ENGAGING WITH SMALLHOLDER FARMERS: THE BUSINESS CASE
A SUCCESSFUL SMALLHOLDER SCHEME IS NOT AN ACT OF CHARITY. DONE CORRECTLY, IT IS A COMMERCIAL WIN-WIN.

70% of sub-Saharan Africans are smallholder farmers

×2

production in sub-Saharan Africa must double by 2050 to meet demand for food, feed and biofuel
A thriving smallholder sector generates a range of new business opportunities. 70% of sub-Saharan Africans are smallholder farmers; improving their productivity will allow suppliers to meet soaring global demand for food and open up a sizeable new consumer sector.

This business case explores some of the commercial opportunities of working closely with smallholder farmers – either as a new target market or as quality suppliers. It is based on interviews with companies that have partnered with AgDevCo’s Smallholder Development Unit across sub-Saharan Africa; CEOs, operations managers and managing directors who have increased revenue and sales, reduced costs and improved their operating environments by putting smallholders at the heart of their businesses.

Agri-business models differ according to location, size and product and we do not advocate a one-size-fits-all approach. Smallholder farmers are not well placed to grow every crop and engaging with such a disparate base of suppliers or consumers is challenging and takes time to become profitable. But digital technology is reshaping how the entire industry works. As the range of businesses featured in this report demonstrates, there are new opportunities across the entire agricultural value chain.

AgDevCo is a blended finance vehicle driven by commercial return and development impact. Without commercial success, sustainable poverty reduction is impossible. That is why agribusinesses are best placed to deliver socio-economic growth for smallholder farmers… IF the business case works for everyone.

AgDevCo’s Smallholder Development Unit is a 5-year, $15m initiative supported by the Mastercard Foundation and the The UK’s Foreign, Commonwealth and Development Office. We help agribusinesses enhance or de-risk their work with smallholder farmers to deliver sustainable development impact and commercial growth.

“Across sub-Saharan Africa, many consumer needs of smallholder farmers are not being met, especially the provision of improved agricultural inputs such as day-old chicks that can dramatically improve smallholder wellbeing.”

Alice Chang
Managing Director, Uzima Chicken Ltd, Uganda

“We started a dipping programme to address high mortality and poor calving rates among smallholder cattle. Our plan was always to source from smallholder farmers but we never imagined they would become our main supplier. It works because it’s a win-win, it gives us all a competitive advantage.”

Steven Sprighton
Managing Director, Silverlands Ranching Ltd, Zambia
WORKING WITH SMALLHOLDER FARMERS: COMMERCIAL AND SOCIAL BENEFITS

“Commercial, mutually beneficial agreements with smallholder farmers anchor our relationship with the community. They also open the door to important conversations about water, security, land tenure. The era of putting up fences and doing your own thing is gone.”

Duncan McDavid
CEO Tropha Estates Ltd, Malawi
Smallholder farmer schemes have traditionally been a Corporate Social Responsibility function, along with building clinics and sinking boreholes. Commercially, this may provide marketing or certification opportunities, but they are often an “add on” many agribusinesses can’t afford. At AgDevCo we design smallholder programmes that grow a business’s bottom line and materially improve the operating environment, as well as raising livelihoods and boosting productivity.

**WHY NOW?**

Agribusinesses have never been better placed to embark on this journey. Nearly two decades of donor investment in programmes to link smallholders with markets have generated critical lessons about what does and doesn’t work. Bringing smallholders into global supply chains is increasingly the domain of investors, not donors, driven by increased pressure on land as well as recent advances in digital technology. Operators across the sector agree that new technology is a game-changer, streamlining operations and enabling data-driven decisions.

**4 KEY COMMERCIAL OPPORTUNITIES**

1. **SECURE SOURCING**
   Smallholders are often the only significant means for increasing supply and may have an advantage through existing plant stock.
   ✤ See page 6: smallholders as suppliers.

2. **NEW MARKET DEVELOPMENT FOR INPUTS, OUTPUTS AND SERVICES**
   ✤ See page 8: smallholders as consumers.

3. **SATISFYING CONSUMER DEMAND**
   Satisfying consumer demand for traceability, sustainability and social impact.
   ✤ See page 10: meeting demand for social impact.

4. **ENHANCED SECURITY**
   Improved bio-security and geo-political security improve ease of doing business.
   ✤ See page 12: increased security.

✤ See page 14: how digital technology is changing the game.
COMMERCIAL OPPORTUNITY #1: SMALLHOLDERS AS SUPPLIERS

According to the FAO, production in sub-Saharan Africa must double by 2050 if agribusinesses are going to meet demand for food, feed and biofuel. With much of the continent’s remaining available arable land in locations that are far from roads or ports, engaging better-located smallholder farmers as suppliers will be increasingly necessary for growth.

Silverlands will source two-thirds of its cattle for beef from smallholder farmers in 2020.

50% Outgrower gross revenue of $296,000 will more than offset their ongoing costs of $117,000 per annum.
Silverlands will source two-thirds of its cattle for beef from smallholder farmers in 2020. The company started a smallholder scheme offering dipping services to improve cattle health and establish smallholders as feedlot suppliers. But it has developed into much more, as Managing Director Steven Sprighton explains.

“When we set up the dipping scheme we didn’t anticipate our feedlot would depend more on smallholder cattle than commercial cattle. This year we will source 5000 head of cattle from local farmers. The emergence of smallholders as our primary suppliers is a product of how successful the dipping scheme has been. The stations are run by the communities, with technical assistance from Silverlands. It works well because it’s a win-win. There has to be an upside for the supplier, and a route to market. There’s no point telling a farmer to pay to dip his cattle if I don’t then offer him a higher price for it.

You have to examine the whole value chain from the perspective of the smallholder and identify synergies. Your smallholder scheme must be driven by mutual commercial benefit – goodwill isn’t enough, it fades when companies come under pressure. For example, we have started procuring sunflower seed from smallholders for stock feed. Quality of local seed was low, so we provide seed inputs at cost. The overall saving still comes out at 15%, thanks to lower transportation costs and fewer middle men.

Even if the margins were the same, we would source from smallholders over commercial producers because of the secondary benefits of increased security.”

See page 12: increased security.

Tropha Estates runs an outgrower scheme for paprika and chillis from its macadamia farm in northern Malawi. Volumes have been increasing steadily since the scheme started in 2017 and are forecast to reach 250 metric tonnes per annum of paprika and 100 metric tonnes per annum of chilli in 2020. Outgrower gross revenue of $296,000 will more than offset their ongoing costs of $117,000 per annum. CEO Duncan McDavid discusses the challenges associated with a successful scheme.

“Fluctuating commodity prices make it difficult to convince smallholder farmers to invest - they are very quick to substitute for other cash crops when prices fall - but we’re open about the pros and cons from the start. You have to be clear that your programme is not a free lunch and requires commitment.

We find it important to continuously and clearly communicate the benefits of our scheme directly with the participants involved: if confusion arises it leads to distrust so we invest a lot of time ensuring the details are clear and contracts are well understood.

After a couple of seasons, and with better data thanks to digital management systems, it has become clear who are the most reliable, quality growers and we focus on these best-performers. Digital technology has also helped us eliminate corruption among our buyers which has also been a challenge.”

See page 14: how digital technology is changing the game.
COMMERCIAL OPPORTUNITY #2: SMALLHOLDERS AS CONSUMERS

Sub-Saharan Africa’s 43 million smallholder farmers are currently underserved as a consumer market, owing to meagre disposable incomes and market distortion by subsidy programmes.

Recent developments in digital technology are allowing input manufacturers and suppliers to better understand the consumer needs of smallholder farmers and develop appropriate products. It is also easier to achieve more efficient distribution through farmer groups and to monitor distribution.

x 3.5
Sales of crop-specific blends for non-maize crops increased 3.5 times in the first year
**FARMERS WORLD LTD, MALAWI**

Farmers World Ltd has 111 retail outlets across Malawi, supplying fertiliser and chemical inputs. These stores offer a range of services for smallholders, such as soil testing and educational events, as well as customised products in smaller quantities delivered through a network of extension workers known as “agronauts”. Dimitri Giannakis is the company’s CEO.

“Commercial traction is slow to come, and is modest, but we are invested in smallholder farmers as a consumer market with huge potential. Our mobile app has been a game-changer but boots on the ground are also key. In a competitive market place, our agronauts scheme is key to differentiating our brand and we have seen a steady increase in customer loyalty year on year.

It takes longer for smallholders to adopt a new product, but we have discovered unexpected short-term wins that help make the scheme sustainable. For example, sales of hermetic storage bags have increased nine fold to 45,000 and sales of customised fertiliser blends for alternative crops are rising too. Sales of crop-specific blends for non-maize crops increased 3.5 times in the first year.

We are also able to provide services to aid agencies and multinationals: third parties who want to engage with or support smallholder farmers. We bridge the gap between the commercial and development worlds. Crop protection chemicals are becoming a big feature, and educating farmers on safe application will be essential. We are now well-placed to step into that space between user and manufacturer.

Digital technology makes the whole scheme manageable and we put a lot of effort into developing the app to fit our needs.”

**UZIMA CHICKEN LTD, UGANDA**

Uzima produces day-old chicks (DOCs) and poultry inputs designed for the rural environment. A network of Brooding Units, supported by Village Ambassadors, handle the crucial early rearing stage. They sell 30- to 45-day-old chicks to smallholder farmers for whom poultry is a critical income stream. Uzima uses the improved, more productive, SASSO breed of chicken, which lays three times as many eggs as local varieties and produces quality meat four times as quickly. Alice Chang is the Managing Director.

“Across sub-Saharan Africa, so many consumer needs of smallholder farmers are not being met, especially the provision of improved agricultural inputs, including DOCs, which enhance health and wealth. Demand for eggs and poultry meat is growing but smallholder poultry farmers face a variety of challenges. These include low productivity among local breeds, difficulty caring for DOCs through the early rearing stage, and counterfeiting of improved varieties. We are addressing these by establishing brooding units in every district to take SASSO DOCs through to 30 - 45 days. They are marketed by a network of grassroots teams going door to door.

Our model of Brooding Units and Village Ambassadors is proving very successful. To supplement the Ugandan government’s network of agricultural extension officers, Uzima has trained our field teams to provide a strong presence at the local level. We are also running a marketing campaign across nine radio stations in six languages, which is having an immediate positive impact on awareness and sales. Clearly explaining the SASSO value proposition and following up with local technical and field support are key.”

See page 14: how digital technology is changing the game.
COMMERCIAL OPPORTUNITY #3: MEETING DEMAND FOR SOCIAL IMPACT

Traceability, sustainability and social impact increasingly drive consumer food choices. Across the industry, companies are committing to environmental and social responsibility as global sales of organic and Fair Trade certified products soar. Smallholder farmer schemes offer businesses the opportunity to amplify their social impact and demonstrate a commitment to equitable growth.
TAYLOR WINCH LTD, TANZANIA

Taylor Winch is Tanzania’s leading arabica coffee exporter, purchasing 30% of product directly from smallholder farmer cooperatives. The company is owned by Volcafe Ltd, one of the world’s biggest coffee traders, and specialises in single-origin, high-quality coffee. In the next 5 years they anticipate 15-20% growth in demand for speciality coffee. Juan José Suelves is the company’s Managing Director in Tanzania.

“As a Fair Trade, ethical supplier of coffee we are committed to smallholder producers and as demand for speciality coffee grows globally, there is significant potential here in Tanzania where the coffee is heavily undervalued. Higher prices are available for growers and processors if you support them in the right way, and it’s rewarding to help a cooperative selling at auction secure a direct sale. We provide a variety of services for smallholders, from pre-finance to training to marketing. The key is to find the best-run farmer groups with potential to increase volume and then identify where there is most room for improvement in the production cycle.

We market each farmer cooperative’s coffee in their own name because customers want that level of traceability and sense of connection with the growers. It takes a lot of effort, but it’s exciting for us because it’s a win for everyone: the growers, the government, the processor and ultimately the retailers, whose customers want to understand the origin of their drink.”

TROPHA ESTATES LTD, MALAWI

Before Tropha started operating its outgrower scheme, chilli and paprika smallholder farmers largely sold their crops through intermediaries, who often took advantage of the farmers’ lack of knowledge about market prices and grades to buy their crops at low prices. This meant smallholder farmers faced volatile prices and an uncertain market, resulting in income insecurity. With Tropha, smallholder farmers are now benefiting from better and transparent prices, a stable link to markets, and timely agronomic advice.

“The chilli market has been especially volatile in recent years so we’ve been working to find buyers committed to ethical sourcing who will pre-agree a price. Without our smallholder scheme that stabilisation wouldn’t be possible. We recently secured a blue chip grocery and restaurant customer and they have invested in independent verification of our social impact.

The volumes of these contracts are generally lower, but once you’ve won the trust of a customer who shares your social objectives they tend to be very loyal. Traceability of inputs for powdered chilli and paprika is a particular challenge for buyers because unethical operators can hide anything in powder, so there’s high demand for suppliers like us who can demonstrate an honest, traceable supply chain.”

Duncan McDavid
CEO, Tropha Estates, Malawi
COMMERCIAL OPPORTUNITY #4: INCREASED SECURITY

Our partners consistently report bio-security and geo-political security as major benefits of putting smallholder farmers at the centre of their businesses. They have improved pest and disease control in areas bordering commercial plantations and strengthened relationships with local communities, building resilience to political shocks.
Silverlands provides dipping facilities at cost price for 35,000 smallholder-owned cattle in a 70km radius around their commercial ranch in southern Zambia. The scheme has reduced cattle mortality and brought additional unexpected benefits. Managing Director Steven Sprighton explains.

“Our dipping programme has reduced cattle mortality from more than 9% per year to just 3% per year in communities surrounding the ranch, significantly enhancing our bio-security. It also led us to start procuring from smallholder producers, who now account for two-thirds of our supply. Being closely integrated, in a mutually beneficial commercial arrangement, puts us all on a level playing field and we see lower levels of theft than other commercial operators in the area. You can’t always put a monetary value on bio-security and geo-political security, but the value is real.”

In 2018 the Government of Tanzania outlawed direct sales of coffee, mandating that all sales go through auction. Many speciality coffee exporters were forced to leave, but Taylor Winch survived.

“Our smallholder supplier model is based on very simple agreements with grower cooperatives: we allow growers to do the value addition of washing, then we directly buy green coffee from them. Sharing margins this way is more equitable and transparent and is the model the Government of Tanzania chose when it changed the law back to allow direct sales. It’s the reason we survived this huge and unexpected political shock.”

Juan José Suelves
Managing Director, Taylor Winch, Tanzania
HOW DIGITAL TECHNOLOGY IS CHANGING THE GAME

Administering a large, fragmented base of smallholder farmers has often been an insurmountable challenge, opening the door to corruption. Digital technology helps overcome this, streamlining payment processes, monitoring geographically dispersed teams and processing data on producer output and consumer preferences.

As digital service providers move into the smallholder farmer market, effective use of technology is increasingly the difference between success and failure.
FARMERS WORLD LTD, MALAWI

In 2018 Farmer’s World engaged Smallholdr, a mobile app and web-based platform, to analyse data and manage the company’s team of 120 “agronaut” extension officers. Perimeter mapping and surveying functions have been especially valuable, says CEO Dimitri Giannakis.

“Mobile tech is a phenomenal game-changer. The insight that data gives us into how smallholder customers behave has huge strategic significance. It allows us to be agile day-to-day and to have confidence that what we’re doing is driven by results.

It helps us, and the consumer, make data-driven decisions. Knowing how big a customer’s farm actually is, through perimeter mapping, helps us advise her how much fertiliser she needs. The survey builder helps us understand regional differences in behaviour and consumer preferences for seed or pack sizes.

Managing our internal teams would be impossible without the system. We can see which farmers each agronaut has met with and ring the outcomes of training days. It’s a huge motivator for them too, allowing each extension worker to track his or her progress against quarterly targets.”

TROPHA ESTATES LTD, MALAWI

This season, Tropha will buy paprika, chillis and macadamias from 5,200 smallholder farmers. In previous seasons reconciling cash payments on paper during peak buying periods was delaying buyers getting back out into the field to buy, resulting in side-selling by impatient farmers. CEO Duncan McDavid explains how a new digital system has overcome that challenge.

“A lot of apps are focused on processes around understanding a smallholder farmer’s profile. But ultimately our business is about buying crop and getting a return on that investment. So we tailored the app to monitor how much money is going out with our buyers, and how much crop is coming back. This has eliminated the potential for corruption by our buying teams, and allows us to reconcile payments in real-time. The weighing scale is connected through Bluetooth and prints receipts for the cashier and the farmer. The buyers hand the drivers a summary of that day’s purchases so we know how much product should arrive back at the depot.

The technology system has increased transparency and trust all round and allows farmers to access finance based on proof of sales. It also helps with traceability and makes it easier to identify our best-performing producers.”
FURTHER READING
We have a range of guides available online with more information about how to run a successful smallholder scheme.

- **Smallholder outgrower schemes - principles of success**
- **Gender lens investing: the case for empowering women. Practical findings for the investment community.**
- **Realising your full business potential**
- **A guide to technology implementation in agribusinesses. Part 1: Developing requirements**
- **A guide to technology implementation in agribusinesses. Part 2: Working with technology providers**
- **A guide to developing inclusive outgrower schemes**

CONTACT AGDEVCO’S SMALLHOLDER DEVELOPMENT UNIT TO FIND OUT MORE
AgDevCo’s Smallholder Development Unit (SDU), with the support of the Mastercard Foundation and UK aid, supports rural agricultural enterprises to develop equitable schemes to boost productivity and incomes for smallholder farmers in Zambia, Mozambique, Malawi, Tanzania, Uganda, Ghana, Senegal and Sierra Leone.

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