serve as entry points for scaling up the Pillar II agenda at the country and regional levels. They target key priority areas and activities that respond to needs that are broadly shared across countries and regions, hence requiring collective action and lending themselves to economies of scale. In several cases, they start with pilot programs that can be adopted and scaled out as implementation proceeds:

Figure 1—Integrating smallholder farmers into value chains through farmer organizations and trade associations (FO/TAs)



- *Designing and piloting effective value-chain integration models for smallholder farmers.* The objective is to develop effective and scaleable tools to support partnerships and alliances among governments, private-sector operators, and leading local FO/TAs to broaden smallholder access to commercial and technical services. Indicative activities include a systematic review of successful FO/TA models in terms of providing technical, financial, and commercial services to their members, and the design of an action plan to facilitate adoption of the critical model elements among a selected number of leading FO/TAs.
- *Designing and piloting innovative vocational training and workforce development systems.* The objective is to accelerate the modernization of farming systems by scaling up training and development systems in the future, and to ensure the long-term technological competitiveness of Africa's smallholder and agribusiness sectors in the global agricultural economy. Indicative activities include reviewing successful vocational training and workforce development models in and outside Africa, and piloting prototype training systems in selected countries under the coordination of leading regional farmer organizations and their national member organizations.

BOX 1

Pillar II of the Comprehensive Africa Agriculture Development Program

CAADP Agenda and Objectives

The Comprehensive Africa Agriculture Development Program (CAADP) is at the heart of efforts by African governments under the African Union (AU)/New Partnership for Africa's Development (NEPAD) initiative to accelerate growth and eliminate poverty and hunger among African countries. The main objective of CAADP is to help African countries reach a path of higher economic growth through agriculture-led development, which eliminates hunger, reduces poverty and food insecurity, and enables expansion of exports. As a program of the AU, it emanates from and is fully owned and led by African governments. Although continental in scope, it is an integral part of national efforts to promote agricultural growth and economic development. NEPAD's overall vision for agriculture seeks to maximize the contribution of Africa's largest economic sector to the achievement of self-reliant and productive economies. In essence, NEPAD aims for agriculture to deliver broad-based economic advancement, to which other economic sectors, such as manufacturing, petroleum, minerals, and tourism, may also contribute in significant ways, but not to the same extent as agriculture.

CAADP, as a common framework for agricultural development and growth for African countries, is based on the following key principles and targets:

- the principle of agriculture-led growth as a main strategy to achieve the Millennium Development Goal (MDG) of poverty reduction;
- the pursuit of 6 percent average annual agricultural growth at the national level;
- the allocation of 10 percent of national budgets to the agricultural sector;
- the exploitation of regional complementarities and cooperation to boost growth;
- the principles of policy efficiency, dialogue, review, and accountability;
- the principles of partnerships and alliances to include farmers, agribusiness, and civil society communities; and
- implementation principles that assign roles and responsibilities for program implementation to individual countries, coordination to designated regional economic communities (RECs), and facilitation to the NEPAD Secretariat.

CAADP identifies four major intervention areas, or pillars, to accelerate agricultural growth, reduce poverty, and achieve food and nutrition security:

- Pillar I: extending the area under sustainable land management and reliable water control systems;
- Pillar II: improving rural infrastructure and trade-related capacities for market access;
- Pillar III: increasing food supply, reducing hunger, and improving responses to food emergency crises; and
- Pillar IV: improving agriculture research and technology dissemination and adoption.

Pillar II Agenda and Objectives

The ultimate objective of Pillar II is to accelerate growth in the agricultural sector by raising the capacities of private entrepreneurs, including commercial and smallholder farmers, to meet the increasingly complex quality and logistics requirements of domestic, regional, and international markets, focusing on strategic value chains with the greatest potential to generate broad-based income growth and create wealth in the rural areas and the rest of the economy. The pillar agenda focuses on policy and regulatory actions, infrastructure development, capacity-building efforts, and partnerships and alliances that could facilitate smallholder-friendly development of agricultural value chains to stimulate poverty-reducing growth across African countries.

Key Pillar Strategic Areas

Actual implementation of the agenda under Pillar II is to be carried out through the following main clusters of activities, or strategic areas, guided by the vision described:

- *Area A:* raising competitiveness and seizing opportunities in domestic, regional, and international markets;
- *Area B:* investment in commercial and trade infrastructure to lower the cost of supplying domestic, regional, and international markets;
- *Area C:* value-chain development and access to financial services; and
- *Area D:* strengthening the commercial and technical capacities of farmer organizations and trade associations.

BOX 2

Strategic Area D—Strengthening the commercial and technical capacities of farmers organizations and trade associations: Core program components

1. **The role and evolution of farmer organizations and trade associations in promoting the integration of smallholders into agricultural value chains**
   a. Institutional maturation of leading local FO/TAs through the adoption of more effective governance and management practices, which is required for them to serve as vehicles for the integration of smallholders into the emerging and dynamic value chains;
   b. Operational diversification of leading local FO/TAs through the acquisition of the necessary technical, commercial, and financial resources such as to enable them to:
      i. efficiently and effectively fulfill all major technology, market, and finance related needs of their membership; and
      ii. Develop into business oriented entities that can serve as credible business partners to other actors along the value chain.
2. **Smallholder farmer integration pathways**
   a. Development into "chain actors" as product specialist, which is often the first step in the case of FO/TAs with smallholders members that are predominantly outside of the value chains;
   b. Intensification of chain integration is the next step and applies to FO/TAs that are already in contact with the value chain; such intensification can take place along the following three axes:
      i. partnership with other chain members through horizontal integration with FO/TAs specializing in production as "chain partners";
      ii. value addition through vertical integration, with FO/TAs evolving into "chain integrators"; and
      iii. expansion into other activities along the value chain, leading to FO/TAs becoming "chain owners."
3. **Sector policy and regulatory alignment**
   a. A conducive legal framework that allows for the registration and effective operation of farmer organizations as business entities; and

A regulatory environment that avoids disincentives in the pricing, marketing, input distribution, financing, and technology areas such as to not discourage the emergence of efficient FO/TA-based agribusiness enterprises.