Smallholder Value Chains for Food Security

A Milestone Report prepared for AIFSC Study of A Landcare Based Approach to Food Security in East Africa - Scoping Study, ACIAR, Canberra
15 February 2013

Bernard Wonder

Executive Summary[1]

This report has been prepared as part of an ACIAR funded scoping study into 'A Landcare Based Approach to food Security in east Africa'. It is the first report of the study commenced in September 2012 and focuses on smallholder participation in value chains through farmer groups for household income growth and food security purposes. A second stage of the project will involve a desktop pilot application of the methodological findings of this report. This work is scheduled for mid - 2013 prior to submission of a final report to the Australian International Food Security Centre due in November 2013.

This study concentrates on Kenya, Tanzania and Uganda as these are the nations where Landcare has been quite active over the past decade and hence, they are where application of Landcare's community based approach to value chain participation would be the most readily transferrable.

In east Africa, around 50 per cent of people live in poverty and some 80 per cent of the poor live in rural areas. Life is hard for the typical smallholder operating a farm of less than two hectares with food deficits occurring regularly in dry years and household income too meagre to reliably meet health and education needs. Food insecurity, in terms of malnourishment, is serious with around one third of people in Kenya, Tanzania and Uganda undernourished in recent years. The incidence of stunting amongst children under five years old shows a similar pattern to that described for malnutrition.

Smallholders account for three quarters of food production in Kenya, Tanzania and Uganda with much of the labour supplied by rural women. All three countries have been net food importers for the past 30-40 years and, with population forecast to increase dramatically by 2050, net food imports may increase further if domestic supply is unable to respond to increased demand.

Even by African standards, east African yields for maize (the principal staple) lag seriously behind. The same is true for cereal grains and a range of other products. Unlike the intensification strategy followed elsewhere, east Africa has relied on increasing area used for agriculture to expand its food production but this is no longer possible with the scarcity of land reflected in declining per capita land access over recent decades.

Together with a poor yield performance, east African agricultural GDP per worker has shown little growth with the result that it is about the same now as what it was a quarter of a century ago. There is an extensive literature explaining the poor productivity performance and key factors include limited access to and expense of inputs, slow and limited uptake of technology and the generally low standard of infrastructure. Adding to the challenges are the difficulties smallholders face accessing finance due to lack of collateral and credit history as well as the risk premium paid on approved loans. Micro-finance institutions have relieved

---

[1] This report contains the only executive summary– if you wish to obtain the full report, please contact Project Leader Bernard Wonder at bwonder@bigpond.net.au.

the situation somewhat in recent years, particularly in peri-urban areas, but the longer term finance sought by smallholders is difficult to procure at an acceptable price.

Despite the difficult environment facing east African smallholders, there are positive developments that give rise to some emerging opportunities. Sub Saharan Africa (SSA) is set to become the world's second most populous region after south Asia; urbanisation is occurring at a rapid rate; Africa contains several of the fastest growing economies in the world; and modern food retailing requiring sophisticated production, distribution and marketing is emerging alongside the traditional retailing methods and structures.

Presently, smallholders are supplying 80 per of Africa's food production but it remains to be seen whether and to what extent they will adjust to changing markets with attendant benefits in regard to incomes, food security and command over goods and services. Certainly, there have already been some impressive achievements such as the case of the Kenyan dairy industry but, more generally, the vast majority of smallholders would need to undertake significant adjustment in order to take advantage of changing market demands and associated opportunities. To a significant extent, this is the case because many opportunities lie in expanded production of non-staples (for example, fresh fruit and vegetables, fish and dairy products) that are not the major part of smallholders' current production. That said, opportunities may emerge also in traditional markets such as Africa's grain market where there is potential to displace burgeoning imports.

In many respects, the developments in Africa make for something of a watershed in that smallholders may have a new chance to break away from the 'poverty trap' that has historically dogged so many and condemned them to poor food security, health, education and related outcomes. However, the majority of smallholders face what many would see as daunting challenges as there are only about 10 per cent who are currently regarded as commercial producers with the remainder either locked into subsistence or wanting to be commercially involved but lack the assets to enable them to do so. It is this latter group that are probably the target for initial efforts to increase smallholder market participation.

The transition from smallholder subsistence or semi-subsistence to a more commercial focus will require engagement with the value chain that connects agricultural producers to final consumers via various incremental value-adding steps of product aggregation, storage, processing, distribution, wholesaling and retailing. The process is highly dynamic with consumers continually changing their preferences and market and government requirements for food safety expressed through standards, certification and the regulatory regime. Furthermore, meeting these requirements entails costs that cannot be passed on to consumers in the competitive market environment that often characterises food markets.

In many cases much of what would help smallholders to participate successfully in the value chain is beyond their reach as the key decisions lie with government. For example, the provision of infrastructure has significant implications for what can be taken to market. Moreover, there is a raft of governance issues concerning macroeconomic management, competition policy, land tenure, product safety and contractual law that affect smallholders but are essentially determined exogenously to the value chain environment. Indeed, some issues affecting competiveness of value chains are national or international in their jurisdiction such as trade restrictions affecting African food exports and imports.

Notwithstanding the breadth of the agenda brought into sharp focus when addressing smallholder competitiveness, there is much that can be done by smallholders to better position themselves for value chain participation. Of particular interest is the use of farmer groups, either informally structured and perhaps part of a broader farmers' association or party to a contractual farming arrangement involving a processor or retailer or possibly a formal entity with a constitution and subject to legislation such as a co-operative.

Farmer groups can be seen as a response to imperfect markets where high transaction costs, property right uncertainties, poor availability of market information and costly price discovery make it difficult for markets to function efficiently and generate competitive outcomes that serve the interests of farmers and their partners in the value chain. Farmer groups can harness the power of collective action to secure better outcomes than those possible for individuals in input and output markets and are a mechanism for pooling risks (for example, production shortfalls due to adverse seasons) as well as a vehicle to strengthen negotiating positions with other actors in the chain.

In addition to the abovementioned market power and transaction cost advantages conferred by farm groups, there are other services that can be offered and deployed more effectively in a group context. For example, lending risks are sometimes pooled across groups, finance products can be bundled with other services such as insurance, input procurement and training. Rural women, who may otherwise have difficulty securing finance, may be more successful as a group using joint cash flow for collateral purposes. International donors in partnership with African banks have contributed significantly to financial instruments, usually through guarantor programs that facilitate the availability of lower interest loans.

Farmer groups can also make effective use of information and communications technology by sharing information relevant to group decision making and using the technology to overcome remoteness and isolation from markets. Increasingly, mobile smart phones and tablets are helping smallholders in a wide range of applications ranging from market information and transacting business to weather forecasts and pest and disease outbreaks.

The future role and contribution of farmer groups need not follow any particular blueprint governing their structure or behaviour. Rather, their format is best left as flexible to respond to particular circumstances. Regardless of their format, there are some prerequisites for group success. These include group leadership and cohesion as well as several other factors discussed in the report.

Some farmer groups will be based on existing social or faith based groups but whatever their origins, group members will benefit from skills to make them effective participants as well as equipping them with expertise needed for the chosen enterprise(s). It may be in the interest of other value chain participants (for example, processors or retailers) to assist smallholders with relevant training. In addition, there may be scope for public-private partnerships where donors and/or government join value chain participants to jointly sponsor the development of smallholder capacity.

A critically important element of the strategy to build the capacity of smallholders and their farm groups is the attention given to rural women. Notwithstanding the fact that women in east Africa own a small proportion of the land, they are responsible for generating a significant part of agricultural production. Unfortunately, however, women are not well placed to undertake relevant training as they have inferior access to assets and technology. One option for facilitating improved training for rural women is to make use of farmer field schools (FFS). There is significant potential to use the existing network of FFS in Sub Saharan Africa (SSA) for this purpose.

A further initiative that can assist smallholder farmer groups and others in the value chain to address constraints and opportunities is the innovation platform (IP). An IP comprises a membership drawn from the public, private and non-government sectors with interests in the success of the chain and preparedness to work together to achieve individual and through-chain goals.

The work of IPs can assist value chains by focussing their direction, assessing options to address issues and implementing solutions in the interest of improved performance. In the early stages of an IP, public sector and NGO participants typically play key roles. However, responsibilities often shift to other members of the IP, including farmer groups, as IP activities become more 'hands on'.

A particularly important facet of an IP's work is research and development (R & D). The emphasis on R & D is very much a collaborative one where research projects are a product of stakeholder interaction and a response to specific constraints and opportunities identified in the IP.

Given the significant role envisaged for farmer groups and IPs, the question arises as to whether there is an exemplar model that may guide east African smallholder efforts to participate in value chains. One such model is Landcare. Whilst it has its origins in Australia, Landcare has been taken up in South Africa (in 1997) and, more recently, Uganda (in 2003) followed by Kenya (in 2005) and Tanzania (in 2008). Landcare is based on the self-determining actions of farmer groups and the partnerships formed with research and donor communities as well as local, provincial and national governments.

Landcare adopts a 'grassroots' approach based on the efforts of a voluntary movement of local people empowered to plan and implement their own programs for sustainable land management with the support of government and the business community. In part, Landcare groups have been successful because of the skills and expertise of their members and the social capital they have accumulated over time that enables problem identification and solutions across farm boundaries. Wherever Landcare has been introduced, significant resources have been devoted to building group capacity and support. Facilitators skilled in working within groups to catalyse their direction and broadly supported approaches to land management have proven to be a key resource for helping groups realise their objectives.

The successful development of Landcare in Uganda is particularly relevant to this study as it appears to be the only east African nation using IPs to advance the work of Landcare groups. IPs include farmer groups, community based organisations, government departments and research institutions focused on resource conservation and related benefits for agricultural productivity. IPs have helped with the training of facilitators, the resolution of issues concerning smallholders and the exchange of information between farming communities. They have also been the host organisation for researchers to collaborate with farmers in an interactive and participatory model that has assisted researchers with their work at the same time as benefiting farmers.

The Landcare model looks to be a valuable approach that can be used in the broader context of value chain participation. In many cases, farmer groups and partnerships are central to progressing smallholder participation in the value chain. This is the essence of the Landcare approach that provides a productive and practical setting to address common problems and pursue opportunities. For existing Landcare groups, it would be a matter of expanding their agenda in a value chain context to adopt the proposed approach. Elsewhere, the approach would be focused on group formation and development of partnerships. Landcare’s use of FFS also looks to be transferrable to the broader skill development requirements of value chain participation. In a few cases, some initial steps along this path have already been taken.