

## Managing agricultural commercialization for inclusive growth in Sub-Saharan Africa

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**For Sub-Saharan Africa, transforming small-scale farming into viable commercial farming is central to reducing poverty and increasing growth. The challenges to achieving this transformation are too great for smallholder farmers to overcome alone. Yet policies to increase access to lucrative markets often overlook this fact. This briefing, based on an extensive review of current approaches, summarizes the barriers to access for smallholder farmers and suggests strategies for future success.**

Employees work at a farm south of the Ethiopian capital, Addis Ababa, packing beans before they are exported to the Netherlands. Supporting smallholder farmers to contribute to export markets can reduce poverty and increase food security.

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### Key messages

The four main factors hindering successful agricultural commercialization in Sub-Saharan Africa are:

- The socio-economic characteristics of the smallholder producers.
- Insufficient agricultural and development infrastructure.
- Lack of access to sufficient agricultural support services.
- High transaction costs and institutional factors.

Public investment in rural infrastructure and other rural public goods is essential for the private sector (both farmers and traders) to operate effectively. If African governments fail to make such investments, rural development and poverty alleviation goals will not be achieved. Lack of such investment is the most binding constraint to agricultural commercialization in most locations.

Enhancing market access for smallholder farmers is critical to reducing poverty and increasing food production. Government action to assist net food-buying smallholders to become net sellers should be a priority.

Farmers are more likely to experience sustained success in commercial agriculture when they are organized into collectives and networks that allow them to share information, collateral and risks.

Implementation of policies that drive the agricultural sector requires a multi-sector approach where the public and private sectors and the international development community support each other.

This briefing paper is one of the 10-part Global Development Network (GDN) Agriculture Policy Series for its project, 'Supporting Policy Research to Inform Agricultural Policy in Sub-Saharan Africa and South Asia'. It is based on a longer synthesis paper, *Managing agricultural commercialization for inclusive growth in Sub-Saharan Africa*, which draws on extensive published and unpublished research. The full paper can be downloaded at: [www.agripolicyoutreach.org](http://www.agripolicyoutreach.org)

It will be of value to policymakers, experts and civil society working to improve agriculture in Sub-Saharan Africa.

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A key feature of the factors leading to successful inclusive smallholder commercialization is that they all bring the market closer to the farmer and reduce transaction costs.

The majority of farmers in Sub-Saharan Africa live in poverty and are engaged in subsistence farming. The commercialization of smallholder agriculture is considered a key strategy in reducing poverty and increasing the even spread of economic growth in developing countries. To achieve this, smallholder farmers who are disadvantaged by socio-economic, political and environmental conditions, need to be included in high-value commercial markets. The challenges and barriers to achieving this are too great for smallholder farmers to overcome alone. Yet most policies and strategies to increase access to markets still leave smallholder farmers out.

Smallholder farmers possess few physical and natural resources such as access to land and water or irrigation systems; they often have poor technical skills and low managerial capacity. They are often isolated, have very little access to commercial markets and infrastructure, and also find it hard to access finance and credit services. It is therefore a huge challenge for them to participate in commercial agriculture. When they do participate, high transaction costs are often involved.



Farm worker Jantjie Carlous bags sterilized Rooibos (redbush) tea, grown on Groenkol Farm, near Clanwilliam in South Africa for export.

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### Methods

A systematic review of the large volume of documentation and research on smallholder commercialization was conducted. Since agricultural commercialization has been promoted with varying degrees of success, it was necessary to consolidate lessons from across the region – Eastern, Central and Southern Africa.

The range of countries studied included those such as Malawi and Mozambique, dominated by smallholder farming, while in other countries – such as South Africa, Kenya, Zambia and Botswana – the agricultural sector is more of a mixture of highly commercialized value chains and agricultural production by smallholder farmers.

The review included studies on the commercialization of agricultural produce from different farming systems: maize-based, rice-based, cassava-based, horticulture-based and banana-based. This range and diversity provided great insight into the differing challenges, opportunities and policy environments facing the vast majority of smallholder producers in Sub-Saharan Africa.

### Including smallholders in high-value markets

Given these difficulties, what are the best ways to encourage and sustain smallholder farmer participation in commercial markets? What can we learn from different examples of success and failure of attempts to do so across Sub-Saharan Africa? A systematic review of the literature, drawing on published and unpublished research and documentation from Sub-Saharan Africa, shows some clear ways forward. Evidence about what leads to successful smallholder agricultural commercialization appears conflicting as models that work in one Sub-Saharan African context fail in another. However, from the range of experiences, it is possible to identify some overarching factors that help and hinder the success of commercialization.

The systematic review revealed two main aspects of success. When smallholder farmers are able to participate in commercial markets in a sustainable way, they have firstly received comprehensive support from both public and private sectors.

Secondly, attempts have been made to bring markets and farmers closer.





## The road from subsistence farming to the commercial market

If smallholder farmers are to produce greater surpluses to be sold in the market, they need better seeds, animal breeds, practices, fertilizers and knowledge. They need comprehensive public and private policies and programs to support them and bring them closer to the market, including better agricultural infrastructure and access to agricultural support services such as information, finance and credit.

The bulk of current strategies to improve the market participation of smallholders are at the micro level. Macro-level strategies for creating a favorable environment for commercialization mostly favor large-scale commercial farmers and agribusiness firms. Smallholders need access to the financial, social and economic services that are currently only available to large, commercialized farmers.

## Mitigating risks and overcoming bottlenecks

In addition, smallholder farmers need to be protected against high transaction costs and, importantly, any risks that might jeopardize their food security and livelihoods. In turn, private sector investment needs incentives and rules to support smallholder commercialization. All of these needs will vary according to context and require a depth of understanding from those who are making policies and designing interventions.

The success or failure of smallholder agricultural commercialization therefore depends on two interlinked factors. First the ability of governments and private promoters to adapt commercialization models to suit specific social, economic, geographical and political contexts. Secondly, the extent to which these promoters are able to provide the comprehensive support that farmers need to overcome challenges and bottlenecks in the agricultural value chain.

### Bringing the market closer to farmers

In south-western Uganda, the Nyabyumba potato farmers were able to enter the commercial market, sustain linkages and relationships and meet all the rigorous quality requirements of the potato market. Through a program run by the International Center for Tropical Agriculture (CIAT), the farmers increased their capacity to participate effectively in the market. CIAT supported the farmers to produce and get direct access to markets and taught them to carry out market research. The program also helped the farmers to develop their ability to innovate and understand their farming enterprises better. They were encouraged to be more innovative by carrying out production experiments on their farms, and thus becoming able to manage their enterprise in the absence of external assistance.



In order for smallholder farms to participate in commercial markets in a sustainable way, they need better seeds, improved infrastructure and better knowledge. In this picture farmers in Mali are machine-winnowing newly harvested rice on farmland between Markala and Niono.

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Farmers need information about markets and prices if they are to be successful in commercial enterprise. The use of mobile phones has been a major innovation in this area.

### Socio-economic characteristics

The socio-economic characteristics of smallholder producers affect their ability to become commercial producers. For example, poor education and low literacy levels result in poor networking, negotiation and management skills. Male heads of household are more likely to grow crops for market than female heads of household, who tend to farm crops for immediate family consumption. In some cases, strict requirements for certified crops restrict the poorest farmers from participating as they do not have the finances to purchase land or hire agricultural labor.

The main resource constraints that prevent rural smallholder producers from commercializing their agricultural enterprises are a lack of:

- Access to land and water
- Agricultural labor
- Finance to purchase necessary production equipment
- Access to financial and credit services
- Capital to cope with low prices or delays in payment
- Transport to markets (donkey, bike, ox and cart)

However, other factors may play a more significant role. Some studies showed that a far greater precursor to success in market participation were entrepreneurial skills and the ability to respond to dynamic market conditions.

### Lack of access to sufficient agricultural support services

Public agricultural support services are important as they encourage smallholder farmers to enter lucrative commercial agricultural markets. In many instances, individual smallholder farmers are able and willing to commercialize their enterprises, but they lack access to market information or information about production or agricultural credit, and adequate and timely agricultural advisory services. They also lack access to input markets for high-yielding seeds and inorganic fertilizer. When farmers join together in groups or cooperatives they are more likely to be able to access inputs and purchase advisory services and market information.

### High transaction costs and institutional factors

Even when farmers know of lucrative markets, they may be deterred from participating because of high transaction costs. Transaction costs include searching for information, negotiating contracts, monitoring goods and transporting them to market. Poor transport systems and inadequate processing and storage infrastructure can act as a hindrance for smallholders. In addition, smallholders are rarely able to rapidly change their production volumes in order to meet market trends. They are unable to keep up with cost-reducing technological advances, making them less competitive.



A smallholder farmer in Zambia: female heads of household tend to farm crops mainly for their families to eat. Lack of access to financial and credit services, among other factors, deter them from expanding into the commercial market.

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### **Insufficient agricultural and development infrastructure**

Insufficient or absent infrastructure – including irrigation and water sources, electricity and power sources, animal dip tanks and road networks – often hinders farmers' attempts to increase production. Geographical isolation and remoteness and a lack of telecommunications infrastructure prevent them from responding to higher market prices.

### **Lack of information and direct access to markets**

Rural market information systems such as market prices on boards in rural centers and trading towns have also been successful in increasing direct trade between smallholders and buyers. Direct access to markets alleviates potential exploitation by middlemen and other players in the agricultural chain.

### **Poor access to finance and credit**

Finance and credit in the form of increased non-farm income, savings and credit for investment in commercial enterprise is very important to smallholder farmers who wish to commercialize their agriculture. This is a key factor determining the level of success of market-oriented production and participation. Farmers need a secure asset base (such as livestock and machinery) to make them more resilient to market shocks. Access to credit by smallholders can promote the uptake of new technologies and also lead to thriving local economies in which surplus produce is absorbed.



Smallholder farmers have struggled to join the 'supermarket movement' through lack of capital and inability to meet exacting product standards

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### **Smallholder farmers and supermarkets in Malawi**

Efforts have been made in the past to help smallholder farmers to become part of the 'supermarket movement'. But they have failed because of a shortage of capital on the part of smallholder farmers and the inability of farmers to meet the product specifications set by supermarkets. In 2006 the Farmers Union of Malawi, with the assistance of the World Bank country office, attempted to establish linkages between smallholder horticultural farmer groups and Shoprite supermarkets. They were successful but a longer-term relationship failed to emerge as the farmers were unable to supply the required volumes in a timely manner. Providing some initial support in assisting farmers to reach the production levels and quality that meet the requirements will be necessary. But there could also be much stronger engagement by supermarkets and other private sector players. However, the cost and effort involved in such initiatives are usually a deterrent for supermarkets to get involved at the farm level.



Struggling together: farmers' organizations can help them overcome challenges they cannot face alone. Pictured here is a woman farmer on Nordale Farm in Bonnievale, Western Cape, South Africa.

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### Spotlight on successes: farmer groups, information and credit

When farmers organize themselves in formal systems, they are more likely to be successful at commercial enterprise. Together they can work to overcome many of the challenges they cannot face alone. Successful structures manage to separate the shareholders from the management of the organization. They provide increased market information, access to inputs, increased access to extension services and technical advice, transport to markets and access to credit facilities.

They might also provide access to land and water and establish a reliable market through contract arrangements. Farmer groups have worked in ways that minimized transaction costs, led to higher production and marketed outputs and reduced price instabilities for members. Trust, cooperation and social capital are key features of well-run farmer groups. Innovation and entrepreneurial skills and diversity of commercial enterprise are other key factors of success. Innovative marketing strategies such as centralized collection points, transportation and market points also lead to successful and sustainable commercial market activities.

### Farmer organization, collective action and innovation

This new model for smallholder commercialization is based on the concept that farmer organizations require two features:

- A non-profit entity that works to strengthen farmer organization.
- A semi-autonomous profit-making company that works to provide an organized way of linking farmers directly to lucrative markets.

If the company is profitable, it will ensure sustainability and attract high-caliber personnel. Since the farmer organizations are shareholders in the company, they are guaranteed the funds needed for running their non-profit farmer organization, for building the capacity of its members and for hiring administrative, managerial and financial personnel to work hand-in-hand with elected members. Although the divisions of the apex farmer organization are linked, it is essential that directors and managers responsible for each separate entity should have the power to make strategic decisions which are informed by the needs of the farmer groups and individual members.



Governments must go beyond providing market incentives such as higher prices through pricing policies. Additional support services need to be comprehensive and bring the farmer and the market closer together. A range of macro-level policies and programs could help to do this:

### ■ Address resource constraints

Governments should address the resource constraints that smallholder farmers face by providing a range of support services. This includes financial and credit services, welfare services and agricultural support services.

### ■ Establish networks

Farmers will better understand and engage with commercial farming systems when they work as cooperatives, organizations and networks. Farmers need support to establish and maintain such groups and learn from other working models of successful arrangements.

### ■ Provide innovative financing

Governments should reform public agricultural support services to help smallholder farmers become fully commercialized. Agricultural support services should be more inclusive and responsive so that farmers can have a say in their function. Innovative financing should also take into account the needs of very poor farmers who have no titled land or other forms of collateral. High-yielding seeds for both traditional and non-traditional cash and food crops should be available and accessible.

### ■ Create social welfare programs

Governments should target poor rural smallholders and combine agricultural services with public social welfare programs with the aim of improving agronomic management practices, generating more productive, fertilizer-responsive seed technologies and investments in rural infrastructure.

### ■ Invest in infrastructure

Evidence shows that investment in infrastructure has large net returns and also reduces transaction costs for farmers. In order to promote commercial agriculture, governments should invest in rural infrastructure such as feeder roads, markets, irrigation and water infrastructure.

### ■ Revisit land reform failures

Land tenure security is a necessary condition for agricultural intensification and therefore successful agricultural commercialization. Governments need to create partnerships in the private sector and try to address land reform failures. They should reorganize land reform initiatives to ensure efficient re-allocation of land. Policies should focus both on individual farm plots and collective rights.

### ■ Protect farmers from market shocks

Increasing farmers' dependency on the market makes them more vulnerable to market forces, and policies need to be coordinated to help farmers absorb any shocks. Macroeconomic policy needs to be aligned with microeconomic initiatives that aim to achieve this.

### ■ Invest in ICTs

Information and communication technologies (ICTs) have helped to resolve the problem of poor access to agricultural information. Investment in new generation ICTs, such as mobile phones, internet and email and personal computers, will benefit farmers. However, farmers also need support to be able to use these new technologies.

### ■ Increase agricultural R&D

More research should be carried out to develop new market models that support smallholder farmers to participate in markets and minimize their vulnerability to market forces.





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