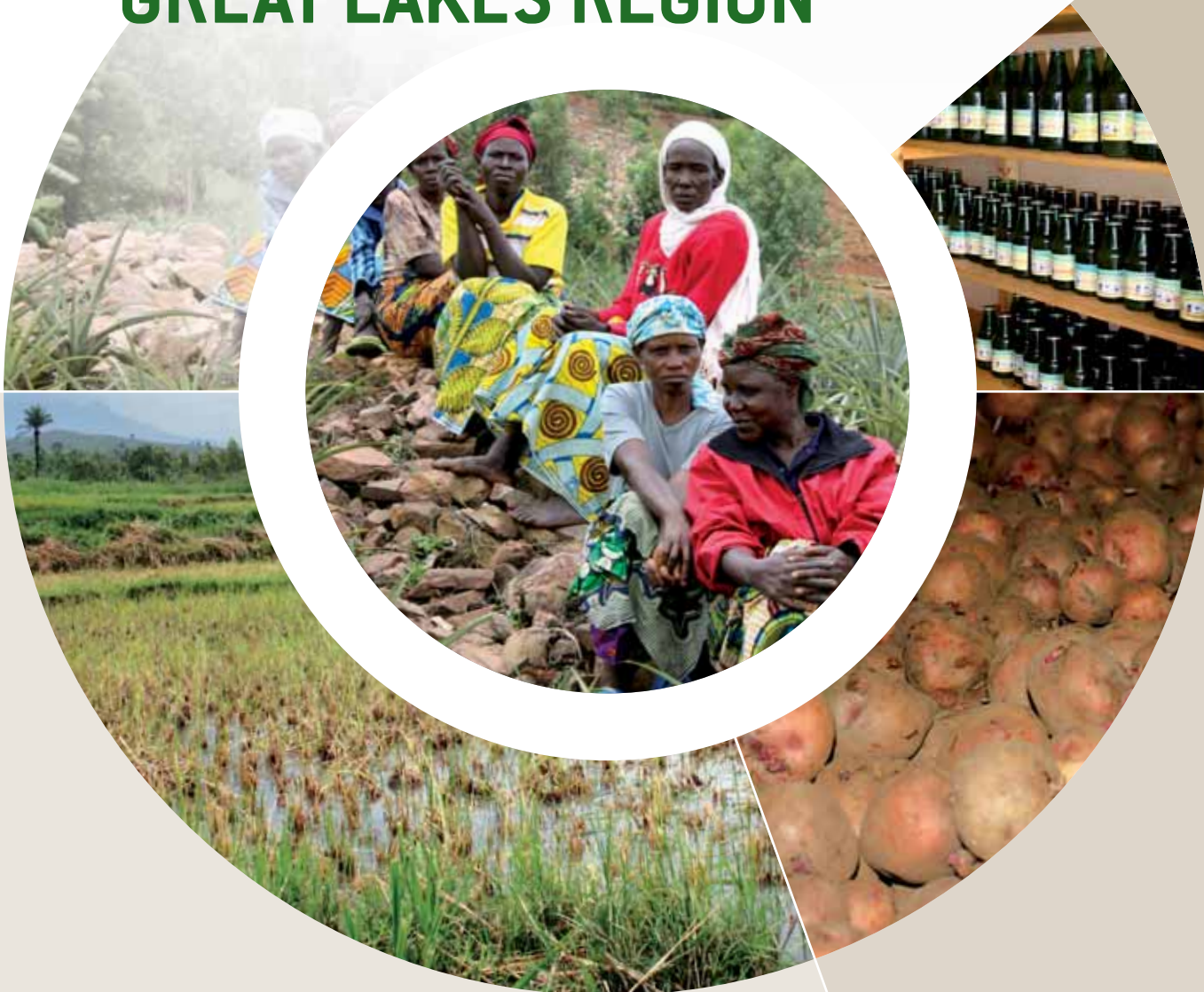


BEST PRACTICES AND LESSONS LEARNT FROM
THE DEVELOPMENT OF VALUE CHAINS

THE FOOD SECURITY THROUGH COMMERCIALIZATION OF AGRICULTURE PROGRAMME IN THE **GREAT LAKES REGION**



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Food and Agriculture Organization of the United Nations
Rome, 2013

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ACRONYMS

AGS	Agro-Industries and Infrastructure Division of the Food and Agriculture Organization
ARDI	Access to Research for Development and Innovation
BDI	Birunga Dairy Industries
BRF	Burundi Francs
DBDA	Beekeeper marketing association
DRC	The Democratic Republic of the Congo
ECM	Entreprise de Commercialisation du Maracuja
FAO	Food and Agriculture Organization of the United Nations
IBM	Information Board Manager
ICT	Information and Communication Technologies
IFAD	International Fund for Agriculture Development
IFDC	International Fertilizer Development Center
LoA	Letter of Agreement
MFI	Micro-Finance Institution
MINAGRI	Ministry of Agriculture and Animal Resources of Rwanda
MIS	Market Information System
MoU	Memorandum of Understanding
NAADS	National Agricultural Advisory Services (Ugandan extension agency)
NGO	Non-Governmental Organization
OCP	Office for Communications, Partnerships and Advocacy
PO	Producer Organization
RADA	Rwanda Agricultural Development Authority
RCA	Rwandan Cooperative Agency
Rwf	Rwandese Francs
RUDAFCOS	Rubuguri dairy farmers cooperative society
SACCO	Saving and Credit Cooperative
UHT	Ultra-High Temperature
USAID	United States Agency for International Development
USD	United States dollar
VECO	Vredeseilanden Country Offices
VSLA	Village Saving and Loan Association
WFP	World Food Programme



PROJET GTFS/RAF/391/ITA



**COOPERAZIONE
ITALIANA**

FILIERE RIZ

CHAMPS DE DEMONSTRATION

PROGRAMME D'INTENSIFICATION DE LA PRODUCTION AGRICOLE

SITE: CDC/ KIRINGYE



CHAPTER 01

INTRODUCTION

Agriculture is the principal economic sector in the Great Lakes region of Africa and represents a major source of income for rural populations in Burundi, the Democratic Republic of Congo (DRC), Rwanda and Uganda. With the objective of unlocking the high potential of agriculture in this region, the project described here took a value chain approach, intended to develop value chains inclusive of smallholders, producers and other vulnerable rural actors. Value chains with particular relevance in terms of food security were selected to be developed and upgraded, with the aim of tapping their economic and social development potential, enhancing food security, diversifying livelihoods and generating employment through more profitable production systems and increased access to markets and value-addition activities.

This document presents the approach and tools used for developing value chains in Burundi, DRC, Rwanda and Uganda, and shows how this approach contributed to economic growth inclusive of smallholders, producer groups, processors and traders, by increasing income and employment opportunities and promoting private sector investments.

Left:

The rice demonstration field established in collaboration with the Cooperative CDC Kiringye in the Ruzizi plan, DRC
© FAO/ F. Kapiamba Luabeya



Women members of pineapple producers' cooperative, Gisagara, Rwanda.
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The objectives of the regional project “*Improvement of food security in cross-border districts of Burundi, Rwanda, Uganda and the Democratic Republic of the Congo in support of the modernization of agriculture under the NEPAD/CAADP framework (GTFS/RAF/391/ITA)*” were to increase the income and living standards of small rural households in the cross-border districts of Burundi (Ngozi and Kayanza), the Democratic Republic of the Congo (North and South Kivu provinces: Ruzizi, Goma and Bukavu), Rwanda (Nyagarare and Bugesera, Gisagara, and Nyaruguru) and Uganda (Kabale,

Kisoro). About 15 000 direct rural household beneficiaries were targeted and included into the activities of the project; the expected outcome was an increase of 30 percent of households' income in targeted communities.

This project is part of a programme funded by the Government of Italy and was implemented through the Food and Agriculture Organization of the United Nations, under the Global Food Security and Food Safety Trust Fund. It had two phases: the first one was launched in 2006 for three year duration with a contribution of USD 3 million

while the second phase, which included the Democratic Republic of the Congo (DRC), began in 2010 and will end up in 2013, for a total amount of USD 9 million.

For further details on the document or on the program, please visit the following websites:

the Rural Infrastructures and Agro-industries Division
<http://www.fao.org/ag/ags/en/>

and the FAO-Government of Italy Cooperative Programme
<http://www.fao.org/tc/faoitaly/faoitaly-home/en/>.



Strategies for developing the agrifood value chains were based on several common features in the Great Lakes region. These features, listed below, included opportunities to take advantage of as well as constraints to be addressed:

- The existence of untapped formal markets willing to pay regularly for local, quality products where access to markets has been constrained by inconsistent supply, price volatility and insufficient knowledge about market opportunities;
- A high potential in terms of production which has been constrained by low productivity due to a limited use of irrigation and modern inputs, lack of appropriate farm practices, and unsustainable use of natural resources;
- Minimal value addition and processing activities, which could be significantly increased by adopting appropriate practices and improving access to equipment and facilities;
- Existence of emerging small and medium agricultural enterprises;
- Existence of formal and informal producer groups willing to operate within a common framework, which could be made more effective by fostering trust, commitment of members and access to efficient services – i.e. facilitating vertical and horizontal linkages;
- Existence of linkages between value chain stakeholders, which need better planning of operations and transactions to reach economies of scale, improve negotiation skills, support formal contract agreements and build long-term relationships;
- The need for financial mechanisms and accessible credits that would enable producers to avoid major post-harvest distress sales and wait for higher prices, which could be addressed through innovative guarantees, insurance schemes and knowledge about available services;
- Insufficient provision of extension services and limited access to adequate infrastructure and other support facilities;
- Willingness of public institutions and the private sector to get involved in the development of value chains by facilitating an enabling environment for private sector development and improved public-private partnership.

With these opportunities and constraints in mind, the value chain development approach looked at the relationships between the value chain actors and service providers, considering their inherent constraints as well as their needs in terms of technical and functional capacity development, institutional support and access to services.

Key features for selecting value chains are the existence of sound market demand that could absorb the increased production and the potential for value addition. An additional criterion is the existence of support interventions with potential for synergies and leverages.



The anticipated outcomes of the intervention were the following:

- Support to planning for value chain development

This was a short-term planning phase that aimed at setting up the implementation strategy by identifying an effective project planning and coordination mechanism; this included establishing the institutional arrangements and identification of service providers. The main outcomes of this phase included:

- Implementation plan developed and implementing structure, service providers, and collaborating partners identified; and
- Selected value chains described, as well as areas of intervention.

- Promotion and support for market-oriented production, marketing and value addition, plus strengthening of agribusiness linkages

These comprised the main activities undertaken at the country level in each of the project sites and encompassed activities to facilitate value chain development aimed at improving performance and efficiency of the selected priority value chains. Expected outcomes included:

- ‘Commercial/emerging’ farmers, producer groups, traders, processors and other actors in the value chain supported to improve their entrepreneurship and technical capacities;
- Producer groups and associations/cooperatives (plus trader and agroprocessing associations) strengthened to form market-oriented agribusiness entities;
- Service provision strengthened to support increased efficiency and profitability in production, marketing/cross-border trade and value addition/agroprocessing; and
- Marketing chain linkages strengthened, including enhanced access to basic services and facilities for enhanced value chain performance.

- Project support to policy

By virtue of the fact that there are many similarities in the value chains in the Great Lakes region and especially since the project sites were located in the border districts/provinces of the four countries, there were many cross-cutting issues and opportunities for exchanging information and learning among the four project countries. The focus of this component was on policy strategies to support value chain development in the region, including synthesis of cross-cutting issues. The anticipated outcomes included:

- Institutional and regulatory support for enhanced regional and cross-border trade, including support to exploit market opportunities outside the subregion;
- Subregional cooperation strengthened and information exchange fostered, including capacity building and institutional strengthening on the value chain approach; and



- Synthesis of project outputs (best practices) and linkage with FAO normative work supported.

This report was elaborated to identify the best practices and lessons learned focussing on innovative approaches in the provision of training and mentoring to value chain actors, the implementation of pioneering private sector-led mechanisms such as new financial microcredit schemes, facilitated access to inputs, integrated marketing systems and public-private partnerships. The tools and approaches are illustrated through various case studies, highlighting the essential elements to be scaled up and possibly replicated.

*The Chairperson
of IMBARAGA in
one of the maize
cooperatives'
warehouses,
Burera, Rwanda.*
© FAO/J. Kabiligi



CHAPTER 02

IMPLEMENTATION OF A VALUE CHAIN APPROACH

2.1 VALUE CHAINS DEVELOPMENT AND TOOLS

Value chain efficiency can be improved by means of various mechanisms, including enhanced horizontal and vertical integration between the actors to improve overall competitiveness. Horizontal linkages (relationships between actors on the same level of the value chain) can be addressed by providing capacity building to farmer associations, producer cooperatives and commodity groups involved in the different stages of the value chain. This capacity building includes support and training to improve understanding of the value chain's requirements and management. Strategic partnerships or apex organizations within a subsector are part of those horizontal linkages. Capacity development covers enhancement of technical skills (e.g. in market-oriented production, farming as a business and good manufacturing practices), as well as managerial and business skills.

Vertical linkages (relationships between actors along the chain) are supported by linking producers to traders and processing groups or businesses, especially through the facilitation of platforms where they can interact, discuss and set up business arrangements using formal tools, such as memoranda of understanding and contracts, business-to-business linkages, formal and informal contractual arrangements and market information.



Members of Muko
Potato grower
Association
harvesting potato,
Kabale, Uganda
© FAO/R. Nandelenga

A variety of strategies were considered for better positioning actors and upgrading value chains in order to increase the efficiency of transactions, ensure steady, increasing supply in terms of quantity and quality and ensure steady production matching market requirements. Another option considered was diversifying market outlets. These strategies depend largely on the level of capacities of value chain actors and on the existence of local service providers able to deliver market-oriented services.

Value chain development is based on an approach that examines the interactions and relationships between actors, from production and processing to marketing and distribution of agricultural goods. It seeks to systematically identify the main constraints and bottlenecks as well as the development opportunities, in order to increase the competitiveness and inclusiveness of the whole chain. Its objective is to support the generation of added value and shared profits and improve the way value chain actors operate by making the chain more efficient and inclusive.



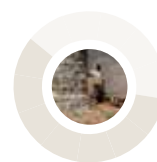
2.1.2 Tools for value chain development

The planning process for value chain development included a package of integrated tools which are summarized in the following table and will be further explained throughout the report.

TABLE 1. INTEGRATED TOOLS FOR VALUE CHAIN DEVELOPMENT

1. VALUE CHAIN PRIORITIZATION AND ANALYSIS	
Identification of priority commodities	<ul style="list-style-type: none"> • Evaluation of value chains based on market demand, potential impact on households in terms of income for producers and rural employment opportunities • Selection of inclusive value chains, based on their capacity to benefit marginalized actors
Value chain analysis	<ul style="list-style-type: none"> • Identification and analysis of main constraints and opportunities • Characterization of relationships between value chain actors • Analysis of market demand: market size tendencies, prices, consumer preferences • Analysis of margins and profitability of production, marketing, value addition and processing to evaluate the competitiveness of the entire value chain
Value chain mapping	<ul style="list-style-type: none"> • Dynamic presentation of all stages of the value chain, actors (formal and informal groups of producers, traders and processors), flows, processes and main constraints
Identification of sites, target groups and service providers	<ul style="list-style-type: none"> • Identification of sites, organizations and business firms in the value chain • Identification of service providers for facilitating the design and implementation of strategies to increase competitiveness
Needs assessment of value chain actors	<ul style="list-style-type: none"> • Participative methodology that involves all the stakeholders, focusing on institutional support for technical and managerial capacity development • Identification of the weakest links and necessary strengthening
Elaboration of road maps per VCs and action plans per group	<ul style="list-style-type: none"> • Strategy and promotion of a common vision ensuring “buy-in” for all actors • Formulation of training/capacity-building programmes for groups based on their expressed needs for strengthening capacities of the stakeholders • Capacity development in the preparation of business plans
Sensitization and mobilization of actors	<ul style="list-style-type: none"> • Promotion of the value chain approach and possible innovations to be implemented
Provision of kick-start support	<ul style="list-style-type: none"> • Provision of critical matching grants and cost-sharing arrangements to support the implementation of action plans and facilitate access to soft infrastructures, equipment and facilities (e.g. storage infrastructures, processing equipment, inputs, raw material, transport)





2. CAPACITY BUILDING FOR VALUE CHAIN ACTORS	
Support to capacities of service providers (NGO's, etc.) in market-oriented development	<ul style="list-style-type: none"> • Awareness raised about potential of value chain approach and tools that can be used to develop market-oriented and demand-driven competencies of service providers • Technical training aimed at meeting requirements in enhanced technical skills for milk hygiene, seed and planting material multiplication for different commodities, storage of maize to reduce post-harvest losses, drying techniques, etc.
Formalization and legal recognition of organizations and strengthening of institutional and governance capacities	<ul style="list-style-type: none"> • Support for formal groups to become business partners • Good governance and transparency of organizations ensured • Facilitation of constitutions for farmer associations and micro- enterprises for traders and agroprocessors
Technical assistance to value chain organizations of producers, processors and traders	<ul style="list-style-type: none"> • Strengthened capacities of rural actors (particularly producer organizations) in production, marketing, value addition and cottage processing in order to achieve economies of scale and retain the value created
3. BUSINESS LINKAGES AMONG VALUE CHAIN ACTORS	
Promotion of private sector service providers (input suppliers, etc.)	<ul style="list-style-type: none"> • Development of private sector service providers to supply inputs, technical assistance, financial services and market information, both to avoid market distortions and to catalyse long-term initiatives
Identification of business models and facilitation of linkages between producers and buyers	<ul style="list-style-type: none"> • Set up of contractual arrangements for securing supplies for buyers and securing outlet markets for producers • Creation of long-term win-win relationships and trust among the value chain actors
Access to market information	<ul style="list-style-type: none"> • Set up of sustainable market information systems through Information and Communication Technologies (ICT)
Coordination of platform of value chain actors	<ul style="list-style-type: none"> • Facilitation of information exchange and knowledge about market opportunities (cross-country visits, workshops, meetings, etc.) • Increased visibility and lobbying of stakeholders • Fundraising to scale up the pilot initiatives
4. ACCESS TO FINANCE	
Development and submission of business plans	<ul style="list-style-type: none"> • Creation of sustainable financial mechanisms and investment by formal financial institutions
Cost-sharing procurement of basic infrastructure and facilities	<ul style="list-style-type: none"> • Raised awareness on responsibilities of beneficiaries • Partnerships and coordinated action fostered • Involvement of other donor funds
Development of innovative financing value chain	<ul style="list-style-type: none"> • Understanding of the constraints that limit access to financial services and performance of informal credits • Establishment of innovative credits, with ensured reimbursement, based on improved linkages among value chain actors
5. DEVELOPMENT OF UPSCALING ACTION PLANS	
	<ul style="list-style-type: none"> • Sustainability after the end of the project, with investments from public and private sector • Development of a sustainable exit strategy



*Birunga Dairy
Industries Ltd,
Kisoro, Uganda*
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2.2 PRIORITIZATION OF VALUE CHAINS AND UPGRADING STRATEGIES

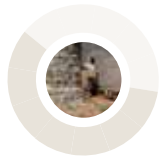
2.2.1 Criteria for selection of value chains

The first step in the value chain development approach is the identification of the main value chains in targeted districts. Selection is carried out through a participatory exercise at district level, involving key informants and cooperative leaders as well as representatives of Ministries of Agriculture. This ensures the support of authorities and local institutions for mainstreaming the value chain development initiative within a broader strategic framework and making it responsive to policy objectives.

The key criteria for value chain selection include:

- Market demand based on value chain upgrading potential, analysis of profitability of production, marketing, value addition or processing; and
- Income-generating potential of the commodity and potential impact in terms of food security for producers and small-scale actors.

Other criteria used to prioritize the value chains include favorable agro-ecological conditions, dynamism of actors involved and interest of private sector actors, potential access to technologies and the presence of local service providers and, finally, past experiences of assistance in the district or to the commodity.



2.2.2 Strategic analysis of value chains

Baseline studies and value chain analysis are carried out to gain insight into the dynamics of the chain. This analysis is based on field visits, existing documentation and interviews with key informants (stakeholders at local government, private sector actors, NGOs, etc.)

These various studies identify the main actors – i.e. business organizations or firms, formal or informal groups of producers, traders and processors. The studies indicate the weakest linkages to be strengthened and identify the potential service providers available at local level.

Once constraints and opportunities have been analysed, the next step is to identify the key drivers of the value chain in order to focus the support in a strategic way and find leverage options for the other actors.

TABLE 2. STEPS FOR VALUE CHAIN ANALYSIS

• Description of the enabling environment and identification of players
• Production aspects – i.e. varieties, planting materials, costs of production and margins
• Market outlets and channels of distribution
• Potential for value addition and support services
• Analysis of flows and volumes
• Profit analysis – i.e. costs and margins along the value chain
• Analysis of the relationships between the players
• Recommendations in terms of market outlets, key linkages and support

DRIVERS OF THE VALUE CHAINS IN UGANDA

For the dairy value chain, the dairy firm was the key driver. Poor milk transport facilities were one of the reasons for the lack of income-generating opportunities; producers had a common interest to work together and supply the existing milk processing plant.

In the case of potatoes, the National Agricultural Advisory Services (NAADS) was the driver

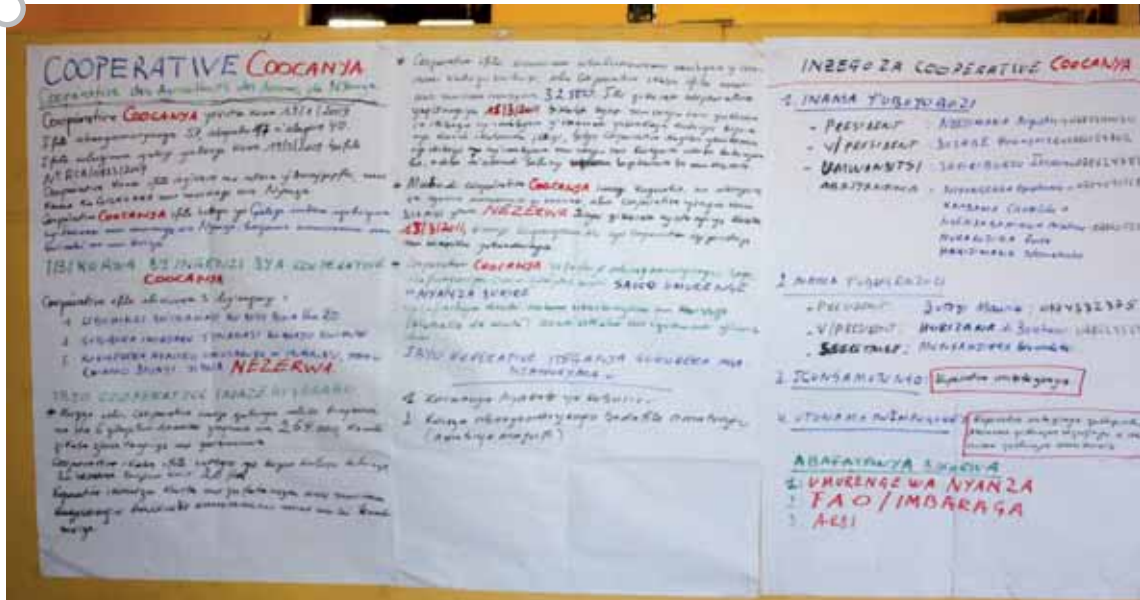
in terms of creating greater demand for seed potatoes, while a processing plant, was the main driver for ware potato demand.

For honey, there was an almost untapped local demand at district level and local supermarkets represented an additional outlet, as they were very interested in getting quality raw and refined honey at favourable prices.

For the mango and pineapple value chains, an exporter, Fruit of the Nile, was the main driver and contributed to the restructuring of these chains, after having tried to work directly with producers without success. The project attempted to assess the underlying reasons and tried to address the weaknesses and constraints identified.



Cocoanya Cooperative pineapple wine production, Gisagara, Rwanda. © FAO/J. Kabiligi



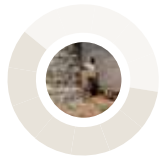
2.2.3 Simplified mapping of value chains

Value chain diagrams are drafted, indicating main actors and functions, flows of products and main constraints, indicating the types of intervention proposed. This graphic tool is found to be very informative for partners and for communication purposes since it illustrates in a simplified manner the relationships between actors of the value chain at different stages.

2.2.4 Needs assessment of value chain actors and action plans

Defining a common vision for the value chain development is essential to fulfilling the objective of building a strategic position. This requires evaluation of the internal capacities and status as follows:

- Assessment of institutional, managerial and technical capacities to scale up organizations in a strategic manner. Levels of organizational management and structure vary depending on the country. Some producer organizations are already providing services to their members while others are not performing any collective action.



- Assessment of relationships and business models to strengthen vertical linkages between producers and buyers. A comprehensive plan or road map is developed to prioritize and organize the activities to be supported. The action plans for each value chain are updated annually and adapted progressively: during the first year, dynamic individuals and institutions become involved; during the second year, preliminary associations are involved; during the third year, these become organized associations and cooperatives. In the following table, the national value chains selected by the project are briefly presented, as well as the main constraints and opportunities identified.

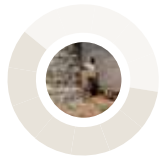
TABLE 3. OPPORTUNITIES AND CONSTRAINTS FOR VALUE CHAINS IN THE PROJECT COUNTRIES

VALUE CHAIN	DISTRICT	CONSTRAINTS	OPPORTUNITIES
BURUNDI			
Rice	Kirundo	Low production and significant post-harvest losses, no storage options, direct selling after the harvest to pay credit, lack of transportation, lack of knowledge of markets, no grading, no linkages due to lack of training	Many farmers associated in viable groups (for each swamp)
Passion fruit	Kayanza	Lack of planning and technical skills of farmers, informal marketing limiting outlets, lack of organizations, lack of economies of scale, absence of access to finance, high costs of inputs, poor working conditions	Common interest of actors and existing demand
Pineapple	Ngozi	High rate of perishable fruits harvested, no market information systems in place	Processing opportunities and existing market demand
Dairy products	Kayanza	Remoteness of producers, low production levels	Existing market demand and willingness of producer organizations to access formal market
DRC			
Rice	Ruzizi, Uvira, South Kivu	Low yields due to limited use of modern inputs such as improved seeds and chemical fertilizers, major distress sales immediately after harvest, implying that the benefit from higher prices does not accrue to smallholders, high post-harvest losses due to lack of appropriate storage structures and practices	Dynamism, production capacity, initiatives started and marketing development potentialities
Palm oil	Bukavu, South Kivu	Old trees in plantations, lack of appropriate post-harvest and processing practices	Currently more attractive for many households in rural zones, mainly due to its potential to generate a steady flow of income throughout the year





VALUE CHAIN	DISTRICT	CONSTRAINTS	OPPORTUNITIES
Maize	Goma, Nord Kivu	Low yields due to limited use of modern inputs, major distress sales immediately after harvest, implying that the benefit from higher prices does not accrue to smallholders, high post-harvest losses due to lack of appropriate storage structures and practices	Unmet domestic demand mainly from large-scale buyers and processors (maize millers and breweries)
RWANDA			
Passion fruit	Gicumbi	Low fruit production due to crop viruses and disease, limited financial capital for processing of juice, low prices at farmer level caused by disorganized marketing network	High production potential, high market demand, opportunities for processing into juices and jams, high cash income
Potato	Burera	Low yields due to poor seeds and inputs, low prices due to poor organizational capacities of producers	High production potential, high national and regional demand
Dairy products	Gicumbi	Low productivity per cow due to poor feeding, lack of storage facility, lack of value addition opportunities	Potential production, high nutritional value, high market demand, high cash income for farmers
Maize	Burera	Low yields, low quality of product, no direct access to markets	High production potential, high demand for maize flour
Cassava	Gisagara	Low productivity caused by viruses and diseases, low quality and safety of processing practices, limited access to markets	High production potential and market demand all over the country
Pineapple	Gisagara	Low fruit production due to shortage of planting materials, inaccessibility of the producers to the consumer markets (in Huye town)	High production potential, high cash income potential and processing opportunities into juices and wines
UGANDA			
Honey	Kabale	Constraints in marketing and market prices of commodities, no value addition, no access to high value inputs, inadequate technical skills in production, inappropriate beehives, lack of credit	High price, market opportunities, value addition potential
Dairy products	Kisoro	Inappropriate cattle management resulting in low milk yields, high occurrence of pests and diseases, few cooling and processing infrastructures	Opportunities to link farmers to Birunga and dairies in Kisoro, for exporting to Rwanda and Burundi
Ware and seed potato	Kabale, Kisoro	Insufficient seeds, minimum value addition, lack of bulk transport, very few organized farmer groups, unreliable supply, poor linkages between actors, no economies of scale, high transportation costs to access better market opportunities	High demand
Pineapple and mango	Kasese	Small markets, low demand and use of substitutes, larger markets requiring well-organized systems in place for bulking, transportation, better price negotiation	Harvest all year around



2.3 INITIAL SUPPORT THROUGH SELECTION OF LOCAL SERVICE PROVIDERS AND KICK-START PACKAGES

2.3.1 Involvement of local service providers

The rationale behind choosing to work with local service providers is based on the fact that service provision has high start-up costs for producers and other actors, due to a lack of intermediaries to organize farmers and a lack of private service suppliers to provide market-based technical assistance. Consequently, the objective is to develop the capacity of local service providers to deliver services along the entire value chain. Service providers are identified who can facilitate the design and implementation of strategies to increase value chain competitiveness.

Local service providers are generally accustomed to the traditional approach of supporting productivity and production through provision and distribution of equipment and inputs, without giving enough consideration to market demand and consumer preferences. As a result, any increase in yields at the farmer level often results in a decrease of market prices and in unavailability of outlet opportunities. Producers are then discouraged to continue production and often stop or decrease production of the potentially profitable commodity.

Local service providers have a key role as they conduct most of the capacity building and facilitate implementation of activities at district level; NGOs are commissioned through letters of agreement. In other cases, capacity building is provided by the private sector, especially by agroprocessing firms, in order to ensure quality standards to meet market requirements.

For example, a dairy firm provided training on milk handling and hygiene and thus ensured low spoilage levels and further provided cost-shared investment for a milk cooler purchased by the cooperative.

This project contracted the providers progressively: for a period of three months at first, then extended to six months and finally to 12 months. Direct monitoring and supervision was ensured by the national programme managers on a weekly basis.

Regional trainings were organized to present the approach and share best practices and challenges. Implementing partners also had the opportunity to learn participatory training methods to increase their effectiveness in building the capacity of organized actors. The idea of switching to a market-oriented approach was innovative for local service providers, since they had not been exposed to the concepts and tools for value chain development.



*Some members
of a rice
producers'
cooperative,
Ruzizi, DRC.*
© Franck Kapiamba
Luabeya

*One of the
Cocoanya
Cooperative
outlets,
Gisagara,
Rwanda*
© FAO/J. Kabiligi

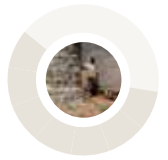
A constant ongoing mentorship throughout the project from the national programme managers is essential for strengthening the capacities of service providers. They acquire a number of skills and tools (e.g. coaching on business plans) and increase their visibility as reliable service providers, creating a potential market outreach for their services even after the project ends. Providing support through local efficient service providers also allows them to reach beneficiaries in remote areas, increasing the outreach of the project as well as its cost effectiveness. Market-oriented value chain development approaches have proven to be innovative for both service providers and for beneficiaries

2.3.2 Provision of kick-start support

Subsequent to assessment of the capacities of value chain actors and of market demand, kick-start support is provided to diminish the barriers to entering into business relationships and to encourage specifically the inclusion of smallholders. Once market opportunities are clear and action plans defined, the identified critical factors are addressed by providing mini-grants – for instance, to buy seeds and fertilizers or to fund basic facilities, tools or equipment to improve post-harvest handling.

Cost-sharing mechanisms for the procurement of basic agro processing equipment and facilities were supported by the project under clear arrangements with signed memoranda of understanding, after identifying a business development opportunity. This was done in the view of making producer cooperatives and small-scale agro processing firms aware of the value and utility of the support provided and committed to its success.

Kick-start support, coupled with capacity development, allowed a significant increase in productivity and contributed to managing the risks of strategic investments, with potential scalable results.



IMBARAGA FARMERS FEDERATION, SERVICE PROVIDER FOR PINEAPPLE, CASSAVA, POTATO AND MAIZE VALUE CHAINS DEVELOPMENT IN RWANDA

The “*Fédération des Agriculteurs et Eleveurs du Rwanda IMBARAGA*” was created in 1992 as a follow-up to an initiative from some farmers and breeders in Rwanda. This organization was officially recognized at national level in 2006. The main mandate of the organization is to act as a service provider for grassroots-based organizations and for individual farmers, as well as to strengthen their capacities and to advocate in defense of their social and economic interests.

When the actual field implementation of the value chain development project started in 2008, IMBARAGA was chosen as the main service provider because of its major outreach at local level in Gisagara and Burera Districts as well as in the other areas of these commodities production in Rwanda. The idea was to have a permanent agronomist and advisory staff to build up skills of existing producer groups. In the two districts, project officers were nominated from among those who knew the challenges of producers and were very skilled in production techniques and in the adaptation of small equipment for post-harvest handling.



IMBARAGA products on display at a local agricultural fair, Burera, Rwanda.
© FAO/J. Kabiligi

The staff of IMBARAGA was empowered to deliver trainings on key topics such as marketing and value chain development. Various trainings were carried out on agribusiness themes as well as on organizational management, such as leadership and finance. Mr Apollinaire, the Chairman of IMBARAGA in the Northern Province, said that “at first it seemed utopian to think of cooperatives as business entities as they weren’t organized. The most important was the business incentives type of approach, which reinforced cooperatives, guaranteeing markets and fair prices. Each organization member is now paying a fee to IMBARAGA, and coordinators are developing new post-harvest preserving techniques.”

Mr. Gafaranga, the manager in the Northern Province expressed that “the improved management of organization for members of IMBARAGA resulted in an increased commitment of members. Internal dynamics of cooperatives are still

very fragile and need to be further strengthened.” IMBARAGA is for example considering hiring and sharing a professional staff for the three assisted cooperatives in Burera District. This person would be in charge of the accounting and would be controlled by a “comité de surveillance” composed of representatives from the three cooperatives.

Participation in the “joint action forum” of development partners in each of the two Districts and in the “Agri-shows” organized by MINAGRI gave greater visibility to the organization and attracted new funding, with actors interested in extending the approach (Catholic relief service, Belgian Embassy, the Netherlands and MINAGRI in the framework of the intensification programme of selected crops). Thus, IMBARAGA has built a reputation of being a reliable partner, acting as an intermediary between district authorities and producers.



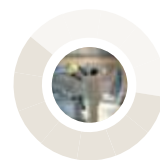
CHAPTER 03

CAPACITY BUILDING FOR INCREASING PRODUCTIVITY, PROMOTING VALUE ADDITION AND FACILITATING ACCESS TO MARKETS

The development of the capacities of value chain actors, particularly existing producer and processor organizations, is essential. Training in strategic technical and management skills is usually carried out to reinforce advisory capacities of producer organizations for their members and to enhance their service provision, in terms of quality, effectiveness and outreach. The approach consists of developing the capacities of organization leaders and giving them the option to recruit human resource professionals or to contract service providers.

Hence, the objectives for associations and cooperatives are:

- To build viable structures that are able to provide quality services to members, ensure strong leadership and guarantee transparency of organizational management;
- To provide technical assistance to improve production techniques, managerial skills and entrepreneurship in general, such as planning and management of activities, financial management, negotiation skills and cost management – e.g. for bulk produce, group selling and marketing, transportation, improved business management, better plans with partners for procurement, deliveries and supplies; and
- To facilitate the establishment of market-oriented units within the cooperatives to conduct business for their members – e.g. engaging in retailing or value addition. For example, in Rwanda these units set up dairy shops to ensure an outlet for the producer cooperatives.



3.1 PROFESSIONALIZATION OF PRODUCER GROUPS, AGRO PROCESSORS AND SMALL TRADERS' ORGANIZATIONS IN ORGANIZATIONAL AND MARKETING SKILLS

In the Eastern African region, “associations” often refers to informal groups of producers, carrying out common activities to improve their enterprises. Associations often contain about 20 members, linked to a specific location and/or commodity; associations may be federated to form a cooperative society. In cases where producer associations have been created merely to participate in development projects, they are poorly-structured, and characterized by a lack of transparency of management and trust among members. In these cases, it is necessary to provide mentoring to restore confidence and reinforce group dynamics. Institutional strengthening is provided so that the associations can be set up in accordance with government laws, establish functional by-laws, obtain official registration as business entities and successfully operate and conduct business (such as group purchase of inputs, group selling, signing business contracts on behalf of their members, opening bank accounts in the name of the cooperative).

Participatory methodologies are applied in the training to support dialogue among association members, conduct needs assessments and learn from each other experiences. During workshops, members identify specific challenges and discuss how to overcome those challenges in order to succeed in their activities. A central focus is training on group leadership and good practices of association management (e.g. organization, leadership, meeting facilitation, conflict resolution).

It is important for members to understand the benefits of joint group actions and to define clear objectives in order to foster commitment to the organization. It is essential to guide the clarification of rights and obligations of members and of the organizations – for instance, paying an annual fee, participating in decision-making processes, regularly attending meetings and strengthening solidarity among members.

3.1.1 Support for the legalization of associations and cooperatives

Once association leaders have been acknowledged as such, service providers assist the associations in drafting the necessary documentation to obtain formal registration at district and national level; support is also provided to develop constitutions.

The creation of new farmers' cooperatives was supported for specific, already developed, commodities (such as in the case of rice value chains). Restructuring efforts resulted in an increase of organizations and increased outreach in terms of membership.



CREATION AND PROMOTION OF COOPERATIVE ORGANIZATIONS

The Rwandan Government is promoting cooperative organizations as a key interface between extension services and farmers. The Rwanda Cooperative Agency (RCA) has been legalizing associations under the form of cooperatives, permitting them to open bank accounts and link to microfinance institutions. Legalized cooperatives are also

benefiting from tax reductions and receiving technical assistance, mainly from NGOs and institutional service providers.

In Burundi, five new rice cooperatives were created, comprising more than 3 000 members; five new cooperatives of passion fruit

growers were also formed.

In DRC, restructuring efforts resulted in the creation of 25 cooperatives, incorporating a total of 50 associations.

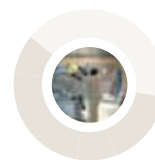
Management structures of five cooperatives were established and strengthened; the number of members increased from 758 at first to 2 050 today, of whom 882 are women.

As a result of the mentorship and trainings carried out, cooperatives are better structured and their management systems have improved. Members are aware of the need to pay a contribution, to participate actively in the organization and to encourage the participation of women. Some organizations were able to recruit professional staff such as agronomists and accountants.

The current challenge is often to find the most effective and sustainable solution, whether by creating new groups or associations or by expanding and capacitating existing ones, as well to find a way to integrate new members and distribute benefits. In some cases it was found more useful to support the creation of another organization than to integrate too many new members into a single one, given that their access to capital is still weak. In such cases, the challenge was to find the most effective means to assist the organizations to collaborate and expand their outreach and their business volumes.

3.1.2 Capacity building in business management and marketing

Leaders and members of organizations benefited from a wide range of capacity-building support activities to strengthen their business management skills. Capacity-building programmes focused mainly on the following points:



Cocoanya Cooperative Staff involved in pineapple wine production, Gisagara, Rwanda.
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- Business management (record-keeping, cost management, accounting, profitability calculation and analysis);
- Identification of market opportunities;
- Technical assistance for enterprise management and preparation of business plans; and
- Contract negotiation skills, credit systems and management of saving and investments.

The manual developed by the Rural Infrastructure and Agro-Industries Division (AGS) of the Food and Agriculture Organization (FAO) for leaders of cooperatives and pre-cooperatives has been used for guidance in capacity building and can be downloaded from the Internet. Organizations learned to apply the basics of how to manage a business – for instance, functional record-keeping systems have been created.

Capacity building has also been provided to local traders and exporters who were assisted to strengthen their entrepreneurial skills in marketing, accounting, profitability calculation and cost mastering, as well as financial issues and business plan formulation.

3.1.3 Business arrangements for improved governance of organizations

As a result of the technical assistance on marketing, innovative mechanisms have been implemented, focusing on existing skills and on the core business of the organizations.



SETTING UP PROCESSING AND MARKETING WINGS AT COOPERATIVE LEVEL: A CASE ON PINEAPPLE FROM RWANDA

The producers' cooperative of pineapple fruits in the Gisagara district in Rwanda (COCANYA) were facing a high perishability rate and a lack of market access to the main city, Butare, which had higher prices for pineapple (about 300 Rwandese francs per kilo against the 200 Rwf locally). Once, the cooperative's members decided to rent a vehicle and went to Butare to sell their produce, but after calculation of the costs involved, they found that it wasn't profitable; high transportation costs and low quantities sold didn't make business sense. The local service provider, IMBARAGA, supported strengthening of the COCANYA'

internal capacity to produce, collect, process and sell their pineapple products (fruits, juices and wines).

The most innovative approach was the decision made by the COCANYA cooperative to split the activities into three separate units – i.e. one for producing the fruits, one for collecting and selling them, and one for processing and sale of the juices and wines. There is a subcommittee in charge of marketing activities, linking producers to buyers; an average of 7 000 kg of pineapple fruits every week are collected from

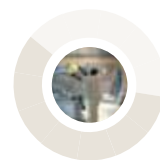
the villages and sold at the Nyaruteja and Huye markets.

Main achievements: the organization made strategic choices and formed specialized committees. A business plan to invest into modern processing equipment has been submitted to a microfinance institution. As a result of collective marketing, price margins from processing activities are now three times higher than before the project. Moreover, members are looking at extending the delivery areas of products and finding new market outlets for the pineapple wine. The cooperative has hired an accountant and members have improved and diversified their livelihood (through the purchase of cattle, insurance for family members, social protection and improved housing).

The production of pineapple is now part of the strategic intensification program in the district, the approach was appreciated by the authorities and population now “knows that it can be sold at the market and provide an income”.



The office of the Coocanya Pineapple Producer Cooperative, Nyanza, Rwanda
© FAO/J. Kabiligi

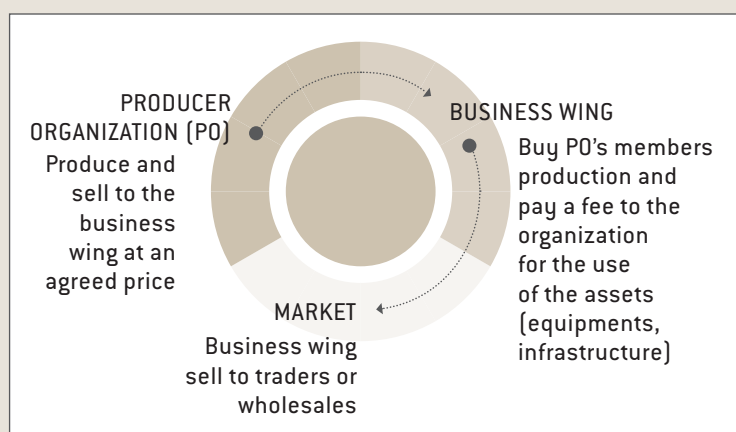


SETTING UP BUSINESS WINGS AT COOPERATIVE LEVEL: A CASE FROM UGANDA

Producer organizations in Uganda often faced a lack of transparency in their management, resulting in a lack of trust from members and a critical lack of knowledge in how to build and keep business relationships. Members were complaining about the unfair business relationships with buyers and limited possibilities for negotiation. The establishment of business wings aims to avoid two types of situations:

- Lack of transparency in farmer organizations, making them unable to manage business relationships and redistribute profits to members; and
- Unfair business relationships with no option of retaining value by marketing produce collectively.

Business wings are composed of three to five members, who are members of the main association and are already local traders. Initially, individuals who become part of business wings are selected after considering their capital, business capacities and level of trust from association members. A written agreement is signed between the business wing and the association members, specifying the price to be paid to members and the fee for use of the association's



assets. When the linkages between business wings and markets are strengthened, profits from the sale of produce are then shared among business wing members.

As a result, the business wing of one of the beekeeper associations (BBDA) is now supplying refined honey to about four supermarkets in Kabale. An MoU had been signed with one of the supermarkets (Cash and Carry), although the linkage has been threatened by insufficient production to meet the high demand for honey. The marketing wing is still supplying the supermarket but under informal arrangements.

Potato producer cooperatives Muko and Kamuganguzi have been linked to a fast food restaurant

and to a hotel group in Kampala, supplying about 100 tonnes of potatoes per year. A private company, Mugenga Holdings Ltd, is also planning to set up a potato processing plant in Kisoro district, where potatoes will be peeled, sliced and frozen, then transported to Kampala ready to fry. The main setback remains transportation costs, which the associations are trying to solve by purchasing their own trucks.

This model, developed by the project staff together with project beneficiaries, has proven to work well in Uganda, to the extent that it has caught the attention of other development agencies in the area and contributed to mobilizing additional resources for value chain development.



3.1.4 Strategic professionalization of group organizations

In the model promoted by the value chain development projects, instead of directly selling produce to the market, the producer organization delegates marketing activities to specific marketing committees. This arrangement allows the farmers to focus on production while the marketing managers or committees become more professional, building relationships with buyers and getting to know market opportunities. Consequently, it improves the efficiency of organizations in delivering produce as well as enhancing the transparency of organizations. The main challenge for these innovative marketing systems is the need to maintain constant communication between business managers and other association members to update profit figures and distribute fairly to the members of the associations; this is crucial to sustain the system in the long term.

3.2 ENHANCING VALUE CHAIN PRODUCTIVITY: IMPROVEMENT OF PRODUCTION TECHNIQUES, QUALITY AND VALUE ADDITION

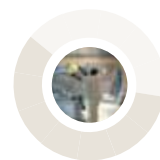
Achieving higher and more consistent volumes of produce to respond to national and regional demand has been critical to ensure market inclusion of smallholders and strengthening producers' capacities in market-oriented production techniques has proven to be very effective. The project has provided support to improve technical expertise and skills in farming as a business.

Decentralized extension services possess strong skills in production techniques; however, they lack sufficient resources to provide advisory services at the local level and to address the needs of farmers. District extension services and officers have now received training in value chain development. This has facilitated relationships with local authorities and subsequently conventions and agreements have been signed on specific issues related to production, such as water management in rice production.

3.2.1 Improving agricultural production techniques

The capacity-building programme has developed three strategies to raise the application of improved production techniques at farmer level:

- Learning from skilled farmers;



- Theoretical and applied trainings while implementing the action plans; and
- Exchange visits within countries.

A farmer field school approach has been implemented, which provides intensive support for at least three seasons before graduation. Demonstration plots are used to compare results according to the applied techniques, inputs and varieties; in many cases, producers experience a doubling in their yields.

3.2.2 Production and access to quality seeds and planting materials

For each value chain, producers were assisted to access quality planting materials. In some cases, an advance of funds was disbursed to association members to constitute a revolving fund.

As a result of improvement in business and production management, supply of quality planting materials became a viable business for various actors, such as cooperative and entrepreneurs. This has resulted in the spin-off business of setting up input dealers.

It is crucial to select varieties for which there is an existing market demand and for which consumer preferences are known.

Overall, practical trainings were particularly appreciated by producers. As a result of these trainings, farmers adopted new techniques, applying water management strategy and good seedling density; this led to consequent increases of yields (in some cases up to three times higher).

SPECIALIZED SEEDLING PRODUCTION IN RWANDA

In Rwanda, individual small farmers willing to take on new activities have been supported to supply inputs and to produce planting materials for producer cooperatives. Mrs and Mr Nereste, members of the UMWETE cooperative, were interested in setting up a business

of multiplication of seedlings. Before the project intervention, seeds had been stocked under beds in private houses and the prices were very high. Demand for the planting materials offered by the Neretse grew quickly, and they were not able to meet the new

demand, they produce only about 12 tonnes of different varieties of potato seeds, with particular attention to preservation and germination characteristics. The planting materials are sold at a preferred price to members of the cooperative.



Beneficiaries expressed that the most important lessons in terms of production were the following:

- The choice of appropriate varieties, consistent with the soil type, climatic conditions and market needs, reduces losses;
- The use of high quality seed and proper storage of it is necessary to guarantee good germination conditions and harvest and fertilizer/manure application is required for exhausted soils on farmland to enhance yields and profitability;
- Due to high infestation and prevalence of pests and diseases, Integrated Pest Management techniques are recommended to reduce production costs and contribute to consumer health protection by reducing the use of pesticides.

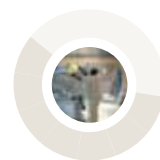
3.2.3 Support for product standardization, packaging and branding

In terms of post-harvest handling and processing, the main constraints identified were the low quality of produce and high post-harvest losses due to lack of appropriate equipment and storage structures and poor post-harvest handling. Another important factor was volatile market outlets which led to distress sales immediately after harvesting, implying a low price for producers. Therefore, processors and downstream actors have been challenged by an inconsistent supply of quantity and quality of produce and by significant price volatility.

Market outlets (supermarkets, intermediaries) tend to request standardized quality products. The project plan has been to support the construction of collection centres to improve storage, grading, packaging and branding operations. Trainings have been provided on the technical use of equipment and especially on facilities management, and centres are now equipped and functional.

An assessment of current practices was conducted in Burundi in order to develop strategies to promote good practices in quality control, including packaging, grading, and traceability with respect to cross-border trading. Support to develop proper packaging and development of modern labels is also being provided, in response to market requirements.

The constant support ensured by the local service provider has been crucial in achieving positive results. The improvements of post-harvest and drying practices have allowed producers to have a higher preservation rate and reduce post-harvest losses.



THE CASE OF THE POTATO AND MAIZE VALUE CHAINS IN RWANDA

Upstream of the Burera district in Rwanda, maize and Irish potatoes are essential food commodities both for household consumption – and therefore food security – and for selling. Poor production and post-harvest practices had been limiting yields to about 10 tonnes per hectare for potato and about 1 tonne per hectare for maize. Most of the potatoes were purchased by medium-level intermediaries and most of the maize was sold unclean to local millers. The project mainly focused on: i) accessing inputs and quality planting materials; ii) improving post-harvest practices, specifically drying steps and off-season storage; and iii) establishing maize and potato collection and sale sites.

Five farmer associations (two producing potatoes and three producing maize) were assisted to register as cooperatives with the Rwanda Cooperative Authority. Those farmer associations have been consolidating the use of land to prioritize those crops and plan their production.

Members of potato associations supplying formal markets have been trained to wash, select, standardize and brand their potatoes according to market demands. As a result of the project intervention, potato collection sites were established and

an average of 5 500 tonnes/ season are sold to Kigali markets at a price of 15 Rwf/kg higher than prices at the ordinary markets. Local traders had been facing quality issues with raw materials; now the produce is collected in the collection sites, which has the advantage of improving quality and saving time and transport costs for buyers. Cooperatives also targeted a new market: supermarkets in Kigali, for which volumes are lower (about 4 tonnes per week) but prices are higher. Cooperatives are delivering the produce to the buyers.

For the maize, traditionally, women had been shelling maize and drying the grains outside and on the ground, resulting in poor quality in terms of hygiene and humidity content. The project assisted in the construction of appropriate sheds while organizations contributed land, basic local material and labour. Drying maize in appropriate shelters enabled improvement in maize quality and thereby increased the selling price to the advantage of producers. IMBARAGA, the service provider, was provided with small-scale equipment to reach a capacity of 300 kg/day. Introducing new post-harvest processing techniques led to an improvement of quality in crushed maize, which is more digestible for

older people and children, and also requires less cooking time.

Maize Cooperatives had been selling to informal markets but now, one of them - IMBONI - has written contracts with Mukamira, a factory manufacturing maize flour. Prices of maize grain have increased by more than 100 percent (average prices rose from 100 to 250 Rwf/kg).

Finally, cooperatives were supported in the submission of simple business plans to the Equity Bank, to establish revolving funds to pre-pay for the harvest, allowing them keep produce safely stored for up to 2-3 months and sell it at a higher price. Cooperatives members have also been opening saving accounts.

Achievements: It was found that maize yields from project-assisted area were at least two times higher. The quality of produce has also increased; as a result, links with maize factories have improved. Clients are currently coming even before the harvest period and establishing contracts at higher prices, although further support is needed to improve weighing, packaging and labelling operations. Support extends to the creation of new businesses; one woman-owned business has started to produce crushed maize commercially.



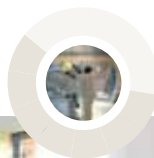
3.2.4 Promotion of improved processing techniques to enhance food safety

As a preliminary activity to improving processing techniques, a consulting firm was contracted to carry out an assessment of the status of small-scale rural factories. The evaluation included an appraisal of equipment condition and capacity, diagrams of flows of products, hygiene practices and finally the identification of risks and the formulation of action plans for capacity development and improving the competitiveness of processing firms by making the best use of their processing capacity. Subsequently, training and technical assistance for technicians in management, agroprocessing and hygiene standards was carried out. In collaboration with other partners, support was provided to agroprocessors to renovate the plants, modernize the equipment and establish a revolving fund to purchase raw and packaging materials. Agroprocessors and key technical staff have been trained and assisted in procurement, improved processing and quality control management.

Quality of produce (milk, etc.) is now ensured at both farmer and factory level. Training and official certification on hygiene and quality control was done by the Faculties of Veterinary Medicine. Farmers and agroprocessors are now prepared to ensure quality control, enhancing the competitiveness of rural enterprises. New technologies and processes have been adapted – i.e. promotion of well-washed potatoes for supermarkets and restaurants, new maize drying technology, provision of small grinding equipment to women, adoption of simple cottage cassava processing for high value cassava meal.

The idea was to share the cost in order to reduce the investment risks for entrepreneurs and involve the beneficiaries in the process. As part of the modernizing process, loans have been granted for accessing improved equipment and for the construction of infrastructure and facilities. For instance, business plans included acquiring appropriate equipment for milk transport (i.e. metal containers), the construction of small-scale stores, the provision of scales and accountancy tools and appropriate equipment for sales recording and transport.

As the various cases have shown, capacity-building activities have been instrumental in making the stakeholders more professional, as well as increasing the overall productivity of the whole value chain and raising its competitiveness. An example of the extent to which capacity development facilitated by the project was appreciated can be found in a report prepared by an independent mission, during which beneficiaries shared their views on the project's capacity development activities.



Nziza Fruit Juice Factory, Gicumbi, Rwanda.
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TABLE 4. **FEEDBACK FROM BENEFICIARIES IN COUNTRIES SERVED BY THE PROJECT**

Burundi	“Capacity development was an outstanding strength of this Project.”
Rwanda	<p>“The Project was successful in training farmers in intensification of agricultural production and assisted in the upgrading of farmers’ associations into full-fledged cooperatives. Exchange visits with Project components in Burundi, Uganda and the Democratic Republic of the Congo have been instrumental in this aspect.”</p> <p>“Trainings in agricultural techniques, post-harvest activity, processing for value addition (e.g. transforming grain into maize grits), business plans, upscaling production and enhanced packaging and marketing were very useful to us.”</p>
Uganda	“The most important contribution of the Project has been capacity development. Farmers’ agricultural skills were developed also, by strengthening their linkages with the National Agricultural Research Organization station based in Kachwekano. Perhaps even most important, the project has contributed to the development of management skills of farmers’ associations, some of which are in the process of upscaling into legally recognized cooperatives.”



IMPROVED MAIZE PROCESSING IN THE DEMOCRATIC REPUBLIC OF THE CONGO

In the DRC, three women's organizations benefited from a maize processing unit installed by *Dynamique*

Paysanne Féminine which also helped to secure their supply sources. The processing units installed at Goma had been

working at 50 percent of their capacity when supplying only demand from the World Food Programme.

IMPROVED PALM OIL PROCESSING IN THE DEMOCRATIC REPUBLIC OF THE CONGO



In the DRC, the processing of palm oil has been improved by modernizing palm kernel cracker stations and palm kernel oil

extraction units in rural areas. As a result, volumes and quality of the supply of raw material for soap-making has increased at village

levels. This represented a new competitive advantage for cottage soap-making industries, which are flourishing in Bukavu and Uvira.

Right: Milk delivery at the IAKIB Collection Centre, Gicumbi, Rwanda. © FAO/J. Kabiligi





CHAPTER 04

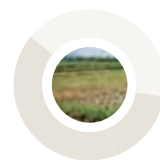
FACILITATION OF LINKAGES FOR INCREASED VALUE CHAIN COORDINATION AND EFFICIENCY AMONG ACTORS

To reinforce linkages between the value chain actors, the project focused its intervention on the following goals: i) facilitate horizontal and subsector linkages; ii) facilitate access to productive services, such as setting up inputs dealers; iii) ease business-to-business relationships and contract arrangements between value chain actors; and iv) foster access to information on market opportunities.

4.1 SUPPORT TO HORIZONTAL LINKAGES AND ACCESS TO SERVICES

4.1.1 Fostering networking to create apex organizations

In two countries, Burundi and Uganda, cooperatives decided to join forces and form an apex organization. Multiple associations from each district came together to form a district apex organization, in order to enhance coordination, networking and advocacy. The two district apex bodies formed are now being supported to join national bodies.



4.1.2 Facilitating access to inputs

In general, access to inputs is one of the most critical issue for producers. Local inputs dealers are almost nonexistent and purchases tend to be centralized at the level of the Ministry of Agriculture, often resulting in untimely and irregular inputs distribution.

In the case of the DRC, inputs dealers were unable to plan input supply so as to meet demand and therefore they could not meet commitments. On the other hand, local traders and exporters were not able to forecast production volumes or sign contracts with individual producers.

To address this challenge, the project supported the opening of small inputs shops with an agreement that members of cooperatives could purchase products at 50 percent of their original price, sold on credit to be recovered at harvest time, in order to create a revolving fund. According to this approach, individuals are selected to distribute inputs based on their willingness and business skills. Training is carried out for producers to demonstrate productivity increase and improved seeds and inputs, such as fertilizers and pesticides, are introduced and provided by research centres and/or international firms according to careful environmental impact assessment. The establishment of input stores in rural areas is facilitated, then trainings in management of input stocks and finance, as well as training in input specification and application, are carried out, and credit is provided to members through a revolving fund.

Lately, farmers have been willing to pay for quality inputs and seeds because they have seen evidence of their utility demonstrated by increased yields. Thus, by creating a new demand, small and medium enterprises encouraged private actors to meet farmers' needs and invest in rural areas. One lesson learned is that strengthening farmer linkages with reputable input supply chains can reduce compromises on quality and guarantee production and productivity.



UMUGAARA, AN APEX ORGANIZATION IN BURUNDI

In Burundi, a particular focus was on building solid cooperatives that evolved into a pre-federation or apex organization, known as Umugaara.

A wide consensus has been reached on a “2020 vision,” leading to a strategic vision, which includes a shared road map. The organization also hired a central store in Kirundo town to sell produce in bulk.

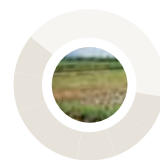
Fundraising processes and technical assistance are underway to further empower Umugaara – i.e. to support the construction of appropriate infrastructures and facilitate the provision of appropriate equipment and human resources.

PERIOD	OBJECTIVES	SOURCES OF FUNDING
2013	Constitution of the apex organization and provision of legal instruments, common vision, action plan and leadership training	Technical assistance from the project
2014	Adoption and intensification of production techniques to enable Umugaara's members to switch to a market-driven system	Production techniques and entrepreneurship capacity building from the project. Access to inputs: fund raising + subsidies policy from the Ministry of Agriculture + credits
2015	Control of the inputs segment by Umugaara, marketing of paddy rice and partial control of agroprocessing	Formal linkages with financial institutions established with increasing credit lines
2020	Rice factory established in the region with active financial and technical participation of Umugaara	Fundraising from World Bank, IFAD Proposals to financial institutions

4.2 STRENGTHENING VERTICAL LINKAGES AMONG VALUE CHAIN ACTORS

An important component of the project aimed at strengthening linkages between value chain actors to encourage win-win situations and guarantee market outlets. Most trading relationships have been of short-term duration and contractual arrangements have mostly been informal, without written agreements; thus, numerous issues arose in terms of quality rejections, prices and payment terms. Relationships between value chain actors have been characterized by a low level of trust. Buyers have multiple sources of supply and prices are often formed on the basis of inaccurate and asymmetric information.

Therefore, the immediate objective was to provide technical assistance for strengthening existing links and supporting the establishment of new ones.



4.2.1 Strengthening business-to-business linkages

Enforcing contract agreements

Meeting and workshops were organized to discuss issues involved in business-to-business relationships, bringing together producer organization leaders, traders and service providers. An important challenge that was often raised was related to the contractual arrangements between producers and buyers/traders. Informal contracts are flexible, fixing the quantity and prices but at the same time not ensuring that both parties are warranted in case the contract is broken, or in case there is a default on produce quality. The need to clearly specify conditions was highlighted as a means to protect parties by stating details on price and on quality requirements with objective measurements and clear payment conditions, including penalties in case of delays, types of currency and timing.

As a result of these discussions, and thanks to the constant coordination facilitated among the actors, relationships between producers, processors and traders were strengthened for each of the existing value chains and new ones were created. Commercial relationships have been strengthened through formal contracts and Memoranda of Understanding (MoUs). Formalized contractual arrangements have benefited both producers and supermarkets; farm gate prices per kilogram have increased and supermarkets linked to collectors receive a consistent and steady supply of quality produce. In other cases, informal agreements have also been improved through enhanced communication and negotiation, thanks to better market information.

MoUs are a kind of assurance between parties which have to be constantly revised to fit new market conditions. Relationships have been strengthened when the conditions are fulfilled by both parties, leading to formal contracts and increasing the negotiating power of the producer organization. During that process, communication and coordination efforts are critical and have been ensured through regular meetings and various modes of communication. Weekly meetings have been organized at cooperative level to adjust prices and agree on the quantities to deliver.

Formal contract agreements between producers and processor plants have the advantage of being more stable, more transparent and not subject to significant unpredicted changes. To maintain business relationships and be able to meet buyer demand with sufficient supply, it is critical to foster trust among cooperative managers and their members to lessen the risks of side-selling.



Before making a verbal agreement or signing a contract, there are many steps that lead to building trust between the actors and defining the terms of the contract. Quality requirements need to be discussed in the interests of both: for the buyer, the specifications need to be well-defined so that the supplier understands exactly what is requested and is able to deliver accordingly; for the supplier it is also important to understand what is required from the market, in order to prevent unpredicted rejections.

Being constantly informed

Farmer groups have learned to conduct basic profitability analyses and how to make use of available tools to inform themselves about the different markets, collectors' requirements and prices. They have learned how to keep up with market developments; also, thanks to mobile phones, communication has improved and price determination is more transparent. Credits have been extended and are easier to access, with longer payback and easy terms.

Selecting buyers and building long-term relationships

Cooperatives have been linked to reliable buyers who have an interest in developing more long-term relationships with their suppliers by selecting markets that were appropriate for the available volume of production. The level of trust has been built up over time and through constant communication. This has been highlighted as one of the crucial issues to be addressed to ensure sustainability.

As a result of this process, members now tend to look for long-term profitability. Both processing plants and cooperatives are requesting higher supply volumes to ensure that plants operate at their full capacity. Further trainings in animal husbandry and access to more productive heifers were therefore requested by milk producer associations to increase supply.



Quality check of the milk delivered at the collection centre of Rubuguri Dairy Cooperative, Kisoro, Uganda
© FAO/R. Nandelenga



MARKETING PASSION FRUIT: A CASE FROM BURUNDI

In Kayanza province, located in northern Burundi, farmers used to produce semi-domesticated passion fruit and sell it at an informal market dominated by brokers. At first, demand for low-quality fruits came from the Tanzanian and Ugandan markets; exporters were operating under an informal status, resulting in non-transparent transactions, and raw materials were bought from a network of collectors linked to individual producers. The lack of adapted means of transport resulted in significant losses and quality deterioration when exporting to neighbouring districts in Rwanda. Traders and exporters were already linked to markets in Rwanda, Tanzania and Uganda but those traders lacked the technical skills to manage their businesses properly. Moreover, farmers didn't know of market

opportunities that would promote getting organized and increasing their production. The trainings carried out helped producers to better select and grade fruits; low-quality fruits are exported to Tanzania for processing into concentrated juice. Plantation areas have increased and productivity has been raised.

The project intervened to support the existing organizations in three cooperatives, comprising more than 800 members, of which half are women. Support for commercialization provided by the project included technical assistance for the constitution of formal, legal rural enterprises. Cooperatives have been linked to:

- Fifteen local traders organized in a local enterprise operating as a cooperative for marketing

activities (Entreprise de Commercialisation de Maracuja - ECM) who decided to merge their capital;

- Five exporters organized in a limited company, Marex, which contracted cooperatives and developed relationships of trust with Ugandan consumers, and their processing units, Inyange and Nyirangarama in Rwanda;
- Ten people who own a small enterprise specializing in juice production (Transjuma,) using ad hoc arrangements for raw material supplies.

A Rwandan processing plant came to Burundi and negotiated a formal contract, fixing prices and quantities with the limited company, Marex. These arrangements were not successful, however, as producers had to compensate if the quality of the juice



was not acceptable and the plant rejected one quarter of the deliveries. After several discussions, the buyer finally agreed to an informal arrangement, accepting the entire quantity of the deliveries. Verbal agreements are working well; the plant now gives a bonus when the quality is satisfying as per Rwandan market prices.

The whole marketing system has been modernized. Marex buys fruit on a weekly basis and gives a credit to producers, which allows them to capitalize their production systems (e.g. through the purchase of cattle). Each transaction is documented: members have a card, on which is written quantities and prices; the company has its own recording system. The cooperative's management committee organizes the transport, which

has been bought through a co-funding arrangement. Since a visit to Rwanda, farmers are aware of Rwanda's market prices and Marex must update them and communicate every week. Transactions are expected to increase from 1 000 tonnes in 2011 to 5 000 tonnes in 2015.

With respect to sustainability, the director of Marex expressed that the company can function without external support, even if they face payment difficulties when clients in Rwanda do not pay promptly. Two clients in Rwanda could understand the benefits of building long-term relationships with Marex, based on trust and stable supply of raw materials. Moreover, Marex is playing the role of platform, setting the price at local level, and traders are coming to Marex to ask

about the current price and underbidding when production is low. For producers, working with Marex and with other intermediaries has helped to increase prices caused by a higher demand.

In 2008, the price was 50 to 80 Burundi francs (Brf) per kilo; now, with the formal export contracts, the minimum price is 250 Brf. Business is extending to other districts and volume of transaction has grown. Marex and the cooperatives developed a proactive attitude, looking for new clients to avoid overreliance on a single one. Next steps could be submission to certification procedures to increase food safety and looking for new export market opportunities.



DAIRY MARKETING: A CASE FROM UGANDA

The main market for milk in Kisoro district is the Birunga Dairy Industries (BDI), which processes Ultra-High Temperature (UHT) packaged milk which is sold in Burundi, the Democratic Republic of the Congo, Rwanda, South Sudan and Uganda. The plant is located about 30 km from the Bwindi National Park but separated by a hardly practicable road; thus, producers are considerably isolated. Dairy farmers decided to get together and form the Rubuguri dairy farmers cooperative society (RUDAF COS) in 2007, currently comprising 139 highly motivated members who were facing strong constraints related to their remoteness (e.g. lack of power supply, transport difficulties). The organization requested support and with the facilitation of the project, the cooperative and the processing plant decided to work together. The first step was the commitment of the BDI processing plant to buy the entire milk production of the association. In another step, associations were reorganized into four groups, registered at local level. Then RUDAF COS committed to supply quality milk and to increase production steadily. Those commitments have been formalized through a Memorandum of Understanding signed by BDI, RUDAF COS and the project.

BDI provided a generator to run the milk cooler and made technical staff available at the collection centre to ensure the quality of the milk collected. NAADS (an extension agency) undertook to offer extension services to farmers. Trainings in basic veterinary services were carried out by a specialized unit within the Faculty of Veterinary Medicine at Makerere University (Kampala). As a result, 20 members of the cooperative received training in basic veterinary services and project beneficiaries started a veterinary drug shop. Demand for and acquisition of improved dairy animals is constantly rising. The amount of milk rejected by BDI has decreased significantly. Milk quantities sold through the collection centre have increased from about 6 000 litres in March 2010 to about 20 000 litres in May 2011. The Rubuguri Saving and Credit Cooperative (SACCO) committed to provide financial services; a loan corresponding to 50 percent of the cost of a truck was granted and paid back in instalments. This had a noticeable effect on the transport conditions from the production area to the processing plant and the price of the milk increased from 200 to 400 Uganda.

Rubuguri SACCO also opened accounts for all cooperative members through which payments are received every 15 days; all the transactions are done through three banks. Individual monthly records on milk sales are reflected on members' respective accounts and have increased their creditworthiness.

New buyers entering the project area initially appeared to threaten the linkage with the processing plant but, given the benefits and the increased price, their arrival is mitigated in a way – i.e. the new buyers are willing to buy from producers at better prices and therefore, although the supply to the processing unit is hampered, now the factory is offering better prices to secure supply from producers in the area and in this way, the competition of the processing plant increased the advantages obtained by the producers, because now they are able to sell at a better price. The visibility and lobbying capacities of the organization have been raised to the point that the president of the Republic of Uganda has met with representatives of the organization.

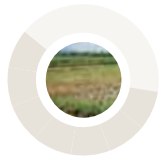
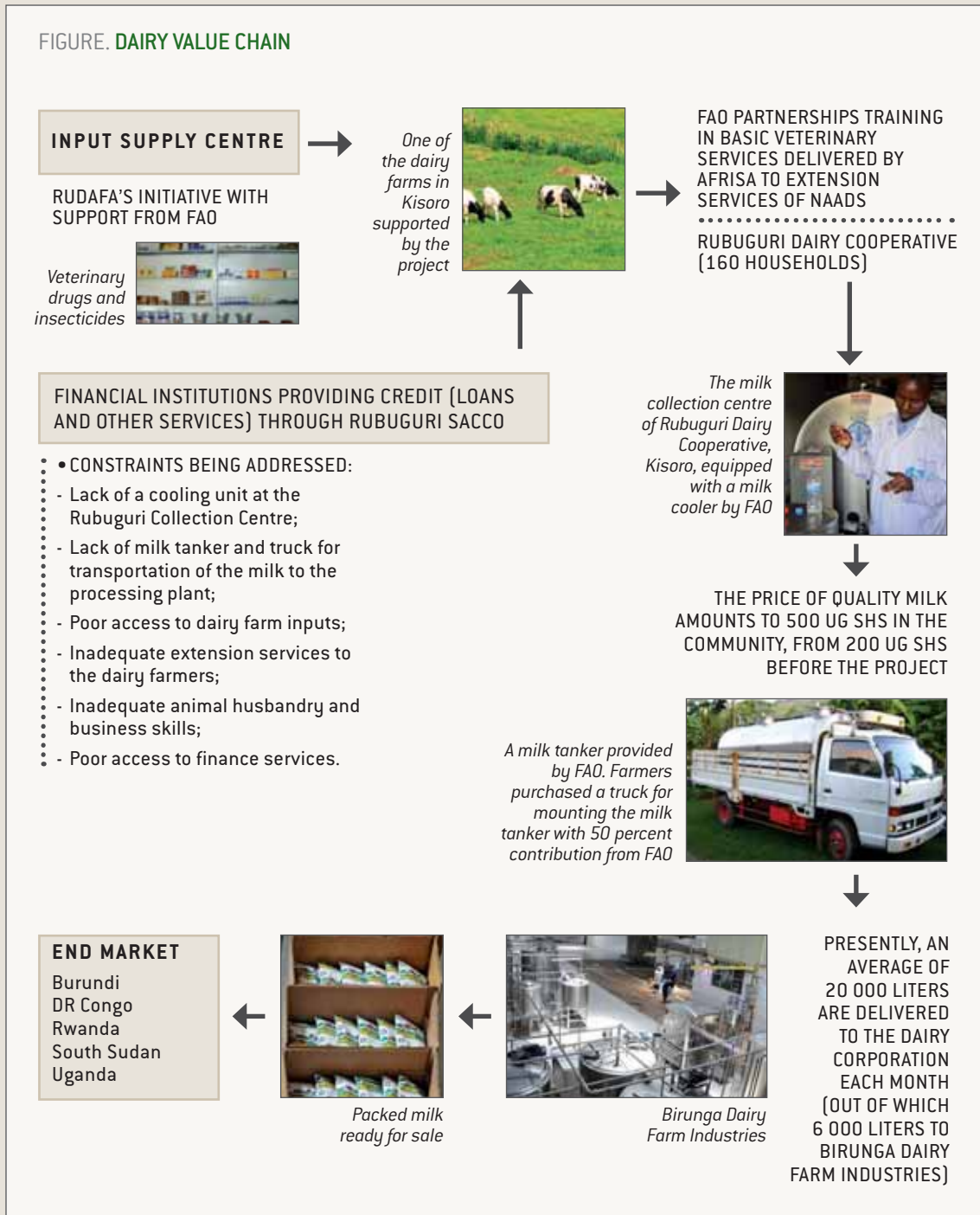
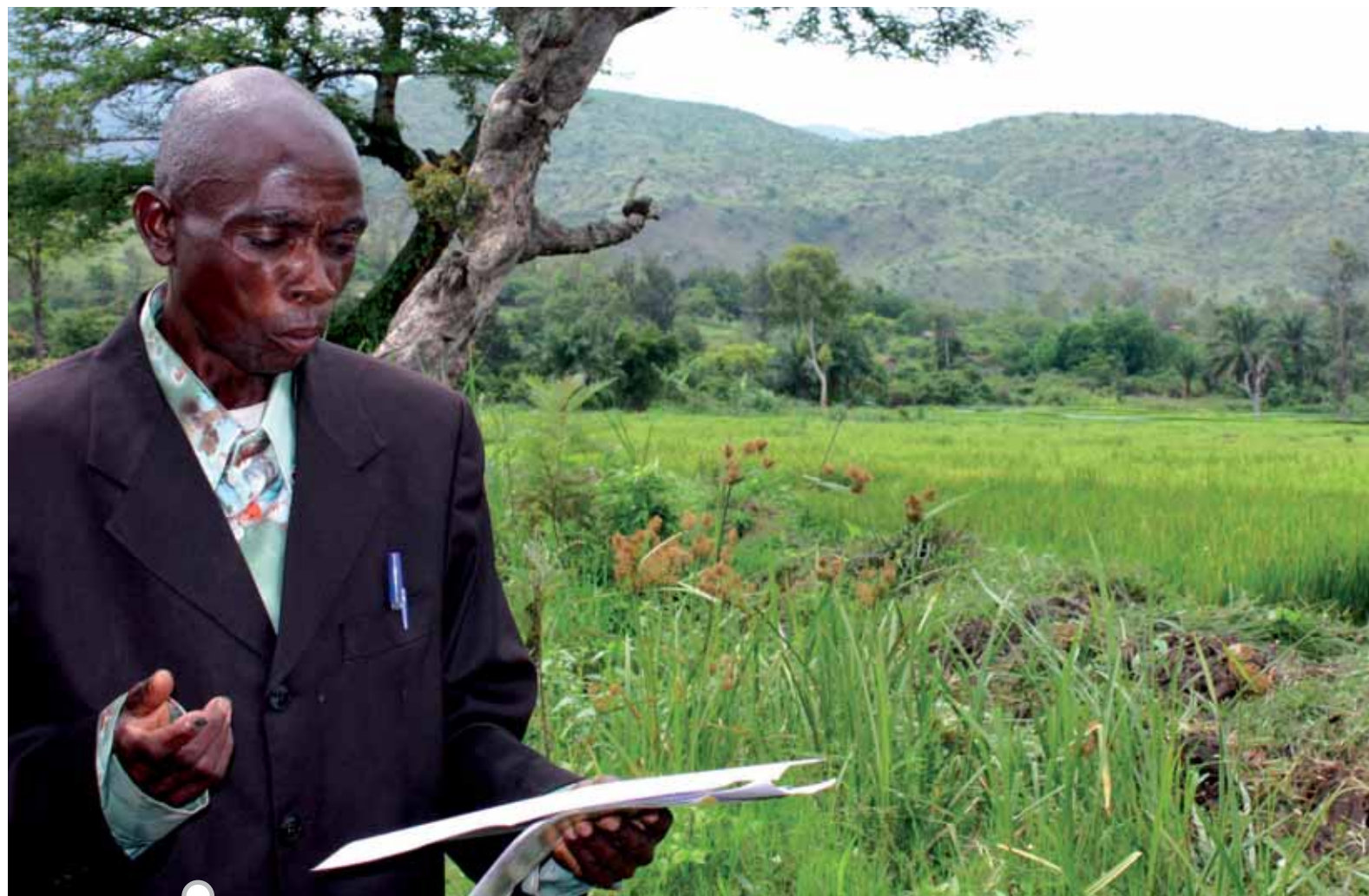


FIGURE. DAIRY VALUE CHAIN





*The Chairperson
of the rice
producers'
CDC Kiringye
Cooperative,
ruzizi, DRC.*

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Luabeya

COORDINATING THE RICE VALUE CHAIN IN THE DEMOCRATIC REPUBLIC OF THE CONGO

In the South Kivu district of DRC, rice is important in traditional farming systems. Transaction costs for small-scale producers were high; farmgate prices were determined by importers and local producers had no negotiating possibilities. When planning the project intervention, stable market outlets were identified as: i) traders from Uvira and Bukavu, buying husked rice for home consumption at

a low price and quality; and ii) Bralima company, part of the Heineken group, which processes beer at industrial level. Bralima was considered to be the most important market segment because local rice is not competitive for home consumption but does ferment easily.

FAO organized meetings with value chain stakeholders and

subsector actors to bring together representatives of producer groups, input dealers, seed producers, traders, the manager of Bralima, a representative of the Ministry of Agriculture, NGOs working on the field of rice production, such as IFDC and VECCO, and microfinance institutions. Constraints were discussed and a strategy defined with the objective of fostering collective marketing, secure outlets and



procurement sources. Producers wished to establish direct linkages with Bralima and while Bralima committed to purchase locally produced rice, available volumes were still insufficient to meet the demand (estimated at 240 tonnes of white rice per month). Consequently, it was critical to increase the production level and to reinforce the access of cooperatives to extension services as well as inputs. A farmer field school approach has been adopted and partnerships facilitated between producer groups and inputs dealers. In collaboration with the IFDC project, Catalyst, small input stores have been opened in production areas.

A second aspect was to foster trust among producers and their farmer organizations. About 26 groups got together and formed nine cooperatives; business plans allowed COOSOPRODA and CDC Kiringye to purchase tillers with the help of the Catalyst project. The local service provider has been working with individual groups to discuss the delivery periods, quantities and quality required. Cooperatives have established contracts with each individual member, fixing the delivery for each harvest (about 2 tonnes per season). Formal workshops brought

together producer groups and buyers to secure supplies, resulting in a signed contract between Bralima, three traders and three farmer groups, all the producer cooperatives having their own husking equipment and drying facilities.

However, producer organizations were not able to meet the Bralima's requirements; they were unable to meet the critical delivery condition of 100 tonnes/month or the quality norms or timely deliveries agreed upon. Relationships between traders supplying Bralima and producer organizations were irregular and often a source of conflict. Therefore, the approach was re-oriented towards formal contracts between local traders and producers and local traders supplying to Bralima. The project particularly focused on resolving the difficulties between organizations and local traders, using an appropriate business model approach.

In term of quantitative results, considerable increase of yields has been noted (from 2.5 tonnes/ha to 8 tonnes/ha), as has the enhancement of product quality resulting from improved post-harvest handling

and the construction of drying areas. Supplies have been secured through contracts and transaction costs have been reduced and Bralima recruited two agronomists to support producers in production-related areas. As a result, cooperatives were able to generate profits; rice production is now profitable and competitive at local level, cooperatives are retaining a margin of USD 0.5/bag and one bag of 50 kg is now being sold for USD 48-50 compared with USD 35 before the project.

In term of sustainability, numerous aspects remain fragile and dynamics need to be consolidated. For example, Bralima is not paying traders immediately, and traders are then passing on payment delays to producers. Side-selling is a major threat to maintaining successful business relationships. In addition, relationships with local microfinance institutions that are likely to fund cooperatives are still at an early stage. The project is now looking at developing a warehouse receipt system; it supported a feasibility study and a visit to Burundi to see how the system works there. The current objective is to promote financial credibility in order to gain access to formal financial services.



*Rice storage
and drying area
of CDC Kiringye
Cooperative,
Ruzizi, DRC.*
© FAO/F. Kapiamba
Luabeya

4.2.2 Value chain coordination

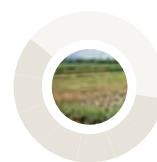
Role of intermediaries

Initially, the intention was to strengthen direct relationships between farmers and industrial firms, by organizing five or six small groups of producers in each village. However, the involvement of local traders in the process and establishment of trusting relationships between them and producer groups, associations and cooperatives proved to be key. Local traders played an important role in understanding quantity and quality requirements of the industrial plants, ensuring higher and more efficient collection and having higher financial capital to support the risks implied.

Raising credibility of value chain actors to access financial services

Lack of collateral was one of the main constraints preventing small producers from accessing formal credits to support development of a market-oriented agriculture. The support provided for signing formal contracts has paved the way for producer associations to access formal credit, providing guarantees and reducing risks for the financial institutions.

As a conclusion, the specific focus on coordinating and developing the capacity of small-scale traders, together with stronger emphasis on marketing, has led to building stronger business linkages with producers. Beneficiaries expressed the need for advanced capacity building in business management, tailored to their needs, as well as for value chain coordination to try to address the issues identified in a sustainable manner. Moreover, developing mechanisms to promote investments in small and medium enterprises, as well as facilitating access to market information, proved to be essential for the success of the initiative.



MARKET INFORMATION AND COMMUNICATION IN BURUNDI AND RWANDA

In Burundi, market information prices were not identified as a major problem, as information is readily available by mobile phone. Vehicles called “*Aigle du Nord*” travel back and forth to main cities twice a day and operators can easily send someone there with a sample. Cross-border visits and exchanges resulted in ongoing contact with

other producers in Rwanda – for instance, one call and producers know the market price.

In Rwanda, support has been provided for using an existing Market Information System (MIS), the E-soko, put in place by the Ministry of Agriculture with support from FAO and USAID. The

system is based on a network of local antennas that collect information on the main markets and send messages to interested farmers, institutions, etc. Once a week, prices are updated on the Internet and communicated in terms of specific product markets and commodities. The fee is covered by the cooperative.

MARKET INFORMATION AND COMMUNICATION IN UGANDA

In Uganda, a system of information boards has been supported in the three targeted districts. About 15 information centres were established and 44 Information Board Managers (IBM) have been trained in disseminating market information using text messages. This system has been upscaled to the border posts to facilitate information from the neighbouring countries of the Democratic Republic of the Congo and Rwanda.

The system of the information board consists of a whiteboard placed in a central place (centre

of the village, district level institution, etc.) on which prices are written down and updated. The board is split into two parts: one is for disseminating market information, which is free, and the other is for individuals who want to advertise other deals and earn a commission for brokering deals, against a fee paid to the board manager. The 15 IBMs have selected one central IBM from among themselves who receives market information from AgriNet and InfoTrade weekly, for a fee, and disseminates it to the others. (The central IBM opened an e-mail account and is now

receiving market information from InfoTrade and indirectly meeting the costs.) This system is linked to agricultural officers from the district who participate in setting a sustainable path. Demand for information, once seen as unimportant, is increasing as farmers gain greater awareness about prices and seek to become more commercial.

Provision of accurate, timely, and appropriate market information to farmers through radio broadcasts could be a possible further route to improve their ability to bargain for higher prices with local traders.



4.3 MARKET INTELLIGENCE, REGIONAL COORDINATION AND TRADE OPPORTUNITIES

4.3.1 Market intelligence and market information

The rationale for providing support to market information mechanisms was that small farmers in the region would be able to make better decisions about what to produce, and when and where to sell it, if they had accurate and timely access to market information. This would promote an enhanced bargaining position for both small-scale producers and processors *vis-à-vis* local and regional traders. The project directly supported initiatives aiming at improving market intelligence in Rwanda and Uganda.

4.3.2 Coordination platform for information exchanges at regional level

The diversity of actors and types of value chain drivers (producer-driven business models, buyer-driven models or facilitator-driven models) have made it a challenge to constantly adapt the activities to follow the level of development and current constraints of stakeholders. This was a critical factor in the implementation process and is a continuing challenge for national project managers; in addition to managing the usual project management tasks, coordinating and facilitating exchanges between value chain actors on a daily, case by case basis is crucial.

Supervision and monitoring of field activities by project implementers has served as a reminder and motivator for farmers and as a way to identify, in advance, problems and issues to be addressed and implement appropriate mitigation measures. Thus, a multi-stakeholder approach to monitoring and a clear definition of tools are important for effective project implementation.

Various activities have contributed to foster the involvement of stakeholders for value chain coordination and exchange of information:

- Sensitization meetings involving subsector actors have been organized to present the value chain approach and identify common constraints. District planning meetings and so-called “Joint Action Forums” have been organized every three months, bringing together all development NGOs and projects operating in each of the districts. Most of the authorities, especially those at the grassroots level, are also invited to attend these meetings. Local governments and other decision-makers (district planners, finance institutions, farmer groups and associations involved in different ongoing projects) have been adopting the concept of value chain development, as it is in line with national and local priorities and strategies.



Milk production in one of the dairy farms in Kabale, Uganda
© FAO/R. Nandelenga

- Field visits for policy-makers to the project sites have been organized to present achievements, as a means of facilitating policy advocacy and creating awareness on the best practices in the value chain development approach.
- Cross-country exchange visits have been organized for associations and cooperative members, fostering cross-fertilization, knowledge-sharing and networking between producer organizations, as well as to expose associations to successful cases and to discuss current common challenges and solutions to tackle them.
- Local government extension officers are involved in the capacity strengthening programme; Ministry of Agriculture national staff in all three countries have benefited from training in value chain programme design, focusing on “best practices” and lessons learned from the project as a way of facilitating the expansion and scaling up of project activities.
- Regional planning workshops are organized on a regular basis to coordinate project activities and learn from the implementation in each country; sharing reports guarantees better understanding of the project’s concept and progress.



- The design of up scaling strategies and the formulation of new action plans to consolidate associations and cooperatives are based on the impact assessment of the first phase. Upgrading strategy and action planning workshops for value chain development were carried out at regional level, along with the design of a sustainable exit strategy.
- Producers and processors are assisted to take part in events like annual agricultural shows and fairs, such as the National Agricultural Trade Show, as a way of promoting their products. The innovations introduced by the project have been presented at meetings, events and workshops at regional, national and local levels, which has contributed to increased visibility and attracted other development partners and private sector actors, fostering partnerships and raising awareness on the value chain approach adopted by the project.

4.3.3 Enhanced inclusive cross-border trade

Supporting cross-border trade and improving the enabling environment conditions for regional value chain development are both essential to unleash the potential of agriculture in the region.

These goals have been achieved by:

- Facilitating market visits to understand market requirements at local and regional levels;
- Facilitating regional policy advocacy events for policy-makers to raise awareness on trading protocols and promotion of legislative and regulatory reforms (e.g. standards regarding safety and hygiene);
- Providing advisory support to facilitate infrastructure development and promoting formulation of appropriate regulatory and legal frameworks and policy guidelines; and
- Promoting public and private cooperation policies, including advocacy for investment-friendly strategies (e.g. trade-related capacity building, export promotion policies, tariff barriers).

Visibility of small and medium enterprises in the private sector has been increased, as their representation was ensured at each meeting or event. This contributed to raising awareness on the constraints faced by private sector actors. An example of an interesting public-private partnership has been the contact made with a group of business investors in Kampala, who are planning to build a factory where they would like to process potatoes. As a result of the increased credibility of potato value chain actors, an agreement was reached that creates an opportunity for a future outlet for produce from the region.

Right:
Capacity development in market information boards management to cooperatives in Kabale and Kisoro, Uganda
© FAO/R. Nandelenga

BOARD

Just price
6000/kg
550/kg
900/kg
1300/kg
850/kg





CHAPTER 05

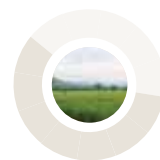
VALUE CHAIN FINANCING

Facilitating access to credit for value chain actors has been a significant component of the project and it has piloted some innovative solutions. The approach involved setting up credit mechanisms led by the private sector, involving beneficiaries in cost-shared mechanisms and supporting initial investments.

5.1 TOOLS PILOTED TO SUPPORT ACCESS TO CREDIT

Complementary tools have been developed to foster investments and formal credit solutions to access inputs, equipment and pre-finance harvest and warranty mechanisms (also called warehouse receipt system or inventory credit¹).

¹ Inventory credit can be defined as a credit for which collateral is a product given as a guarantee and stocked in a warehouse or specific facility. In exchange, the producer is supported in preparing documentation indicating quantities produced and delivered, that can be used to obtain a loan from financial institution.



5.1.1 Steps of implementation

Banks and formal micro-finance institutions (MFIs) were wary of lending money to small-scale actors because they felt they had insufficient guarantees, as repayments weren't done on a monthly basis and, overall, they considered the agricultural sector too risky. Moreover, producer organizations lacked the capacities to manage a revolving fund, draft a business plan or propose a financially viable project. Support for access to credit and for fostering investment that could reduce the risks involved included the following elements:

- The value chain approach was presented to MFIs to demonstrate sound market opportunities as well as identified constraints and how to address them, in addition to the margins and profitability at each stage of the value chain;
- The strengthened linkages among value chains and the establishment of more formal contract agreements had two major advantages: buyers themselves granted advances on payments and credits to their suppliers and the MFIs considered contracts to be evidence of risk reduction;
- Capacity development in finance and credit management, as well as technical support provided to organized actors, contributed to increase the creditworthiness of value chain stakeholders. The project also strengthened contacts and linkages between producer and processor groups through facilitation and technical support (in production, organizational and marketing skills);
- MoUs have been signed by MFIs, local authorities, producer organizations and the project.
- Development of business plans and feasibility analyses have been supported to evaluate the potential profitability of investments;
- A set of credits and guarantees adapted to the possibilities of the value chains were developed;
- A warehouse receipt system has been implemented in cases of “advanced” organizational capacities and value chains.

5.1.2 Preparation of business plans

The ability of organizations to invest has been limited by a lack of financial resources, which constrained the purchase of raw materials, inputs or other equipment. Business plans have been the main tool used to access credit from MFIs and to support prioritization of activities.



The exercise of preparing a business plan consisted of defining the goals and objectives of the project, planning activities and assessing capacities, as well as assessing the degree of accountability and profitability. The main point was to keep the plans simple for cooperatives to develop and update them with the support of the service providers. Numerous associations have now developed business plans and submitted them to financial institutions.

5.1.3 Financial products adapted to value chain actors

Different types of financial services have been developed and proposed to value chain actors, taking into consideration their capacities for reimbursement and options for collateral. These include:

- Credit to purchase inputs (planting materials, fertilizers and pesticides, drugs for the milk value chain);
- Credit to pre-finance production activities and labour of farmers (harvesting, etc.);
- Credit for producer and processor organizations to constitute a revolving fund for the collection of raw materials; and
- Credit to purchase equipment and finance the construction of facilities and infrastructures.

The most innovative approaches were found to be: i) support for the preparation of business plans; and ii) the mechanism of crop insurance and protection in case of natural disasters. The collateral considered necessary by MFIs at the level of individual producers has been property – i.e. houses or land. In addition, Group Financing Mechanism (or solidarity bails) have been taken into consideration. These consist of five to ten individuals, who have agreed to guarantee each other; credits are granted to their individual bank accounts. This system has been designed to include the following stages:

- Farmers open bank accounts in local banks, ensuring that all transaction payments are processed through them;
- Cooperatives are linked to input dealers, providing receipts to their members so they can buy inputs directly; and
- Cooperatives set up a system to stock the harvest in newly-built facilities and an advance is paid to farmers by the MFIs. The cooperative negotiates prices and volumes with buyers; the amount gained by selling in groups and waiting for increased prices is redistributed afterwards to producers.

As an outcome, credit rates have lowered and the current interest rate is below 15 percent.



One of the Potato grower Associations attending her field, Kabale, Uganda
© FAO/R. Nandelenga

The credit recovery rate from farmers has been calculated to be around 98 percent. This system has proven to have major advantages: it helped producers to access appropriate inputs on time, to wait before selling and to retain a higher value for the produce. This approach, led by the private sector MFI, is considered to be efficient in the four countries of the project and other countries have expressed a strong interest in replicating it in districts in their own countries.



MICRO-FINANCE INSTITUTIONS

In the four countries served by the project, several quantitative results have been achieved. For instance, in Uganda, the Village Saving & Loan Association (VSLA) has opened more than a thousand bank accounts and made

agricultural loans to 376 farmers for a total amount of at least 2 million Ugandan shillings (about USD 7 500 each).

In Rwanda, the micro-finance institution Equity was planning to grant loans to producer

cooperatives. The manager of the local branch explained that the ongoing technical assistance from IMBARAGA has been critical in the implementation process, providing a guarantee through a reliable market outlet for increased yields.

5.2 DEVELOPMENT OF AN INNOVATIVE CREDIT SYSTEM FOR THE RICE VALUE CHAIN

In Burundi, small-scale subsistence farmers had been selling off most of their production to rural traders immediately after harvest due to limited storage facilities coupled with a critical need for cash and the absence of alternative income-generating opportunities. Many associations existed without any programme or common vision; commercialization was done at an individual level and prices were mainly dictated by intermediaries. The chart below indicates the advantages of an innovative financing system for the rice value chain in Burundi.

WHY AN INNOVATIVE FINANCING SYSTEM IS IMPORTANT		
<p>1. To reduce negative impacts of prevailing informal lending system on farmers' incomes:</p> <ul style="list-style-type: none"> • Interest rates of up to 120 percent • No credits for field and marketing activities • Unfair transactions that disadvantage producers: use of archaic tools for weighing, hidden information on prices and prevalence of unbalanced contractual arrangements 	<p>2. To improve services offered by formal financial institutions:</p> <ul style="list-style-type: none"> • Development of new forms of guarantees in addition to the traditional ones consisting of salaries and real estate • Diversification of financial products (for inputs, critical equipment, raw materials and cash credits for production and processing) 	<p>3. To empower farmers in financial aspects:</p> <ul style="list-style-type: none"> • Control over marketing operations • Input on prices and benefits • Increased participation in local development



The project supported the organization of 10 000 rice producers into 232 associations. Those associations have been grouped into ten cooperatives and now constitute the federative union Umugaara. The project has provided ongoing technical assistance and strong capacity-building activities have been carried out by the service provider in farming techniques and organizational management.

5.2.1 Implementation of the innovative micro-credit system

The first objective was to identify MFIs and partnership possibilities. A two-day workshop was organized which brought together five institutions to discuss the main issues constraining credits. The usual informal loan recovery strategies were analyzed – i.e. lenders giving credit at harvest periods and being present on the field, giving technical support. A new credit model was developed during the workshop, in which each institution submitted a proposed monthly interest rate. The MFI Twitezimbere was selected, as it had the lowest rate, of 1.2 percent per month.

A pilot credit system was developed and an MoU was signed by FAO, the MFI (Twitezimbere), the enterprises involved, the cooperatives and local authorities. For the first loan, FAO guaranteed 10 percent of the proposed credit, equivalent to USD 5 000. The funds to purchase equipment and acquire infrastructures were deposited to a financial institution branch and managed by the MFI, which committed itself to provide capacity development in business planning, and to design financial products that could be offered. This provided a guarantee to the MFI and tested the reimbursement capacities of association members, to a maximum value of one third of farmer income. In general, each association controlled the loan recovery of about 30 members.

In case of non-recovery, the association would use the producer plot and sell the produce on behalf of the association, ensuring a share to the individual responsible for the plot. In the case of unforeseen difficulties, such as pest infestation, family accident or natural catastrophe, the association would pay the loan for the member. This type of guarantee, linked to local authorities had strong endorsement by the producer cooperatives.

In this model, when credits have been reimbursed, the funds are reallocated to finance another business plan from another actor on the value chain. In case the beneficiaries didn't perform as well as expected, the funds would be transferred to another segment of the value chain that was generating good results.



This market-based approach includes the following elements:

- Development of a system to assess the value of equipment and infrastructures;
- A loan provided to the producer organization by the MFI;
- A guarantee provided by FAO, through funding the institution, equipment or infrastructure which remain the property of FAO until the entire payment is complete; and
- Training sessions on business plans and credit management carried out by the MFI.

This dynamic programme has proven to foster confidence and trust between the MFI and the associations/cooperatives.

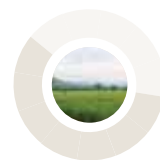
An innovative marketing system, based on Inventory Credit, has allowed MFIs to advance payments to producers. Individual loans are managed by the federative union, Umugaara, which negotiates the terms and distributes the loans. In order to negotiate fast disbursement, the loans are split into one loan for production and one for marketing, to avoid delay. The average amount is about USD 60 for the production loan and slightly higher for the marketing loan.

At the union level, the cooperative establishes direct linkages with buyers and agrees on contracts that are more or less fixed. The buyers can directly pay either the MFI or the cooperative, which then pays part of the amount to be reimbursed to the MFI. To demonstrate the potential benefits of the Inventory Credit system, a product storage warehouse was hired by the project.

The main principles of the warehouse receipt system include the following:

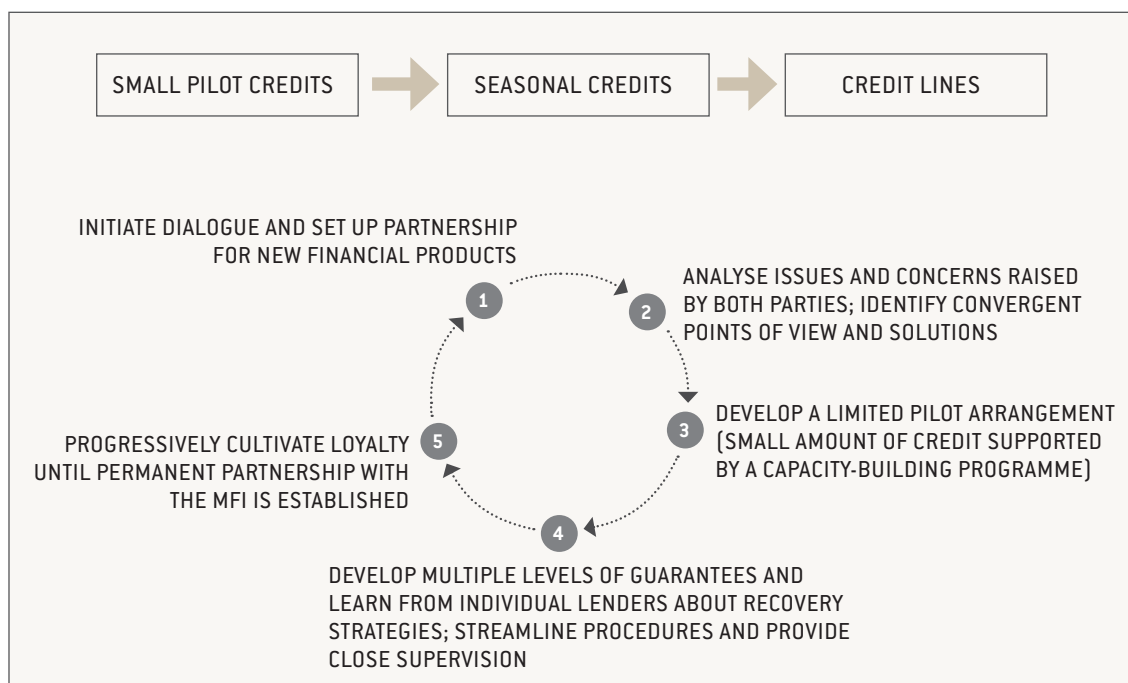
- Each farmer sells the quantity harvested to the union, which is then properly recorded;
- Systems of double lockers are set up, controlled by the project and the MFI. Project staff are also in hand during the harvest period to forestall problems with management of stocks and mistrust;
- A fixed price is paid to the farmers and benefits are redistributed when the union actually sells the stored stock;
- The union contracts for insurance and pays for hulling operations, if the price of the paddy rice is too low, and it also organizes transport and deducts the cost of credits; and
- Calculation tools are used to monitor and evaluate benefits and price differences. Prices are compared with respect to the season and to equivalent profits, taking into account credit interest rates.

The most important element of this system is the principle of co-management involving the MFI and the project. The project has therefore provided a warranty for the second stage of the credit disbursement. This is illustrated in the diagram below.



TYPES OF GUARANTEES DEVELOPED BY THE PROJECT	
<p>Financial support: Union UMUGAARA gains financial resources (credits for inputs, raw material, cash for plugging, weeding and harvesting)</p>	<p>10 percent of credit amount provided by the project is from contributions of beneficiaries and 90% by FAO (2009-2010)</p> <p>Union has financial resources (Francs Burundian 20 million in 2012) in case of non-recovery, in addition to individual guarantees (salaries, cows, coffee tickets or storage receipts, farming plots, etc.)</p>
<p>Recourse for nonpayment: Property titles to farmers' plots can be transferred to the association for collective exploitation of the land until the payment of the credit is completed</p>	<p>MoU is signed between cooperatives and local administration that confers swamp management authority to leaders of cooperatives who then can apply appropriate disciplinary action to members</p>
<p>Inventory Credit system: Production stocks are stored with a double locker system; co-management of bank accounts and stocks is guaranteed by an insurance company to cover warranting activities and commercial loans</p>	<p>A line of credit is opened for Umugaara, which then buys production from its members, using a bank account co-managed by MFI and the project (as facilitator of the agreement). Stocks are conserved in secure areas before sale and used as guaranty for credits</p>
<p>Transaction agreements: Cooperatives commit to recover the total amount of member debt and deposit the money into the MFI bank account before paying members for produce sold</p>	<p>Three-way MoU is signed by: i) Umugaara, which negotiates and attributes the credit to members; ii) cooperatives that are members of Umugaara; and iii) the MFI</p>

FIGURE 1. INNOVATIVE MICRO-FINANCE SYSTEM IMPLEMENTED BY THE PROJECT





As a result, the interest rate has been lowered from 24 percent to 16 percent and, so far, USD 900 000 has been granted to beneficiaries. A line of credit worth USD 200 000 was made available and used to organize bulked commercialization – or group selling – and to provide a number of services to members. Services are provided based on proximity, ensuring cost-efficiency in a way that can be implemented beyond project intervention. Twitezimbere is also considering opening a local outreach centre.

Overall, buyers have experienced improvement in value chain efficiency, even though relationships with producers are still constrained by high transport costs and occasional insufficient supply.

5.2.2 Lessons learnt

The project team learned that the prerequisites for scaling up the financing system were as follows:

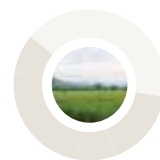
- empowered cooperatives, providing advisory services to members;
- ownership and involvement of cooperative members and ability to comply with group commitments; and
- a supportive environment and high level involvement of local authorities. These are described in greater detail below.

Empowering cooperatives through a progressive learning process has been critical in order to define internal organizational objectives, activities and services to deliver to members. Constitutions, as well as modern and transparent management through efficient record systems, use of bank accounts and bulked commercialization, were critical steps to professionalize organizations. Adapted accounting tools – used for calculating profitability, margins and fair prices – were also adopted.

Fostering ownership and professionalization of cooperative members, as well as the trust between members and leaders, has been essential. Farmers now understand the importance of paying a subscription fee, reimburse credits at nearly 100 percent and have established a social service fund to facilitate the provision of support to members who encounter problems. For this process, information exchange and formal contracts between stakeholders were crucial.

The involvement of local authorities through the MoU worked as a guarantee and therefore facilitated access to credit.

Finally, profitable market opportunities, constant communication between producers and traders and close relationships with MFIs have been key to the success of this value chain finance scheme. The last meeting organized provided an occasion to review the value chain approach

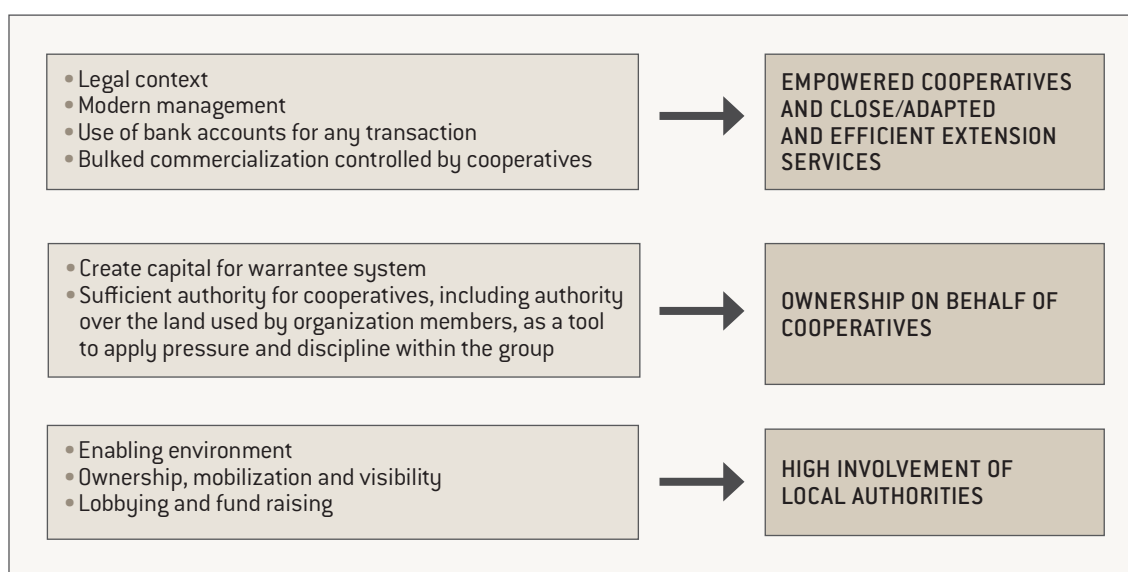


undertaken by the stakeholders. As this approach is progressive and avoids returning to a direct subsidy system, it was considered to be the most appropriate in the specific case of the rice value chain in Burundi, although it can be generalized to other cases as well. It was also highlighted that a minimum of six years duration is necessary to strengthen mechanisms for sustainability.

Evidence indicated that the approach benefited all segments of the value chain, especially cooperatives of growers who have a formalized contract with a buyer. In this regard, direct payments on bank accounts provided an important guarantee for the MFI. The guarantee of a stable market, along with an understanding of value chain functioning, contributed to reducing risks related to market failures.

The system was found to be innovative in that it involved multilateral actors and mobilized partnerships and resources in collaboration with local authorities.

FIGURE 2. PRE-REQUISITES TO SCALE UP FINANCIAL ACTIVITIES





CHAPTER 06

ACHIEVEMENTS AND GOOD PRACTICES

This chapter presents the results of the project and summarizes identified good practices to achieve impact and sustainability of support activities. It highlights the major lessons learned and closes with a list of recommendations for project designers and government decision-makers. The recommendations are based on the experience gained throughout the project, as well as from networking with other development partners involved in similar initiatives in the project areas or at country level.

6.1 RESULTS

In quantitative terms, the project has so far reached about 50 000 individuals, grouped in more than 350 associations and cooperatives. As a result of the increase in market-oriented production, improvement of quality standards in production and processing, empowerment of actors and organizations, enhancement of marketing and market linkages, and facilitation of access to financial capital, beneficiaries have experienced a significant increase in farmgate prices and overall transactions (in some cases, prices have more than doubled).

A number of indicators of improvement have been observed as a result of the major effort deployed towards capacity development of producer organizations, cooperatives, processors and traders. There is a greater feeling of empowerment in farming communities



which is manifested through changes in mind-sets and adoption of innovations. According to beneficiaries, training helped 61 percent of them to acquire a positive attitude change and build skills. Moreover, about 50 percent of beneficiaries for the whole project benefited from increased group marketing through better prices, increased economies of scale, reduction of transaction costs, market assurance and enhanced profitability. Additionally, 31 percent of total recipients experienced an enhanced access to finance, and to credit and savings schemes.

In the most remote rural areas, producer groups have coalesced around both the dissemination of improved farming techniques and collective marketing. Relationships between producers and buyers were improved through increased dialogue; mutual trust and group bargaining power increased. About 70 percent of targeted beneficiaries have experienced at least a 30 percent increase of their household income, which resulted in improved access to food, social services and assets.

6.1.1 The value chain package

Overall, the positive achievements made by the project resulted from the facilitating role played by FAO, in collaboration with the governments of participating countries, value chain stakeholders and local authorities. The implementation of a “value chain development package” combined the following elements:

- Strategic prioritization of value chains based on an appraisal of market opportunities and business capacities;
- Value chain analysis and mapping to identify: i) key actors (mainly smallholder producers grouped in associations/cooperatives, micro, small and medium enterprises of processors and traders and private service providers); and ii) challenges and constraints to their strategic positioning within the value chain;
- Participatory needs assessment through regular meetings, workshops and extensive coordination and coaching activities that allowed participants to find appropriate and adapted business models and reach consensus on proposed solutions;
- Elaboration of annual action plans and capacity-building programmes to overcome the constraints identified;
- Selection of local service providers to provide support and capacity building in organizational, technical and business skills;
- Facilitation of business-to-business linkages to create win-win situations for farmers, buyers and network members alike; and



- Provision of kick-start support through matching grants and cost-sharing procurement of basic infrastructure and facilities.

The major achievements observed in terms of capacity development and professionalization of actors throughout the value chain can be summarized as follows:

- Associations and cooperatives are functional institutions, with management organization in place; they are officially recognized at local level (some are still in the process of being legalized at national level) and can operate as business entities;
- Through group negotiation and actions, farmers have been able to avoid competition with each other and have managed to get better deals for seeds and inputs and higher prices for the produce sold. This required at least a minimum level of understanding on the part of the group members about how the value chain works;
- Organizations are getting more and more specialized and able to formulate requests to local authorities (for example, one cooperative created a revolving fund of USD 10 000 for the collection and sale of their harvest without having to involve multiple intermediaries as in the past). Several cooperatives have opened bank accounts and have applied or are in the process of applying for bank loans to scale up production activities and sales. However, there is still a strong need for credit to accelerate the necessary modernization of applied technologies and equipment;
- Organized small-scale producers and processors have been able to access markets they would otherwise not reach, given the small volume of production. They adopted new production techniques, resulting in increased yields and higher quantities sold to the market. Value chain actors have been assisted to improve access to marketing services and facilities, including provision of small grants to procure necessary facilities, and assets such as storage facilities, transportation, and procurement of inputs under cost-sharing arrangements;
- Produce is of a higher quality and processing activities are better controlled and applied; post-harvest losses have been significantly reduced. By producing higher quality produce, value chain actors are able to differentiate their products and reach profitable market segments;
- Innovations and new practices have been adopted so as to decrease transaction costs and achieve economies of scale when purchasing raw materials and inputs. Organized producers acquired more bargaining power and are now in a better position to negotiate with buyers;
- Improved cost-benefit ratios show that the efficiency and profitability of the enterprises allowed profits to double with respect to the initial investment. At household level, farmers improved their livelihoods by having access to services and assets.



Milk production at one of the dairy farms supported by Fao in Kisoro, Uganda
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6.1.2 Best practices

The mechanisms implemented by the project to enhance performance and competitiveness of value chains (and therefore sustainability) are listed below. These activities were part of the “integrated package” and aimed at achieving specific tangible results:

- Participatory approaches in assessing capacity development raised awareness for beneficiaries on the role and functions of cooperatives and fostered their participation and engagement in project activities; participatory training methodologies, including those related to strengthening organizational management capacities, were highly appreciated by targeted groups. The level of engagement and commitment of members has been raised through a better understanding of benefits that derive from being organized;
- Continuous training and coaching in managerial and business skills ensured that managers of associations and cooperatives have the ability to develop and implement business strategies; adjustment in the training methods to use customizing and mentoring as opposed to the formal workshop style has proven to be more beneficial and relevant to skills development for value chain actors;
- Regular technical support and mentoring helped local service providers to strengthen their marketing skills and formulate updated action plans to address value chain constraints and for scaling up. This support, together with a proper introduction of project stakeholders to the project concept and implementation approach, helped to enhance communication outreach and effectiveness of service providers;
- Enhanced governance mechanisms, ensuring a well-defined and transparent governance structure, contributed to fostering participation by members in decision-making and facilitated efficient relationships between cooperative members, their boards and leaders.
- Facilitated access to innovations, inputs and infrastructures (i.e. warehouses, storage, processing/value addition equipment, transport) on a cost-sharing basis fostered commitment and engagement with respect to market-oriented solutions;
- Promotion of partnerships with and membership in apex organizations improved access to markets and market information contributed to gaining a competitive position in the market, as well as to strengthening lobbying and negotiation capacities;
- Support for the establishment of more formal arrangements (informal and formal contracts, MoUs with local authorities and other agreements) with other actors in the value chain (such as input dealers, traders, processors, and micro, small and medium



Packing milk at
Birunga Dairy
Industries, Kisoro,
Uganda
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enterprises) ensured business management success resulting from reduced market risks (through access to formal markets) and better planning of transactions;

- Involvement of the private sector in value chain coordination and governance to increase process and transaction efficiencies and ensure economies of scale, as well as to provide a higher lobbying capacity, contributed to the sustainability of initiatives started by the project;
- The facilitation of improved access to market information and market opportunities through ICTs enhanced knowledge and negotiation abilities of value chain actors;
- The establishment of collaboration agreements with local authorities and development partners increased visibility, mobilized additional resources and contributed to building partnerships and fostering synergies;
- The support of innovative financial products and the development of systems of warranty and collateral tailored to diverse needs (equipment, infrastructures, warehouse receipt systems, revolving funds to cope with delays in payments, etc.) enhanced access to credit for marginalized value chain actors;
- The facilitation of cross-boundary field visits for leaders of cooperatives allowed exchange of information about untapped market opportunities and facilitated access to formal contracts with respect to sub-regional markets.



6.1.3 Innovative elements and sustainability and critical success factors

The approach taken by the project to achieve food security through support to the commercialization of agriculture featured some innovative elements. These elements are listed below, followed by requirements to ensure their sustainability and the identification of critical factors which need to be in place in order to create lasting successes.

Innovative elements for strengthening producer organizations and cooperatives

- Building on existing and potential social capital through transforming existing informal farmer groups and farmer associations into cooperatives and upgrading them into legally recognized business entities;
- Supporting cooperatives as independent business-oriented units, building them into autonomous institutions with transparent governance structures, providing technical capacity to improve the productivity and profitability of member farmers, training members on best practices in the operations of agricultural cooperatives and promoting good governance and leadership;
- Investing in developing the capacity of targeted associations and cooperatives to identify gaps and to improve their technical and managerial capacities, increase their outreach, and access services more efficiently; and
- Developing cooperatives' capacities to respond directly to the needs of their members by managing and providing basic services and supporting appropriate capacity development for members to assess constraints, test innovative solutions and adopt practices and technologies most suitable to their farming systems and to different business models.

Innovative elements for promoting effective linkages between value chain actors

- Supporting the emergence of private sector service providers, such as input dealers, suppliers of planting materials and agroprocessors;
- Fostering public service providers and other institutions (e.g. NGOs, research institutes) to carry on extension types of activities for producers and modernize production, processing and marketing techniques, as disciplined contracts between producers and processors at equitable prices can even out price fluctuations;
- Supporting the development of effective commodity commercialization through innovative marketing systems adapted to the level of governance of value chains, such



as the establishment of commercialization units composed of selected members of the cooperatives which can operate independently of the other members so that decision-making is easier in terms of market identification and price bargaining, which results in smoother businesses relationships;

- Training and coaching in preparation of business plans for value chain financing and access to formal credit;
- Developing stronger links with buyers and supporting the development of public-private partnerships to promote value chain financing by involving local authorities and providing technical assistance to reduce the level of risks for MFIs.

Ensuring sustainability

Developing capacities of local service providers to support private sector actors to shift from unplanned production to market-oriented production was also an important element of sustainability. Knowledge of and control over production techniques, transportation, storage and value addition costs allowed value chains to be upgraded. Reaching economies of scale and higher volumes commercialized allowed access to formal and broader markets and increased both confidence and bargaining power. Stronger vertical integration increased efficiency along the value chain, improved supply/demand relationships and ensured higher margins and reduced post-harvest losses at every level.

Management structures are now in place and a large number of cooperatives have recently been officially registered as business entities in which the managers of the associations/cooperatives are dedicated people, with vision, business and management skills. Various organizations have matured, in the sense that they have updated bookkeeping and are planning activities, considering needs of their members, organizing regular meetings and – most importantly – acting as business partners, with transparent management.

Thus, imparting relevant skills and knowledge (such as planning and record-keeping), promoting improvement in product quality and providing market assurance combined to enable an appropriate change of attitude, to support better farming methods and business management practices. This contributed to easing the conditions of doing business with smallholders and to decreasing marketing risks. Win-win solutions were supported by encouraging stronger relationships between producers and buyers in order to build longer-term business arrangements. Moreover, the development of synergies among stakeholders was followed by better lobbying capacities and increased credibility. The fact that other projects are eager to collaborate or to replicate the project approach also offers evidence of the success of the approach.



Enhancing the availability of current market information for producers and processors has addressed a significant gap. Greater knowledge of market requirements led to new outlets and marketing opportunities for produce and to a more consistent supply to existing markets and increased availability of affordable food in rural and urban markets. Conditions for success included strengthened linkages among value chain actors to mitigate the risks of producers and other actors, financial products tailored to fit needs and ensure recovery, and reduced financial transaction costs resulting from direct delivery to collective organizations.

Setting up financial mechanisms of proximity for agricultural goods and easing access to bank loans to finance innovations fostered higher levels of trust. It was found that the innovative warehouse receipt system had a positive impact: it developed contracts, contributed to limiting price volatility and served as an incentive for increased production. The system could have a strong leverage effect if beneficiaries are involved, local capacities are strengthened and projects are integrated into national and regional development plans.

The value chain platform has brought stakeholders together to strengthen collaboration, monitor and evaluate activities and continue lobbying governmental authorities and other development partners.

Critical success factors

The project team identified a number of critical success factors that can be summarized as follows:

- Interventions based on sound market demand and strong business cases through conducting market analyses for service demand and appraisals of service markets;
- Identification of local service providers willing to gain knowledge of value chain development and provide constant mentoring to beneficiaries;
- Identification of core successful associations/organizations around which a cooperative is built by merging them with other producer organizations sharing common interests;
- Assessment of the motivations for forming and promoting cooperatives, which must be linked to a vision that goes beyond short-term willingness to benefit from a project;
- Capacity development of leaders of associations/cooperatives on leadership and governance and understanding the benefits of being organized, which provides the main argument for new members to become involved;
- Independence of associations/cooperatives from political influence and patronage;
- Understanding of buyers' requirements and risks involved when sourcing from smallholder producers and cooperatives;



Potato production area, Kabale, Uganda
© FAO/R. Nandelenga



- Cross-country exchange visits, which are key in fostering knowledge-sharing;
- Interest of other institutions, MFIs and development partners in scaling up the approach and enabling investments in the selected value chains;
- Development of market-driven and results-based innovative mechanisms that support strong business cases;
- Progressive resolution of constraints and extended long-term support, allowing actors to mature and upgrade the level of governance of the value chain.

6.2 LESSONS LEARNT SO FAR

Much has been achieved by the project in a relatively short period of time. Projects introducing innovative business and commercial-oriented approaches require longer periods of mentoring and coaching to enable groups or associations of farmers to participate in modern markets. The lessons learned to date are summarized below:

- External facilitation and support through “kick-start” grants is useful at initial stages for cooperatives to become empowered, before they become independent, as business assets and resources supported by the project can help to improve their position in the market;



- Institutional strengthening is key to defining priorities with a long-term perspective and offering efficient services to members. Management skills are essential to ensure transparency in decision-making, raise awareness on the different responsibilities of members and ensure viability of organizations;
- The more members participate in the governance of their cooperative, the more committed they will be and the greater the opportunity for the cooperative to succeed as a business enterprise. Resources of cooperatives (e.g. registration fees, sales of shares) must be adequately assessed to ensure efficient and sustainable operations and service delivery;
- Low levels of business capacity contribute to the failure of cooperatives to be competitive in the market, affecting sustainability in the long term. Joining an apex body can improve coordination of market activities and enable cooperatives to benefit from economies of scale through consolidation of small volumes;
- It is essential to strengthen targeted associations and cooperatives both technically and managerially to enable them to increase business volumes and allow them to become economically viable enterprises. Horizontal coordination, which increases bargaining power through reducing information asymmetry, is necessary to achieve this goal;
- Market access is a critical determinant for increased transactions and producer income; those who have access to markets are willing to produce more systematically, while those with poor market access have little incentive to produce crops other than those required for family consumption;
- Groups and associations are a way for small-scale producers and processors to access markets they otherwise could not benefit from, given their small volume of production. They also make it possible to decrease costs and achieve economies of scale when purchasing raw materials and inputs. Furthermore, through collective marketing, producers acquire more bargaining power and are in a better position to negotiate with buyers;
- Addressing constraints at various stages of value chains, implementing coordination mechanisms (such as regular meetings and communication between producers, organizations and buyers) and ensuring interventions aimed at cooperatives and other value chain actors requires long-term vision and duration; (The most significant project intervention was to facilitate business-to-business linkages through contracts, agreements and MoUs between value chain actors to allow for business planning, reducing risk and ultimately ensuring economic viability. The identification of a value chain driver and provision of specific support helped to scale up these actions.)



- The limited experience of the private sector, reflected in the weak organizational, planning and management capacities of participating actor groups, can pose a major challenge. Capacity building is required to allow small-scale entrepreneurs to set up agricultural commercialization strategies and these strategies need to be consolidated, particularly in term of access to finance. The involvement of the private sector is crucial to ensure sustainability of the value chain development process. The ongoing challenge for service providers is to bridge the gap between buyers' need for short-term profits and their willingness to reduce risks. Other key impediments to the involvement of the private sector include poor transportation facilities, lack of formal contractual arrangements and poor marketing capacity;
- Market-based solutions are useful to avoid distortions, identify incentives and challenges, and identify private sector solution providers;
- Signature of a formal contract can constitute a guarantee to reduce risks for the financial institutions and enhances the creditworthiness of cooperatives. Facilitated access to credit results in reduced transaction and monitoring and recovery costs;
- Facilitated market access plays an essential role in making interventions aimed at increasing production profitable and sustainable, as well as promoting income diversification and creation of added value, which is likely captured by smallholder producers;
- Agricultural development interventions targeting associations/cooperatives require a comprehensive and holistic approach, rather than focusing only on productivity and production increases, and they should have a clear market orientation. Project partner associations and enterprises should link closely with other value chain actors and form value chain committees to agree on governance and management structures and joint actions. Ideally, project support should be given to groups already involved in the targeted value chain committees and businesses. Generally, groups newly created by the project have fewer opportunities to succeed. Moreover, any support (training, infrastructure, equipment, etc.) must be demand-driven to ensure profitability in the long term and ownership by beneficiaries. Each mode of assistance should include an exit strategy, defining how the cooperative will assume full responsibility of business after the project comes to the end.



6.3 RECOMMENDATIONS

Based on the experiences of this project and the lessons learned from it, as described in this report, the following recommendations can be made for future initiatives in value chain development:

- Provide policy interventions to facilitate access to infrastructure for assessing market information and supportive regulatory frameworks that allow a competitive market environment;
- Strengthen the capacities of local service providers to facilitate linkages with the private sector, particularly producer groups which lack access to government extension services;
- Support transparency and accountability of leaders of associations and cooperatives, as absence of these characteristics is a hindrance to attracting more members;
- Strengthen associations/cooperatives to enhance their participation and empowerment;
- Support the development of innovative financing systems adapted to the local conditions, degrees of maturity and responsibilities of targeted groups;
- Develop an appropriate communication strategy to disseminate information about governmental policies regarding inputs provided at subsidized and market-based prices, as well the regulatory frameworks for cross-border trade, on which small-scale traders are not properly informed;
- Establish new partnerships involving both public and private sectors in the management and utilization of resources as a way to leverage private sector investing in value chain development;
- Involve different stakeholders in value chain development to identify practical solutions to various challenges, bearing in mind that interventions of longer term than the traditional duration of development initiatives have proven to reach more sustainable achievements;
- Adopt a broad regional perspective in dealing with strategic issues related to regional competitiveness to develop inclusiveness in regional value chain development.





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