

# SPOTLIGHT



**Business  
Innovation  
Facility**

## on Inclusive Business

### Different approaches to smallholder market linkages

This Spotlight provides an overview of the different methods that both the development community and some commercial operators use to try to work with smallholder farmers and link them to markets.

Market linkage initiatives have been on-going for the last decade. However, little progress has been made in Malawi, as to find a model that is effective.

This Spotlight aims to inform readers as to the types of market linkage models that are found in Malawi, as well as other developing countries, to highlight some of their key aspects and give case study examples. It should be helpful to anyone who is interested in undertaking work with smallholders, value chains, market linkages or livelihood support.

#### 1. Contract farming/ marketing

Farmers have a contract with the buyer. In contract marketing the contract is simply a buying one and the price is often (although not always) fixed. In contract farming the buyer has a purchasing contract with the farmer but they may also give inputs, support and finance at the start of the season, and a price is set for the crop once harvested.

Some companies may be purely a buyer, an agro-processor or exporter, but some companies may also be farmers with 'hub' estates with an attached out-grower programmes. An example of the estate – out-grower model in Malawi is Ex-Agris Africa.

#### CASE STUDY

##### Bio Energy Resources Ltd (BERL)

BERL have a successful out-grower programme with 25,000 farmers in Malawi. The company has established farmer clubs whose members grow *Jatropha* as a boundary fence. A team of BERL extension agents work with the farmers in order to guide agricultural practice. BERL have contracts with their farmers and buy the oil seed crop that the farmers produce



#### Strengths

There is a very clear relationship between parties from the onset. If a good partnership is formed then this leads to high quality produce, efficiency in the supply chain and increased incomes for both parties. On some occasions the company offers the farmer necessary extension services and production skills. Under the estate – out-grower model economies of scale can be achieved and there is less risk as the estate/ company can buffer the farmer from market fluctuations.

#### Challenges

It is hard to establish a successful partnership and often trust is damaged by side-selling. It can also sometimes leave farmers dependent on the buyer and

therefore the relationship can be abused. For example, low prices are set by the buyer which farmers must accept as they have no other selling options. There is a danger of a monopoly in the area and the dominance of the estate can remove the autonomy and bargaining power of the farmer.

**Inclusive Business Spotlights** shed light on specific topics concerned with the development of inclusive business. They are generated from the project and advisory work of the Business Innovation Facility and Innovations Against Poverty.

## 2. NGO-led market linkages

This is less of a 'start from the market' approach than the model described above, and so the model is often based on a development approach rather than a commercial approach. Often, an NGO first organises the farmers, then key crops are targeted and agricultural support provided. Finally, the market linkages are facilitated and buyers sought. In this case an NGO organises the farmers, sometimes with initial contact with the private sector, but often, that only comes at a later date.



### Strengths

If done very well, there can be substantial capacity-building for the farmers and the programme can deliver long-term empowerment for the farmers.

### Challenges

This model is rarely well implemented, mainly because the expectations of the farmers are too high, it is a top down approach, and the time frames are too short. This model requires a lot of capacity-building and relies on the capabilities of farmers.

Often, the NGO understanding of the farmer situation, perspective and business sense is lacking. Thus, incorrect and insufficient support is given. The model requires strong leadership and team work and sometimes this is not culturally incubated.

## 3. Hybrid approach: NGO – smallholder – private sector

The thinking of NGOs/development programmes is changing as they begin to understand the potential for engaging with the private sector and the need for commercial drivers when dealing with farmers and market linkages. There is now an attempt to mix models one and two so that farmers are organised by NGOs in response to buyer/market needs. The introduction of a contract is the formality that a company often requires. However, there is the need for farmers to be organised under a structure that allows this and suitable business literacy skills available in order for farmers to comprehend the nature of the contract.

The three way relationship can be set up in a number of ways. Sometimes the private sector company may go looking for an NGO partner, or on other occasions the NGO and the farmers they are affiliated with may approach a reputable buyer.

## CASE STUDY

Universal Industries approached the Business Innovation Facility seeking help in sourcing raw cassava from smallholders in the area surrounding their new processing factory. The Facility analysed the value chain for Universal to help them understand the cassava production patterns in the area, as well as the needs of farmers. It then facilitated links to several NGOs in the area who have organised farmers and who are interested in helping their farmers find markets for their produce. The initiative is underway and it is hoped that a successful buying relationship between Universal and smallholders can be established.

### Strengths

Financing for the model is available from the development partners and significant support to the farmers is provided. This is coupled with commercial viability through the private sector market. A strong market allows incentives such as premiums to work effectively.

### Challenges

Constraints include: lack of business skills/understanding among the farmers, financial demands at household level, a culture of not aggregating and poor post-harvest handling techniques – all of which lead to the contract not being fulfilled or the demands of the buyer not being met.

## Additional resources

There are many more resources related to this topic on the Practitioner Hub for Inclusive Business.

For additional material, visit the 'know how' page '**farmers as supplier and clients**': [www.inclusivebusinesshub.org/page/know-how-farmers-as-suppliers-and-clients](http://www.inclusivebusinesshub.org/page/know-how-farmers-as-suppliers-and-clients)

To see other projects involving farmers, visit: [www.inclusivebusinesshub.org/page/all-farmers-projects](http://www.inclusivebusinesshub.org/page/all-farmers-projects)

For a more detailed analysis of alternative contract farming models see a new Project Resource written for a farming initiative in Bangladesh: [www.inclusivebusinesshub.org/inclusive-business-hub-publications/](http://www.inclusivebusinesshub.org/inclusive-business-hub-publications/)

This Spotlight is based on the work of Imani Development, who manage the Business Innovation Facility in Malawi.

→ For further information and more resources on inclusive business visit the: [www.inclusivebusinesshub.org](http://www.inclusivebusinesshub.org)



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