

# Going Beyond the Buy: The Business of Investing in Smallholders

The agri-food sector has the potential to play a pivotal role in stimulating local agriculture and in reducing poverty in many developing countries. However, building a vibrant agri-food sector to include smallholders is not easy. There are many challenges that make it difficult to do 'business' – climate change, land degradation, changing market structures and shortcomings in providing an enabling environment (i.e., access to credit, markets and technical assistance; a good infrastructure; supportive policy environment and land tenure security). For businesses to be able to continue to secure food supplies and grow in the future, a concerted effort will have to be made to find innovative ways on how to scale and boost food production and its distribution in an inclusive and sustainable manner.



Inclusive business is one way of creating profitable business models and strategies that help drive economic opportunities for those who would otherwise be left behind such as small-scale farmers, local agribusinesses and the rural unemployed (Woodhill et al., 2012). But what kind of support can be expected from international, regional and local food businesses to help these groups become effective players in the agri-food sector?

Development experts from the Wageningen UR Centre for Development Innovation (CDI), in collaboration with other researchers in the Netherlands and abroad, set up a project to analyse the innovative mechanisms of inclusiveness, how they can be integrated into existing business

models, how they work and what their impact is at the business and community level.

They were inspired by the work carried out by the Sustainable Food Lab and Oxfam on inclusive business models, which identified principles that underpin sustainable trading relationships that reinforce corporate and smallholder value chains (Table 1). The Wageningen UR researchers drew on these principles to explore how applicable they were to small, medium and large enterprises and whether upscaling was possible. The LINK methodology (Lundy et al., 2012) was used to support the analysis of the ten business cases studied. This involved extensive field visits to different types of agricultural enterprises across

selected countries in sub-Saharan Africa such as Burundi, Ethiopia, Kenya, Mozambique and South Africa.

### Incentives and mechanisms for inclusiveness

The research team found that the traditional business paradigm regarding supply, brand name and reputation is changing. There are now strong incentives for companies to move closer to farmers to ensure a consistent supply of produce. By promoting inclusive business, several companies have been able to increase productivity, attract younger people to farming, respond to consumer demand, reduce operational/reputational risks, differentiate their brands even more to attract new consumers, and build strong localised supply chains. As a result, many companies have had to adapt the way they source, purchase and work with partners in the supply chain. They have had to change their corporate culture (i.e., moving from

*Inclusive business models are:*

- 1 Accessible to smallholders, therefore they have more impact on poverty
- 2 Durable (relationships created last longer)
- 3 Stable (less volatile and risky)
- 4 Beneficial (they help farmers to build assets and skills, promote food security and profitability)

being competitive-minded to being partnership-oriented), find ways to attract investment to promote long-term sustainability and re-think their corporate or brand communications to integrate both the commercial and development benefits delivered through these changes. Dairy business hubs (DBHs) in Kenya represent one such example – they have been creating a large farmer supply base to be able to collect a substantial amount of

**Table 1** New Business Model Principles and Possible Intervention Measures to Enhance Inclusiveness

<b>Principles: Inclusive business model</b>	<b>Some areas of assessment based on the Link methodology</b>	<b>Interventions to enhance inclusiveness</b>
Principle 1 <i>Chain-wide collaboration with shared goals and identified champions</i>	Identify: - champions in lead firms - regular flow of information (formal or informal) - whether there is alignment of goals/vision (commercial and development)	<i>Institute a gender component:</i> this includes women, youth and labourers. For example, women are especially good at working on crops that demand intensive farm management. Their participation in this area should therefore be encouraged
Principle 2 <i>New market linkages</i>	Ability to: - reach high-value markets - provide a steady and durable market for suppliers - expand core product opportunities, - operate without subsidy	<i>Critically review the business model regularly for new business opportunities</i>
Principle 3 <i>Equitable and transparent chain governance</i>	- Transparency - Traceability to farm level - Risk sharing function - Mechanisms include: governance models, shared ownership models, and contracts	<i>Increase transparency</i> through improving collaboration with other actors in the chain and involving more farmers on the boards of businesses
Principle 4 <i>Equitable access to services</i>	- Production-related services available and tailored to small farmers and accessible to women, youth - Facilitate access to additional services	<i>Strengthen the management skills</i> of growers, this in turn will serve to reinforce the relationship between growers and businesses <i>Set up a one stop shop for farmers</i> so that farmers can get important inputs (e.g., seeds, fertilisers, pesticides, veterinarian services, etc.) and training in agronomic practices <i>Support community projects</i> where possible to reinforce a positive company image
Principle 5 <i>Inclusive innovation (vertical co-innovation, process and product)</i>	- Mechanisms in place for getting farmer input and strategic information - Renewal of product/market, continuous evolution and diversification - Recognition of co-dependency	<i>Diversify the portfolio</i> so as to spread risks, lessen the dependence on agriculture and increase the impact on the economy
Principle 6 <i>Measurement of outcomes and acting on them</i>	- Informal or formal feedback mechanism along the chain - Regular explicit assessment process - Decisions based on assessment	<i>Determine the impact of inclusive business on the livelihoods of farmers</i> to see if their quality of life has improved



Milk collected from smallholder dairy farmers being offloaded at a local DBH, Eldoret, Kenya

milk so as to attract cheaper services and improve their negotiation position.

In the case of Mozambique Fresh Eggs (MFE), the company took a deliberate decision to partner with small-scale farmers to diversify and expand egg production. In 2005, the manager of New Horizons (NH), a poultry operation, decided to form strategic alliances with two other companies having a similar ethos, i.e., commitment to using business to combat poverty, to create MFE. NH manufactures chicken feed, Eggs for Africa provides the marketing expertise and Centre Fresh Egg Farm provides the financial capital and expertise to support smallholder involvement. MFE provides most of the material and equipment needed, the smallholders also contribute some of their own materials, such as bamboo, rows of cut grass and blocks. Strong technical support is also provided by MFE.

Special mechanisms that some of the different types of businesses studied have been using to promote inclusiveness include: the creation of cooperatives, the innovative business model, public private partnerships, outgrower schemes or contract farming. NH has an outgrower scheme arrangement with its smallholder farmers. The company has been involving women, sharing risks and profits, and providing daily supervision. A payment system to motivate smallholders has also been instituted to increase their earnings. At first, many of the farmers who joined the outgrower scheme as early as 2006 squandered their profits. This led to a neglect of their operations. To put an end to this problem,

NH decided to actively engage those farmers' wives who were believed to have good management skills. This brought about noticeable improvements to the households' quality of life (Sopov et al., 2014).

### **Inclusive business model principles: Enhancing inclusiveness**

The inclusive business model principles were useful in helping to assess and identify areas in SMEs that need changing to strengthen chain relationships and for upscaling. The researchers found two main drawbacks to the model, however. These included a failure of the model to take into account the importance of having a close relationship with smallholders and the need to take a holistic approach to the way farms operate as a whole to maximise income and food security. The team proposed interventions that could be used to enhance inclusiveness, depending on the situation (Table 1).

The case studies were presented at the 'Seas of Change' international workshop on Inclusive business models in Amsterdam (12-13 February, 2014), organised by Wageningen UR Centre for Development Innovation (CDI) for the business community, civil societies and research institutes. They provided useful insights on how to promote inclusive businesses among smallholders. Encouraging developments have been the interest shown by the Food and Agriculture Organization (FAO) in using the case studies for their inclusiveness business staff training and the positive reaction from small and medium-sized enterprises in Africa to the principles developed. Plans are underway to further 'spread the word' among business community and develop the case studies into teaching materials for higher education in developing countries. Policy research issues for the future include determining which aspects of inclusive business should be covered by public funds and the type of companies to support with donor funds.

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