Food and Agriculture Organization of the United Nations

Agroindustry
Policy brief
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Inclusive business models[1] for the integration of smallholders into agrifood value chains

Inclusive business models promote the integration of smallholders into markets, with the underlying principle that there are mutual benefits for poor farmers and the business community. A business model describes how any given enterprise – large or small, informal or formal – creates and markets its products or services, obtains finance, and sources inputs. Each enterprise has its own unique business model.

The range of business models that make up an agricultural value chain include farm enterprises, traders, agroprocessors, wholesalers, transporters, warehouses and retailers, among others.

An inclusive business model approach reinforces the value chain by focusing exclusively on strengthening business models that link small farmers to value chains. Smallholder business models include traders, farmer organizations, agrifood processors and large buyers.

Figure 1 illustrates three types of value chain for cassava: traditional food, semi-industrial and industrial. The inclusive business models that link farmers in the cassava sector differ greatly among these chains.

The public sector supports inclusive business models so that developments in agriculture help to address the needs of vulnerable groups and contribute to poverty reduction and food security. Reasons for applying an inclusive business model include raising smallholders' incomes, mainstreaming modern business and market-oriented production skills, involving the private sector in national development goals, and improving food security through the commercialization of food crops.

This brief provides guidance on how the public sector can contribute to the goals of inclusive business models.

1 For more background and practical guidance on strengthening inclusive business models please refer to FAO, 2015.

Key messages

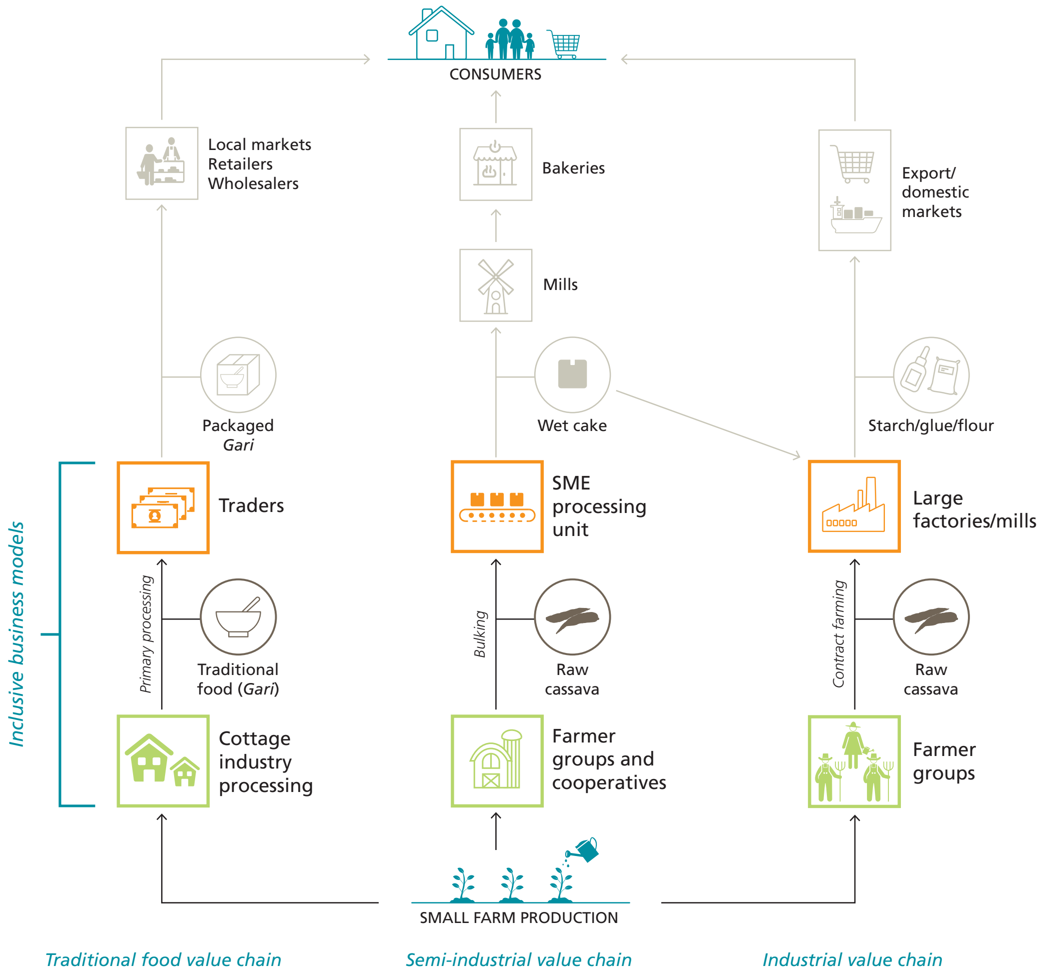
A business model is inclusive when it:[a)]

- **provides a living wage[b)] to vulnerable groups**, such as small farmers, women and young people working for an enterprise or supplying a buyer, while also enabling the buyer to remain competitive;
- **uses flexible trading arrangements** that make it easier for small farmers or enterprises to supply a buyer, such as by paying cash on delivery, accepting small consignments and providing reliable and regular orders;
- **supports farmers and small enterprises in establishing a stronger negotiation position**, through skills development, collective bargaining and access to market information and financial services;
- **builds on the skills and expertise of existing market players**, including traders and processors, and promotes collaboration, transparent pricing mechanisms and risk sharing;
- **is scalable** so that more people can benefit and/or the business model can be replicated in other value chains;
- **allows diverse business models**, to enable the rest of the sector to benefit from upgraded skills and technologies and to avoid overdependence on single buyers.

a) These criteria have been adapted from the findings of an expert workshop on inclusive business models held in Rome in October 2013 (FAO, 2014a).

b) Oxfam defines a living wage as "one which for a full-time working week (without overtime) would be enough to meet a family's basic needs and allowing a small amount for discretionary spending" (Oxfam, 2014).

Figure 1: Value chains for cassava



In many parts of the world cassava has traditionally been grown as a food security crop by poor farmers. Its versatile starch properties allow it to be transformed into various food and industrial products. The growth in the commercialization of cassava has increased the range of possibilities for inclusive business models in the sector. This figure illustrates how, within one sector, a range of value chains and inclusive business models that link smallholders to markets can coexist. The figure shows three distinct cassava value chains – traditional foods, semi-industrial, and industrial, with the respective inclusive business models shown across the bottom. The actor representing the smallholder supplier is shown in green, the product in brown and the buyer in orange. The figure has been adapted from an analysis of business model case studies based on support provided to the cassava sector in Cameroon under FAO's field programme. See the annex in FAO, 2015 for more information.
Source: author's elaboration.

Recommendations

Smallholders and buyers of agricultural produce engage in business regularly, even in unfavourable business environments. Collectively, they make enormous contributions to local economic development and national food security. To support inclusive business models the public sector may wish to do the following.

1. Combine investments in smallholder agriculture with policies on the role of cooperatives in value chains

The main challenges facing small farmers and enterprises are well known and documented. They include low and fragmented production, lack of access to extension services and finance, and weak marketing capacity.

In response to these challenges, a common approach for the public sector is to target the intensification of production and to reorient farmers from subsistence farming to "farming as a business". Another response under most value chain programmes is to support farmer organizations and improve the provision of market-oriented services for their members.

The overarching objectives of these "on- and close-to-farm" interventions remain critical for addressing local market constraints and scaling up inclusive business models.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This type of targeted support is more likely to be scalable if policies supporting agricultural cooperatives are clearly formulated and broadly disseminated among major stakeholders.

Rwanda is an example of a country where clear policies strengthen the role of cooperatives and are widely understood. The National Policy on the Promotion of Cooperatives, the Rwanda Cooperative Agency and a growing cooperative movement have contributed to the successful implementation of land consolidation and crop intensification programmes. This success has resulted in the tripling of production between 2008 and 2012 for crops such as maize and beans.

2. Strengthen the capacities of buyers, to improve the reliability of demand for smallholders' produce

To ensure the development of coordinated and efficient smallholder business models, it is also important to strengthen the reliability of demand from buyers. Small traders and artisanal processors are often the only market outlets for smallholders, particularly in the value chains for staple foods such as cassava, rice or potatoes. These buyers are typically small and fragmented, with weak business skills and limited access to finance and inputs for their enterprises. These characteristics have negative impacts on the reliability of market access for smallholders.

In addition to providing support to farmer organizations, demand can also be strengthened by building the institutional capacity of traders and artisanal food processors' associations.

The demand side of the chain can also be strengthened by engaging existing buyers in the delivery of projects and programmes for smallholder value chains. For example, under its Crop Intensification Programme, Rwanda's Ministry of Agriculture contracts large traders and agrodealers to distribute fertilizer and train farmers on its application. This approach has contributed to the transfer of knowledge among value chain actors, better coordination in supply and demand, and a private sector-led approach to the development of smallholder value chains.

3. Ensure all value chain actors are fairly represented in public–private partnerships and on commodity associations or value chain committees

Public–private partnerships (PPPs) are potential mechanisms for developing inclusive business models in agricultural value chains. Typically adopted for infrastructure projects, PPPs can also be used to link large numbers of smallholders to the industrial sector. The goal of PPPs is to achieve the objectives of both the public and the private sectors. To justify public-sector investment, clear benefits for the general public are needed, such as poverty reduction, food security and overall agro-industrial growth.

Intermediaries can screen PPP proposals, monitor and evaluate their implementation, and engage in dispute resolution and reporting. Examples of PPPs that promote inclusive business models are Thailand's Industrial Technology Assistance Program (iTAP) and the Agribusiness Innovation Fund run by the Agricultural Sector Coordination Unit in Kenya.

Value chain round tables and commodity associations are also useful vehicles for bringing together the public and private sectors to discuss concerns. They can address areas such as arbitration and regulation, advising on technical norms such as grades and food safety standards, research priorities and attracting investment.

To ensure the inclusiveness and sustainability of these initiatives, all groups need to be fairly represented in discussions. Associations representing small farmers, traders and processors typically have weak organizational capacity and voice. This means that stronger actors can dominate dialogues to further their own ends, while undermining the chain's overall progress. Addressing recommendations 1 and 2 can ensure that the needs of small actors are adequately represented.

4. Adapt lessons and tools from the development of high-value crop chains and apply them to staple crop chains

Public- and private-sector support to smallholders' integration into value chains has traditionally prioritized cash crops and high-value crops. This priority has changed since the food crisis of 2008 and there is now more strategic emphasis on the commercialization of staple food crops such as rice, maize, cassava and potatoes. This approach has been validated by the growing demand for locally produced, fresh and processed food for domestic urban markets, driven by rapid urbanization and population growth in developing countries.

Many lessons and tools used to support cash and high-value crops can be adapted to staple crop value chains. However, approaches need to be tailored to the different commodity structures. For instance, the chains for cash and high-value crops include larger firms accustomed to procuring from smallholders under contract farming arrangements.

Smallholders in the chains for staples are more accustomed to farming for their own consumption and selling surpluses to traders and processors who are often equally small and fragmented. This situation calls for a strategy that pays equal attention to upstream and downstream business models by, for example, supporting the organization of small traders as noted in recommendation 2.

Policy implications

When adopting these recommendations, governments may also consider the following longer-term policy implications.

The role of inter-ministerial strategic planning and implementation

Different aspects of the four recommendations fall under the mandates of different ministries. Productivity falls under the mandate of the ministry of agriculture, while laws governing cooperatives, traders and processors fall under the ministry of trade. A separate ministry will deal with food security and nutrition, while the ministry of finance will deal with investment in agriculture. Initiatives promoting inclusive business models, therefore, relate to lines of responsibility in several ministries. This calls for political will to encourage inter-institutional collaboration on policy development, legislation and implementation from the ministry to the district levels.

The need for balanced engagement by the public and private sectors

Inclusive business models require the balanced engagement of the public and private sectors to ensure that growth in the agriculture sector leads to poverty alleviation. Models driven by either the public or the private sector can result in poorly coordinated markets or further market exclusion for vulnerable groups. Recommendations 3 and 4, promoting value chain platforms and PPPs, provide useful mechanisms for incorporating the interests of both the private and the public sectors into inclusive business model initiatives.

The importance of a modern agricultural education system for the sector's rejuvenation

There is an urgent need to rejuvenate the agriculture sector so that young people can participate in the development of inclusive business models. National education systems are instrumental, but agricultural courses need to be modernized to make them more attractive to young people and relevant to the needs of agribusinesses. This requires strategic inter-ministerial planning involving the ministries of agriculture, education and trade along with representatives of tertiary and secondary institutes, farmer organizations and agro-industry.

Conclusion

An overarching message emerging from this brief is that inclusive business models require a range of reforms and strategies that need to be put in place simultaneously. All of the recommendations and policy implications are interdependent – there is no single "silver bullet".

It also needs to be kept in mind that the concept or definition of a "small farmer" can differ significantly. Typically, the smallholders engaged in business models are those who are better-off and who have some access to land, credit and services. Many other smallholders are marginalized, even from their own local economies. To include these groups in the mainstream economy, the recommendations need to be applied alongside broader programmes for market systems and social protection.

In collaboration with national governments and partners in development, FAO's role is to make the strategic linkages between social protection strategies that target the poorest of the poor, and market opportunities, so that local and international business can become drivers of inclusion.

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