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NEED FOR DEVELOPMENT OF AGRICULTURAL VALUE CHAINS THAT BENEFIT SMALL HOLDER FARMERS

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The world population in 2050 will be 9 Billion and each day, a quarter of a million people are added. People are growing richer, demanding more and better food, thus increasing pressure on farmland. At the same time, farmland is being lost, to urbanization and erosion – over the past 150 years, half of the planet's top soil has been lost. Food demand will continue increasing while production will struggle to keep up, creating the risk of price increases and a certainty of high price volatility. REF

In Africa, agriculture is the main source of rural livelihoods. The Food and Agriculture Organization of the United Nations (FAO) reports that close to 80% of those living in rural areas rely on farming for their livelihoods. The majority of them are small-scale farmers, who farm on less than 5 ha of land on average. In recent years, there has been a global focus on smallholder farmers that has seen experts devise innovative methods to improve their productivity, and companies strive to better integrate smallholders in global value chains.

After years of under-investment, agriculture is back in the spotlight, with much of the focus on increasing output from smallholder farmers. There are around 500 million smallholder farmers in the world, and they produce up to 80% of the food consumed in Africa and Asia. They are net buyers of food and very vulnerable to food price increases and spikes hence play an important role in the livelihoods creation amongst the rural poor. As a group, they are among the poorest and most marginalised in the world. They are also stewards of increasingly scarce natural resources and on the frontline of dealing with the impacts of

climate change. Smallholders therefore play a critical role in addressing the challenges of food security, poverty and climate change (ASFG 2010).

Agricultural productivity has leverage on the poverty reduction in the country and hence consistent improvement in the agricultural production will automatically translate into the improved livelihoods in form of improved nutritional habits, higher incomes for farmers and access to the basic needs of life (Ssempebwa 2010).

The agricultural sector has for several years formed the backbone of Uganda's economy (ACORD 2010, Adeleke et al 2010), contributing approximately 37% of Gross Domestic product (GDP). It employs around 66 percent of the working population as compared to manufacturing and service sectors which employ 4.2 and 23 percent respectively (UBOS 2011). The sector remains crucial to the Ugandan economy for household and national food security, income generation, employment creation and foreign exchange earnings among others. Close to 18.8 million or 77% of the Ugandan population depend on agriculture for their livelihoods (ACORD 2010).

Agricultural markets are rapidly globalizing, generating new consumption patterns and new production and distribution systems. Value chains, often controlled by multinational or national firms and supermarkets, are capturing a growing share of the agri-food systems in developing regions. They can provide opportunities for quality employment for men and women (FAO 2010).

This change in food retailing has led to greater involvement of the private sector in agriculture and a focus on developing and improving agriculture value chains (AVCs) in terms of quality, productivity, efficiency, and depth (ADB 2012).

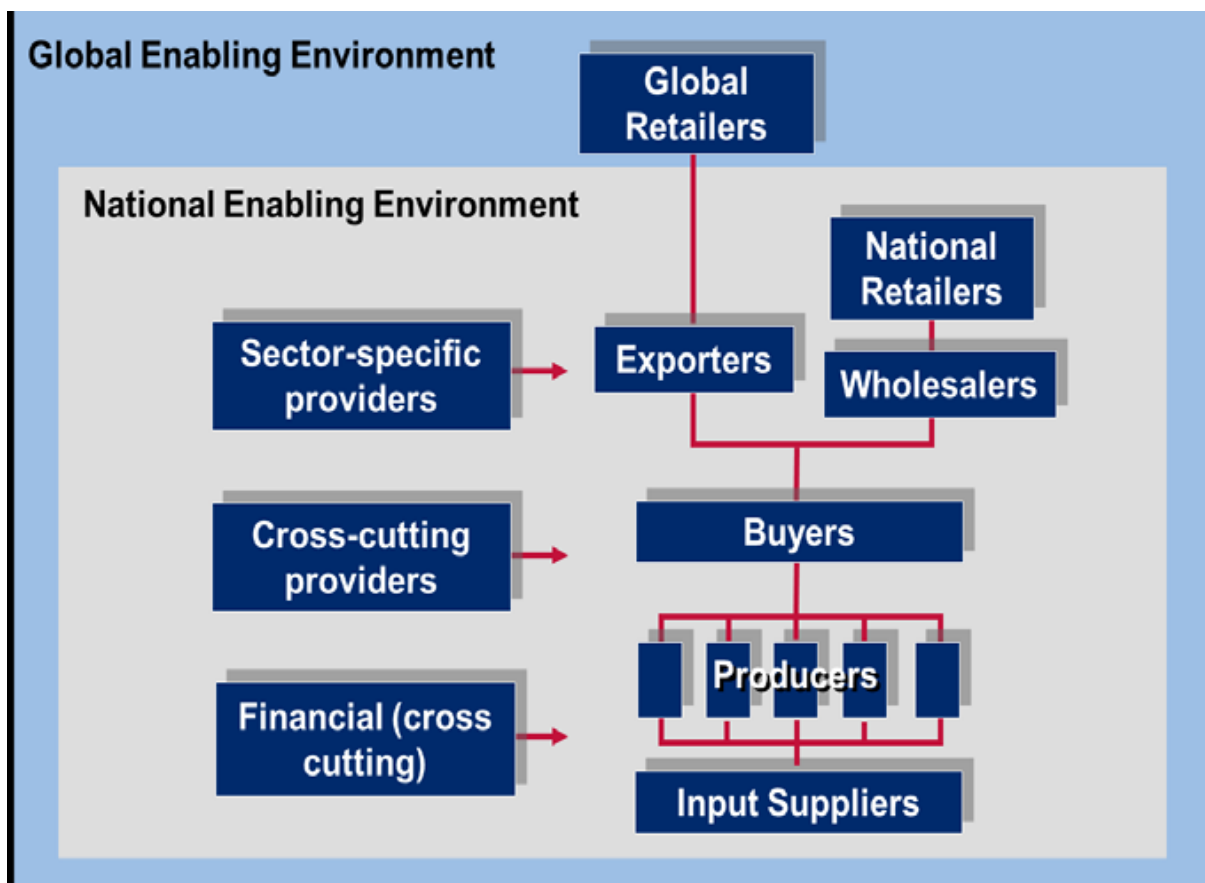
A value chain includes the full range of activities and services required to bring a product or service from its conception in the field to sale in its final market. The conceptual framework for analyzing value chains includes both structural and dynamic features of the system. The structural elements, depicted in the general value chain map (Figure 1), include all the firms and other actors involved in the value chain, the vertical and horizontal linkages between these actors, supporting markets, and the business enabling environments within which actors

make their decisions. The dynamic elements in the value chain framework include the characteristics of the relationships between firms and the ability of the value chain to remain competitive by upgrading in response to changing end market demands and requirements.

Traditional agricultural value chains are generally governed through spot market transactions involving a large number of small retailers and producers.

Modern value chains are characterized by vertical coordination, consolidation of the supply base, agro-industrial processing and use of standards throughout the chain. FAO 2005.

Fig 1; General Value Chain Map



Source USAID 2014

Value chains are often distinguished by their means of governance (mechanisms of decision-making, power and control).

Types of Value Chain according to Form of Governance Market-driven chains, where there are no long-term relations between the actors and where the market price is the central governance mechanism. All actors, including the poor, compete in these markets without

specific support aimed at facilitating market access and/or guidance from the buyers on quality, quantity or commitment.

Relational chains, where transactions occur in the framework of established relations and where the central governance mechanism is the lead actor. Three different types of relational chains have been identified: (i) buyer-driven chains, where a dominant buyer determines what is produced and sold; (ii) producer-driven chains, where farmers, usually through their organizations, constitute the lead actors; and (iii) intermediary-driven chains, where the key linkages are fostered by third parties, usually service providers or social entrepreneurs.

The paper is aimed at examining how beneficial the development of agricultural value chains are to small-scale farmers in Uganda and share possible recommendations with the government, farmers, interested donors and other stakeholders.

1.0: Problem Statement

Productive and successful business relationships have to create mutual benefits for all actors in the value chain if they are going to be successful and sustainable. Inclusive growth in Agriculture means developing the agricultural sector in a way that generates broad-based benefits for rural populations while improving economic productivity and food security at the local and national levels (USAID 2014).

Many Sub Saharan African, countries Uganda inclusive risk being trapped into producing low-skill, low-value products and services, struggling to obtain a significant value-added share in global trade. It follows that raising the productivity and increasing the efficiency of agricultural value chains are basic to the success of rural economies and to the growth of incomes of their rural populations (Webber et al 2009, Chiedza 2013).

Africa's smallholder farmers face many challenges preventing them from scaling up their participation in markets, including insecure rights to land and natural resources, lack of access to quality inputs and financial services, inadequate support from research and extension services, and high transaction costs caused by poor rural infrastructure. Smallholders have little say in policy decisions that impact on their lives, or in the design of research agendas. In addition, domestic and international markets for agricultural produce are changing rapidly and dramatically, with smaller producers finding it increasingly hard to

participate in these markets. Challenges are even greater for women farmers, who constitute the majority of farmers in Africa (ASFG, IFAD 2010, Farnworth 2011)

In 2008 three major publications reported on the need to focus policy attention on food and farming. One finding of all three reports, supported by decades of research, is that developing gender-centred policies will ensure higher production and productivity in agriculture, and generate a large number of social benefits. With respect to value chains in particular, the fundamental premise is that paying attention to gender issues can increase production and productivity, speed up the adoption of innovations, raise household incomes, and ensure significant improvements to child health, nutrition and educational levels, thus contributing to the achievement of the Millennium Development Goals and the Sustainable Development goals. Investing in women farmers, assisting them to move into off-farm income generation, and increasing their effective participation in value chain organisations, enhance the potential of value chain development to become an agent of sustainable social change (Farnworth 2011).

The agriculture sector remains among the lowest ranked sectors in the national budget. It has not received more than 5 percent share of the national budget since 2009/10. The total budget allocation for the agriculture sector for FY 2012/13 was Shs 379.04 billion which is 3.5% of the total national budget. The 2013/2014 projection is 3.2% – even if we stretch to the total direct and indirect allocation to the sector, the total allocation will not exceed 5% of the total national budget. Either way, the allocation to the sector is way below the Maputo / Comprehensive Africa Agriculture Development Program (CAADP) declaration (target) of at least 10% of the national budget- that Uganda committed to implement (Rwakabamba 2013).

In this paper, three case studies of value chain interventions that have helped to improve the position of smallholder farmers are presented. They offer specific mechanisms to overcome some of constraints rural smallholder farmers face. They have been selected because they offer experiences from two different continents and thus help to illustrate the necessity for specificity, as well as the potential for mutual learning. The case studies are (i) the DRC and Rwanda banana and Irish Value addition and processing (ii) Cotton Value Chain in Northern Uganda and (iii) Milking in Nepal

2. 0: Lessons from Agricultural Value Chain Success

2.1 Collective market and Value addition of Irish potato and Banana

Two cases from the DRC and Rwanda, targeting the collective marketing, value addition and Processing of banana and Irish potatoes, are used to demonstrate the IAR4D approach. The results showed that, through collective marketing and banana processing, farmers were able to increase their returns by about 50% compared to the period before IAR4D interventions. The shelf life of the products was also increased drastically. Market efficiency improved for Irish potatoes by reducing transaction costs and decreasing the market intermediaries who would extract larger margins at the expense of the producers. Thus the tonnage of potatoes marketed increased from about 3 to 15MTs in less than one year, while farmers were able to earn up to 10% higher prices through the IPs. Transformation to prevent postharvest losses experienced by farmers in general and members of IPs in particular is recommended. The use of flexible contracts, coupled with support from credit institutions, is also recommended.

Birachi et al.

2.2: Cotton Value Chain

In 2005, the International Rescue Committee (IRC) began investigating potential avenues for economic development in Kitgum District, northern Uganda, where most humanitarian work consisted of emergency interventions. The intent was to identify economic activities that were sustainable and consistent with traditional Acholi employment and business opportunities and also had a reliable market. IRC focused the search on agriculture. However, land limitations and a lack of insecurity on the roads made this an extremely precarious undertaking.

Because access to land was through kinship or rental fees, it was difficult for internally-displaced persons (IDPs) with limited income to pay fees. IRC persuaded local landowners to provide land access to IDP farmers at no cost. Another concern was that crops would have to be transported to town to sell, which would put the IDPs at risk while on the road. IRC selected cotton following discussions with Dunavant Uganda, Ltd (hereinafter referred to as Dunavant), a cotton processor that represented a secure market for harvested cotton and was able to collect the bulked crop from the camps. The arrangement would help assure the safety of the IDP farmers and facilitate economies of scale. IRC worked with Dunavant to provide

inputs and training to the farmers and to ensure they understood the potential of the trade relationship.

This small pilot project succeeded in improving farm household incomes and illuminating ways to support economic recovery programs, even in the midst of violent conflict. Connecting farmers in an otherwise marginalized and isolated area with a functioning market by examining relationships among actors within the cotton value chain increased economic growth, rebuilt trade networks and improved stability. This case study provides an example of the ways humanitarian actors can work with the private sector and use the value chain approach and linkages to facilitate economic recovery (USAID 2008).

2.3: Milk Value chain (Milking for More Money)

The livestock industry in Nepal has a number of features that contribute to the development of value chains: (i) there is a well-defined domestic market for quality milk and meat products for the increasing middle class; (ii) local products have a competitive cost advantage against imports; (iii) while livestock is often sold live, the market for value-added processed products, which require additional skills, is increasing; and (iv) the high financial, technical, and labor investment required lends itself to the development of organizations.

The Community Livestock Project has successfully leveraged these features to improve the quality of products to a stage where they can compete with imports. Stakeholders in the project have a comparative advantage over other producers where infrastructure, such as milk chillers and slaughter slabs, has been provided to reduce losses and improve quality. It could also be argued that these inputs provide a competitive advantage that allows producers to differentiate their products and to enter high-end markets where food hygiene is a prerequisite.

ADB. 2003. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to Nepal for the Community Livestock Project*. Manila.

Source: Independent Evaluation Department.

3: 0 Criteria Necessary for successful development of pro-poor AVC

- (i) support for a policy, regulatory, and institutional framework that enables AVCs to become stronger;
- (ii) Creation of opportunities for increased private sector engagement including through the formation of public–private partnerships for developing synergies;
- (iii) Provision of access to credit for participants along the value chain;

- (iv) Provision of rural infrastructure that reduces postharvest losses and transport costs, and shortens transit time, while increasing overall rural mobility;
- (v) Support for innovations and technology for developing competitive value chains;
- (vi) Provision of access to value-responsive markets;
- (vii) Provision of access to timely information to improve bargaining power;
- (viii) Establishment of organizations to reduce transaction costs; and
- (ix) Inclusion of women, poor, and/or marginal groups into value chains.

Ensuring that the nine complementary criteria are addressed in the context of an agriculture project will improve the value chain and ensure that project outcomes are achieved.

Source ADB 2012

4:0 Key Policy Factors for value chain Improvement

Key Policy factor	Positive Scenario	Negative Scenario
Policy Awareness	Increased awareness at the level of Small Holder farmers (SHF)	Confusion and weak lobbying by SHF
Policy Challenges Addressed	Policies Supporting Strong Cohesion and networks	Weak farmer Institutions and marginalisation of SHF
Policy Enforcement	Policy enforcement impacting on Vibrancy on the market	<ul style="list-style-type: none"> - Wrong Policies enforced - Difficult to implement policies that have been enforced

5: 0 Inclusive Agriculture

There are several types of investments that government/donors can make to facilitate the development of inclusive agricultural market systems:

- Facilitate increases in the quality and types of information available to smallholders. The information that smallholders need to evaluate alternative market opportunities includes general market and price information, as well as specialized technical information on production and post-harvest handling. In addition, smallholders need information on end

market specifications, with a common channel for this information being through vertical linkages to buyers and/or input suppliers. In order to build inclusive market systems, it is important to address information bottlenecks and facilitate the unobstructed flow of market and technical information to smallholders.

- Develop and facilitate scale-appropriate agricultural technologies and input packages. National and international agricultural research efforts should focus on productivity enhancing technologies that match smallholders' resource and risk profiles. It is important to keep in mind that agricultural intensification is not a universal solution. Where there are high population densities and extremely small farm sizes, rural households will need alternative employment and enterprise opportunities.
- Make investments that benefit large numbers of smallholders. Improvements in infrastructure, communications, and the regulatory environment have widespread benefits. Improved roads, power, transportation, irrigation, and cold chain storage systems can help to reduce costs and improve profitability for smallholders and their commercial partners. Advances in information and communication technology can also lower costs, especially the costs of obtaining market and technical information (USAID 2014).

This paper has highlighted that value chain development is necessary for small producers to ensure their livelihoods.

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