A report by

HYSTRA
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SMALLHOLDER FARMERS AND BUSINESS

15 pioneering collaborations for improved productivity and sustainability

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EXECUTIVE SUMMARY

This report focuses on increasing smallholder farmers' productivity as a way to improve their incomes and livelihoods. Focusing on how farmers can increase their yields and incomes places them in the centre of the change they would like to see. This report strives to demonstrate that smallholder farmers are capable of change and that they should be treated as active partners, rather than beneficiaries. It was written on the premise that they are rational producers and consumers, who aspire to be in control of their own destiny.

The key findings of our research are summarised in this report around three broad sections:

- strategies for creating new value along the value chain
- cost-efficiently, and
- capturing the value created and sharing it sustainably for both farmers and the organizations working with them.

In the *first section* of the report, we discuss strategies that maximize the creation of new value, as opposed to strategies that redistribute the value that already exists. We argue that as more value is created from the start, the more there is to share along the value chain. The analysis of our 15 case studies indicate that focusing on the provision of technologies that increase productivity is the main lever to create value, ahead of value chain disintermediation[7] or price premium redistribution strategies (chapter 2).

Cutting intermediaries out of the value chain or transferring a market premium to farmers may bring (limited) additional income, but will not transform their life, as they remain dependent on the goodwill and success of the organization they work with. In contrast, providing them with a micro-irrigation system or a hybrid cow has potential to have them earn much higher income, based on their own choices and labour. Technology also has the potential to create momentum that will change things in the long-term: larger and more successful farmers should also be in a better position to negotiate prices and contracts for themselves, empowering them in their dealings with others.

Encouragingly, our findings also point out that the value created by investing into the productivity of smallholder farmers dwarfs the costs involved in having farmers adopting new practices and products. This is exciting news for the organizations working with smallholder farmers, as it does make business sense to invest in those farmers for the longer term (chapter 1). Finally, we look at what drives farmers' risk aversion and possibly limits the penetration of some interventions. We observe that the proportion of farmers willing to change their methods is not linked to the promise of significant returns or to the level of investments required; but rather to the reversibility of their decision if they are not satisfied with the results (chapter 3). We conclude this section by highlighting that the power wielded by organizations that work with these farmers comes with great responsibility, as they also need to find ways to protect the more vulnerable farmers from failure (chapter 4).

In the *second section* of the report, we discuss how to create new value in the most cost-efficient way possible. We argue that organizations working with smallholder farmers should focus on the entire adoption life-cycle and not just one-shot product sale or harvest purchase. Sustainably building a large base of clients or contract farmers requires:

a) Identifying the right early adopters and helping them succeed in a way that is demonstrable to other farmers, through tailored and intensive support (chapter 5)

b) Cost-effective expansion: once the first farmers are enrolled successfully, operations must be engineered for cost-effective scale-up. We discuss in particular the need for training and best practices in deploying it (chapter 6), the options for scaling up operations such as working with independent groups of farmers or through intermediaries (chapter 7), and the way IT can change dramatically the economics of working in rural areas (chapter 8).

7 Value chain disintermediation strategies include interventions that aim at shortening and streamlining the value chain, by replacing or consolidating many smaller intermediaries into less players. This can be done for instance by linking farmers with manufacturers (by-passing local traders), or by setting up cooperatives that ensure harvest collection, processing and re-sale of produce in-house (instead of multiple local intermediaries).

In the *third and final section*, we discuss ways to capture and share the value created along the value chain sustainably for both farmers and the organizations working with them, through balanced arrangements and long-term relationships. To operate sustainably and grow, agricultural businesses need farmers to respect their engagements (e.g. refrain from side-selling and repay credit on time), as well as become repeat customers or suppliers. In this section, we first outline what motivates farmer loyalty (chapter 9); and then discuss the various strategies to increase it. This includes designing a system of rewards and penalties (chapters 10 and 11), or providing holistic services and products (chapter 12). We also discuss the need for 'benevolent' organizations, which guarantee a fair share of the value created to farmers and protect their interest. We found that cooperatives and other farmer-owned intermediaries do not necessarily have intrinsic qualities that would make them outperform other types of organizations in terms of capturing more of the value created on behalf of farmers.

9. **Loyalty:** Understanding what leads farmers to 'default' or 'leave' is essential to build successful longer-term business relationships

10. **Rewards and penalties for loyalty:** Well-crafted reward and penalty schemes can help improve farmers' loyalty over time

11. **Financing:** Lending to smallholder farmers is challenging, but several best practices enable organizations to do so ethically and efficiently

12. **Value chain integration:** Holistic services and product provision is a win-win strategy for both farmers and the organizations working with them

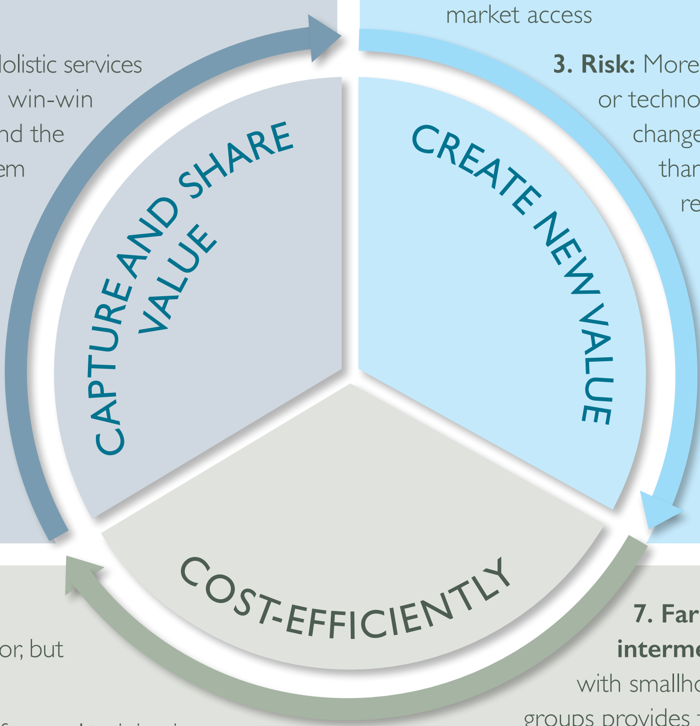
13. **Cooperatives**
Cooperatives do not have any intrinsic advantage that results in them generating greater value, better outcomes, or higher loyalty among farmers than other business-type intermediaries

1. **Impact and profitability:** Investing in farmers' productivity can increase their income significantly, transform their lives and boost businesses' revenues and profits

2. **Technology:** Provision of productivity-enhancing technologies increase farmers' income much more than disintermediation of value chains or improved market access

3. **Risk:** More farmers adopt new practices or technologies if their decision to change is easily reversible, rather than based on the expected returns or investment required

4. **Vulnerable farmers:** Understanding drivers of precarity helps organizations determine if and how to work with vulnerable farmers



5. **Early adopters:** Ideal early adopters are not rich or poor, but in the 'enlightened middle'

6. **Training:** Investments into farmers' training is most appropriate when offered to loyal farmers and/or in conjunction with productivity-enhancing technologies

7. **Farmer groups and intermediaries:** Working directly with smallholder farmers' self-formed groups provides the optimal combination of better results, lower costs and larger scale

8. **IT:** IT can revolutionize the way organizations work and communicate with smallholder farmers

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