

Integrating African Smallholders into Value Chains: Producer Associations and Market Innovations

Mobilizing Rural Institutions for Sustainable Livelihoods

10 APRIL 2008

Foodgrain Market Participation in Eastern and Southern Africa

Country	Crop	Year	% Sellers (g=gross, n=net)	Study
Ethiopia	Barley	1999-	10 ^g	Levinsohn and Macmillan (forthcoming) (rural households only)
	Maize	2000	23 ^g	
	Sorghum		11 ^g	
	Teff		20 ^g	
	Wheat		12 ^g	
Kenya	Maize	1997	29 ⁿ	Nyoro et al. (1999) Renkow et al. (2004)
		1998	34 ⁿ	
		1999	39 ⁿ	
Madagascar	Rice	1990	32 ^g	Barrett and Dorosh (1996)
		2001	25 ⁿ	Minten and Barrett (2006)
Mozambique	Basic food	1996-7	14 ^g	Heltberg and Tarp (2002)
	Maize	2001-2	30 ^g	Boughton et al. (2006)
Rwanda	Beans	1986-7	22 ⁿ	Weber et al. (1988)
	Sorghum		24 ⁿ	
Somalia	Maize	1986-7	39 ⁿ	Weber et al. (1988)
Zimbabwe	Maize	1984-5	45 ⁿ	Weber et al. (1988)
	Grains	1996	27 ^g	Govere and Jayne (2003)

Source: Barrett (2007)

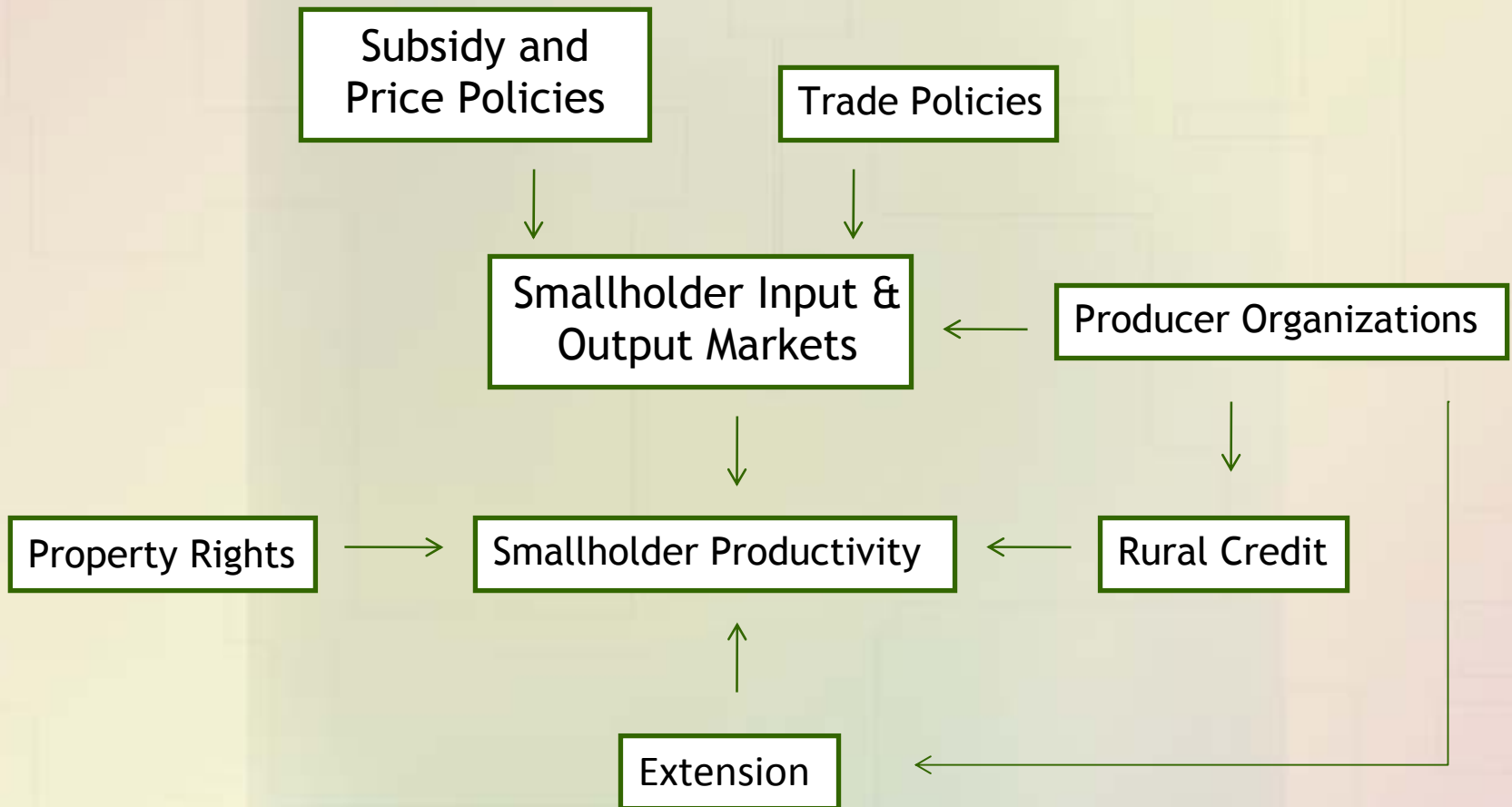
Constraints on Smallholder Markets

- Lack of Appropriate Policy Phasing in Market Liberalization of the 1990's
- High Cost and Low Profitability
Constraining Private Sector Investment
- High Transaction Costs in Smallholder Market Participation
- Asymmetries in Information Access

Low Level Market Equilibrium

- Highly Diversified Farming Systems with no Specialization
- High Subsistence Orientation
- Markets Unintegrated Spatially and Temporally
- Trade and Price Policies are Ineffective
- Lack of Adoption of New Technology

Institutional Requirements in Generating Smallholder Productivity Growth



National Policy: Commercializing Smallholder Agriculture

- Task: how to integrate farmers into better functioning markets
- Actors: IARC's
Extension
NGO's

Sources of Increased Market Efficiency

- Innovations in Product Assembly and Bulking
- Financial Innovation
- Contracts
- Storage and Temporal Arbitrage
- Inter-linked Input-Output-Credit Markets

Organizational Issues in Smallholder Market Development

- Farmer Organization Driver:
Technology, Micro-Credit, Assembly
and Bulking
- Hierarchy in Market Function
- Market Coordination
- Integration: Temporal, Spatial, Inter-
Linkage

Market Implementation Issues

- Top-down or bottom-up approaches
- Choice of supply chains
- Markets in high vs low potential areas
- Input market development
- Credit market development
- Integrating formal and informal markets
- Coordinating market and productivity interventions
- Urban wholesale and retailing

Choice of Supply Chain

- High-value, non-traditional commodities: high growth potential from a very small base: limited impact on poverty
- Traditional export crops: limited growth potential
- Food staple markets: \$50 billion in size, domestic growth, potential for poverty reduction: most difficult markets to organize efficiently

Nairobi: Market Share for Different Retail Outlets

Per capita Income Quintile	Mean Per Capita Income (Ksh)	Market Outlet						
		Super-market Chains	Small super-market	Duka/shop	Open Market	Kiosk	Butchery	Other Minor Outlets
----- % of Total FFV Expenditure -----								
1 (lowest)	7,407	0.0%	0.1%	0.2%	53.3%	42.9%	0.0%	3.6%
2	19,199	0.0%	0.4%	1.3%	56.7%	38.0%	0.0%	3.6%
3	33,567	0.0%	0.6%	0.0%	64.3%	33.9%	0.0%	1.1%
4	59,530	1.0%	0.1%	0.3%	59.3%	38.3%	0.0%	1.0%
5 (highest)	276,698	14.9%	0.1%	1.3%	48.9%	30.8%	0.0%	4.0%
Overall	79,079	4.4%	0.3%	0.7%	56.4%	35.7%	0.0%	2.6%

Fewer than 1 in 20 Ksh spent on fresh produce is spent in supermarket chains ...

... and nearly ALL of this occurs among the wealthiest 20% of the population

Open air markets and kiosks dominate

Improving Efficiency in Urban Markets

- Supermarkets: Contracting suppliers, continuity of supply, volumes and quality important considerations
- Improved Efficiency of Urban Wholesale Markets:
 - Market access controlled by brokers
 - Location, transport access, organization
 - Banking service

Evolving Agenda for Smallholder Market Development

- Facilitation of farmer organizations
- Methods for scaling up farmer organizations
- Appropriate legal status for farmer organizations
- Financing of second and third order farmer organizations
- Financing of storage infrastructure