2SCALE

Building inclusive agribusiness: Going one step down the ladder makes a difference

Photo: IFDC | Shalem quality control; measuring sorghum moisture level in an outgrower field, Kenya

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Editing

KIT Royal Tropical Institute

Supported by

Ministry of Foreign Affairs of the Netherlands

KEY MESSAGE

This case is based on experiences from the 2SCALE program partnership with two locally based agribusiness enterprises – Psaltry in Nigeria and Shalem in Kenya. Rather than forging inclusive agribusiness partnerships with the large industrial final buyers of agricultural produce, it can be more effective to develop partnerships with intermediate aggregators, traders and processors who supply these large industrial buyers, as they operate closer to producers.

Introduction

Interventions for market inclusiveness of smallholder farmers have the tendency to focus on the large industrial-scale firms or companies, or rather, the end users of agricultural produce. This is a logical approach from the point of view that these companies can have a major influence on the value chain by virtue of their large purchasing power and volumes of produce turned over. It is assumed that large companies or firms are more likely to be well-resourced as drivers of agribusiness interventions than intermediate aggregators.

The 2SCALE experiences with Psaltry in Nigeria and Shalem in Kenya do however illustrate that it can be more efficient to partner with intermediary companies, which operate in between large off-takers, in this case breweries, and smallholder farmers. The experiences show that, if locally based intermediate companies are appropriately facilitated, highly effective collaboration for inclusive agribusiness can develop to the benefit of smallholder farmers supplying the companies.

The large industrial end-user remains important as the final buyer, driving the supply chain, by providing a relatively stable bulk market for large volumes of produce, and as a result, for potentially large numbers of smallholder farmers. The purchasing power and access to finance of these large buyers provide for a strong backbone of the value chain, and their involvement and commitment to inclusive agribusiness can provide a strong incentives for value chain innovation. For example, Nigerian Breweries wanted to increase its local sourcing, and to realise this ambition supported Psaltry with a credit facility to finance the upgrading and expansion of its processing facility. Through this expansion more cassava producers could enter the cassava starch value chain, and enter into cassava supply arrangements with Psaltry. The large firms have the ability to navigate the strongly competitive national and international business environments, which SMEs and smallholder farmers have no leverage on.

Case description

Psaltry

Psaltry International Limited, a locally based trader and processor, was founded by Yemisi Iranloye and its main operation is in the buying and processing of cassava into edible starch for industrial buyers. Its most important client is Nigerian Breweries (NB), of which the Heineken Breweries is the majority shareholder. NB started using cassava starch in its brewing process in 2014. Psaltry's processing facility is strategically sited in Ado-Awaye, a major cassava producing area in Oyo State, Nigeria. From here it supplies the NB factories in Ibadan and Lagos, roughly 100 and 200 km away respectively.

Psaltry was established in 2005, and started with cassava production. In 2013, Psaltry established a factory in Alayide-Wasimi Village, to process cassava into starch for the food and beverage industry. Once it had established the processing factory, Psaltry gained a supply contract with NB. It has also recently begun diversifying into the processing of cassava-based food products.

Before entering into partnership with 2SCALE in 2014, Psaltry was already running a fledgling outgrowers scheme made up of cassava farmers within the locality. Psaltry sources its cassava raw materials from these outgrowers (40% of its demand), through traders (50% of its demand), from its own farm (4%) and from the open market (6% of its demand). As a locally based SME, Psaltry has over the years built synergetic business relationships with the local producers of cassava, as well as tractor services, input suppliers, transporters and traders/marketers.

In 2014 NB started to discuss collaboration with 2SCALE and through the discussion, Psaltry was identified as potential partner, and Psaltry became a lead firm in a 2SCALE facilitated public-private partnership aimed at inclusive agribusiness development. The objective of the partnership was to improve the efficiency and inclusiveness of the cassava supply chain for the brewery.

The interest of NB in the partnership is first and foremost to reduce its supply risk by improving the organization of bulking and delivery to the brewery, through Psaltry. Furthermore the brewery does have an interest in sourcing from smallholders and contributing to the improvement of rural livelihoods, as long as NB can acquire the right volume and quality of produce, reliably. As such, the brewery has an interest in the successful expansion and strengthening of Psaltry's outgrower scheme into an efficient and cost-competitive supplier of cassava starch. The interest of Psaltry is to secure its supply by strengthening its contract farming system, and to provide economic opportunity to smallholder farmers. The interest of the farmers is to get embedded into a remunerating and secure market for their cassava. The farmers realize that if Psaltry could access good markets for its processed products, it would directly impact their businesses since they are working closely together. This realization has meant that farmers and community leaders gave Yemisi Iranloye, the CEO of Psaltry, all the support she needed to get the factory positioned in their locality. With the factory in place, farmers are hopeful for better days ahead for cassava farming, which is the main occupation of people in the area.

Shalem

Shalem is a locally based trader that mainly aggregates sorghum to supply to East African Breweries Ltd (EABL). In addition, Shalem is aggregating other products such as maize, beans and green grams to supply to the local market.

By 2013, when Shalem came into partnership with 2SCALE, its aggregation business was facing various challenges. The quality of sorghum purchased from farmers could not be relied upon due to poor harvesting and post-harvest practices. In addition, the price of the commodity was, at best, erratic. This was making it difficult for Shalem to plan or budget for its buying activities and as a result, it would always fail to deliver on the quantities and quality agreed upon with EABL. Shalem also faced issues with farmers and village agents who were selling their produce to other, more competitive buyers.

Olugbenga Stephen Idowu | Cassava truck at the Psaltry factory weigh bridge

Through the 2SCALE intervention, Shalem has been aiming to improve the reliability and performance, both in volume and quality, of its sorghum sourcing system, to remain competitive with other sorghum buyers. In addition, Shalem expressed the interest to develop a sourcing system that offered fair value to its growers to build loyalty and thus, further increase security of its supply.

The 2SCALE partnership with Shalem initially focused on capacity strengthening of the producers so that they would be able to supply good quality sorghum. Over the last 4 years, more interventions have been included to address key business issues affecting the competitiveness of Shalem and the other sorghum agribusiness cluster actors within the coverage area of the partnership. Shalem has, with support from 2SCALE, ventured into piloting more diversified products by processing sorghum into nutritional household products such as fortified sorghum flour for general domestic use and sorghum based baby porridge.

2SCALE interventions and impacts

The above background information of Shalem and Psaltry show their similarities as locally based SMEs building inclusive agribusiness with grassroots actors. It is therefore to be expected that the 2SCALE interventions and impacts for the two SMEs are similar.

The 2SCALE interventions for both Shalem and Psaltry focused on the details of supply chain management, mobilization of more farmers, and pricing and logistics/transportation issues that were weakening the relationships between the smallholder farmers, the SMEs and other support actors. Other areas of the 2SCALE intervention consisted capacity strengthening of farmers' organizations (FOs) and addressing issues that limited the market competitiveness of the smallholder farmers and SMEs i.e. farm level efficiency (cost/kg), productivity issues (kg per ha) and quality issues e.g. starch content in mcg/kg of the cassava types planted and varieties of sorghum.

These interventions have brought about significant improvements in farm level efficiency. For Psaltry, yields have increased by up to 70%, from less than 10 to more than 15 tons/ha, and an associated drop by 30% in production costs, from 10,000 to 7,000 Naira, was recorded per ton of cassava. This was achieved within two production seasons. For Shalem, farm productivity increased from 1.35 tons/ha to between 1.6 and 1.8 tons/ha.

With 2SCALE's facilitation, Shalem developed a business plan in 2014. This has led to business improvements and has attracted the attention of financial institutions, insurance companies and development agencies seeking to partner with Shalem. Farmers have been able to receive close to 2,500,000 Kenya shilling in compensation for crop failure because of the support they receive from insurance companies through Shalem. In 2015, Shalem received an initial US$ 500,000 from Root Capital, allowing it to expand from grain trading to processing and is in line to receive another US$610,000 from CFC (Common Fund for Commodities), which will go towards finalizing the development of marketing and distribution strategies to get Shalem-processed products into the market.

Smallholder farmers and transporters in Psaltry have achieved win-win pricing so that transport rates are now charged based on the weight (kg) of cassava, the conditions of the roads and the distances (km) covered from the farms to the factory. This has reduced transportation costs by up to 20%. In accepting the new terms, transporters have demanded cash on delivery, to which the farmers acceded. Farmers working with Psaltry have also been able to reduce costs of tractor services by negotiating for accurate farm size measurements and paying accordingly, and through aggregation of demands, making logistics more efficient for tractor operators, resulting in a 30% cost reduction of mechanised land preparation.

The specific interventions of 2SCALE within the Shalem and Psaltry partnerships can be summarized as follows:

Supply chain management: Both Shalem and Psaltry were supported to improve their outgrower schemes through training and coaching activities on group dynamics and coordination of supply. This aimed at reducing the supply risk of sorghum and cassava by increasing the performance of producer groups in meeting targets of quality, volumes and timeliness. In addition, better planning of input supply, transportation and tractor services was facilitated as well as mapping of farm locations to make for more efficient collection and aggregation. 2SCALE supported Psaltry in the acquisition of FarmForce®, a mobile app for farm management record keeping and supply chain management. Shalem was also supported with E-Prod®, a data management system that has helped in maintaining real time records of volumes, quality, payments, credit recoveries, performance history and other parameters, and to share this information with farmers in a transparent manner.

Enhancing farm level efficiency: 2SCALE supported the mobilization of more producers to supply Shalem and Psaltry through contracts. New and existing farmers received training on production technology, production cost reduction strategies and cost-benefit analyses. The combination of assuring output markets through contracts and training in intensification of production and financial management, proved effective in increasing productivity and profitability.

Olugbenga Stephen Idowu | Psaltry cassava starch

Improving efficiency of other chain actors: In both the Shalem and Psaltry case, the focus was not exclusively on the challenges smallholder farmers are facing, but also those of other actors like transporters and village agents or traders. The partnership also facilitated joint purchases and other coordination actions among these other actors to achieve, among others, cost reduction and access to good quality inputs. These capacity strengthening activities were carried out by coaches with support from 2SCALE trainers and partnership facilitators.

Empowerment of negotiation skills of farmer organisations (FOs): 2SCALE capacity strengthening of FOs with trainings and coaching on business skills for negotiating contracts, has led to the achievement of a win-win pricing mechanism at Psaltry. The same has been achieved between Psaltry and large buyers. FOs supplying Psaltry were able to access a government agricultural finance facility worth 500,000 Naira each for 500 farmers, at an acceptable interest rate along with insurance covers.

Addressing prohibitive transport costs for farmers: 2SCALE capacity strengthening activities with FOs, and their facilitation of business relationships between the outgrowers and local transporters and Psaltry enabled the negotiation of better business terms between these important agribusiness actors in the local environment. FOs were able to negotiate better prices for cassava transport, in exchange for on-the-spot payment of transporters. Furthermore the cassava farmers and transporters have negotiated fixed road levies, rather than the prior system of road-side negotiation with traffic police.

Development of a loyalty program: This program involved soft skills training and coaching to help actors realize the importance of their partnership and the need to cooperate for the survival of their collective businesses. The training also highlighted to farmers the need to ensure the delivery of adequate volumes of their produce on time and at competitive prices, compared to other supply sources. in the Shalem case, 2SCALE supported the practical training of Shalem staff and FO representatives on how to design reward systems to encourage loyalty among the various actors (agents, coaches, smallholder farmers, finance institutions). The system was implemented successfully and played a major role in Shalem's continued profitability in a highly competitive environment.

Lessons learned

"Going one step down the ladder", and work with intermediate trading and processing companies, such as Psaltry and Shalem offers advantages for inclusive agribusiness development, as opposed to partnering only with the larger, industrial-scale processors.

Advantages of partnering with intermediate trading and processing companies

Closeness to the grassroots: The core advantage of locally-based intermediate aggregators and processors is their proximity to smallholder farmers. Sometimes the farms are within walking distance of the factory premises or collection centers. The proximity to the smallholder farmers presents a unique opportunity for the entrepreneurs to quickly respond to changes and events. For example, if weather conditions are not conducive during the harvesting period for sorghum to be properly dried on the farms, Shalem can drive a thresher to farmers' fields and transport the produce back to its aggregation site for further drying. This is possible because Shalem's place is in close proximity to farmers and as a small enterprise in tune with the local realities, it can easily adapt to address certain challenges. Psaltry has to process its cassava within 24 hours. The short distance from the factory to the farms therefore ensures that in the case of any logistical issues (e.g. breakdown of a truck), alternative means can easily be arranged within a short period to save the produce.

Fewer language or cultural barriers: Locally based SMEs face fewer barriers in terms of language and culture. In both Psaltry and Shalem, many of the farmers and suppliers/traders come from within the same locality, speak the same language and have the same cultural affiliations. Business terms and conditions can therefore be easily communicated; targets and measurements (e.g. of land areas or volumes) can easily be explained in local and understandable terms. This speeds up the integration of local actors and contributes to a more rapid achievement of the objectives of agribusiness interventions. Most importantly, the locally-based intermediary aggregators, traders or processors have a better ability to build trust with local suppliers over time compared to the large end-buyers in the chain.

More direct interest in improved business relations with local actors: The intermediary companies are, much more so than the final buyer, highly dependent on the success of their sourcing strategy for their business prosperity. As a consequence, they are also more interested in investing the time and effort required to make it work, and to build sustainable business relationships with their suppliers. Locally based SMEs greatly benefit from their interdependent business relationships with other grassroots actors. For example, in Psaltry, people in the local communities take pride in the fact that they have a factory in their area and recognize that the success of the business directly impacts their own farm enterprises since they are working closely together. This provides a variety of social and psychological benefits for Psaltry.

The ability to trade based on social capital and trust: Shalem works through village traders/brokers who aggregate the produce initially so that Shalem can buy it when quantities have reached a certain economic level. Some of the village traders are farmers themselves and have some level of interaction with other farmers. Village agents/suppliers are sometimes able to pay the farmers in cash at the point of produce collection so the farmers are more willing to deliver their produce to them. In other cases farmers are willing to deliver their produce to the village agents and to the local SMEs without immediate payment, based on the trust that they will be paid in due time. This gives local SMEs an advantage over large enterprises running less locally rooted contract based supply schemes.

Positive reputation of local SMEs: Even though they act as intermediaries, locally based SMEs using inclusive business approaches suffer less from the usual negative perceptions that smallholder farmers have of brokers or middlemen. Unlike middlemen or brokers, SMEs doing inclusive business with local actors are not freelance or opportunistic buyers. As inclusive business champions, SMEs put a lot of commitment into building business relationships with smallholder farmers and other suppliers. In Shalem, the brokers/buying agents not only participate in the capacity strengthening activities of smallholder farmers (e.g. they participate in trainings on harvest and post-harvest handling to ensure quality of the produce), they are also involved in the distribution of inputs to smallholder farmers. This reduces the perception of them by smallholder farmers as middlemen. The stronger the commitment of buyers and sellers to one another's business, the weaker the negative perceptions of each other. This is a great lesson for aggregation agribusinesses.

More flexible as champions of inclusive agribusiness: There is less bureaucracy within SMEs as well as less deep seated organizational culture and management hurdles to cross when taking inclusive business decisions e.g. decisions to invest in FO capacity strengthening as surety to facilitate access to finance and quality inputs and services for smallholder farmers. It is also easier for SMEs to finalize on and disseminate inclusive business decisions and share ideas and information with local actors.

Ability to give "voice" to and empower smallholder farmers: In Psaltry, FO leaders and other major grassroots actors are included in the governance structure of the partnership. This has helped to bridge the gap and has empowered the grassroots actors. The FOs were able to leverage their "voice" in the partnership. With the backing of Psaltry and NB they have been able to negotiate favourable supply contracts for inputs and obtain access to government backed loans with modest interest rate.

Challenges

The case for inclusive business interventions through locally based SMEs is not without its challenges and hard lessons learnt include:

Selection of partners: Selection of inclusive business partners at any level, including at the level of locally based SMEs is not an easy task. At times, partnerships were initiated that weren't successful. What can we look for in prospective partners to predict the chances of success of an inclusive agribusiness model? This is not an easy question to answer. Assessing a potential partner based on financial, material and human resources is not sufficient. Only once starting collaborating with a company is it possible to judge the level of motivation and drive to invest in the realisation of inclusive business.

Partners themselves need to be committed to an inclusive business partnership without being manipulated to do so. In Psaltry and Shalem, organizational attitude towards inclusive business principles varied depending on who you were working with in the company. The intention to engage in business with the goal of addressing the issues that face the grassroots actors, such as smallholder farmers as well as marginalized groups such as women and youth, should be owned by partners. Self-motivated willingness of the partners to participate in the identification and improvement of business relationships with or among the other value chain actors is very important.

Low profit margins of intermediate aggregators, traders and processors offer little opportunity to invest in inclusive business models: Locally based SMEs are suitable as drivers of inclusive business with grassroots actors. They may also have the clear goals and honest ambition to develop inclusive and durable supply chains. Ensuring the equitable distribution of benefits accrued within the chain however, can be difficult to follow through. Offering a fair price to suppliers can have uncomfortable impacts on margins and price competitiveness in the market. For Shalem and Psaltry, their investments in inclusive business principles and service provision to farmers meant that, at times, they had to settle for lower margins compared to other buyers. In a market with competing buyers, companies will seek to recuperate the investment in service provision to farmers, such as training in intensification of production, by offering a lower price. This is affecting Psaltry's outgrowers' scheme because the price Psaltry is willing to pay for products from its outgrowers is lower than that offered in alternative markets. Psaltry's rationale for this is that the outgrowers have first received support services through Psaltry e.g. credit, input and tractor service pre-finance. The outgrowers argue however that the services provided through Psaltry are being paid back at an interest rate, making it unjustifiable to pay less for the outgrowers' supplies.

Olugbenga Stephen Idowu | Planting a farmer demonstration trial, Nigeria

The low prices offered by EABL for sorghum mean that Shalem's margin is small. Having invested in inclusive arrangements and paying the same prices as other buyers for the sorghum means that the SME makes little profit (and sometimes none). These examples illustrate the dilemma that drivers of inclusive businesses may face in a competitive buying market. Companies investing in credit, training and other types of support for smallholder producers run the risk of not satisfying their supply once they try to recuperate their investments by offering a lower price.

In Psaltry, 2SCALE is facilitating communication between the actors to help producers realize they are in partnership to maintain one another in business, and that the farmers must nurture their joint business relationship with the large off-takers. This means that they need to understand that Psaltry needs to ensure delivery of adequate volumes of starch to NB at competitive prices, to remain competitive. So far, Psaltry's outgrowers have agreed to give price discounts for the business as compensation for its investments in technical and business support for them. There are however clear disadvantages in terms of the competitiveness of an intermediate aggregation business when investing in producer support services.

Level of skills and competence in inclusive business management: Becoming drivers of inclusive business often requires companies to go beyond their core set of skills. Intentional learning and re-learning is required in order to imbibe the mindset that it is possible to win without the other person losing! The knowledge and skills to carry through inclusive agribusiness from the grassroots is still a challenge in Psaltry and Shalem.

Tendency to expect free handouts: Engaging in business with grassroots actors who are used to receiving subsidies and handouts can be difficult. Managing their expectations of free support is often at odds with inclusive business ideology. Transforming the mindsets of smallholder farmers to "think business" can be a challenge. Even though 2SCALE is very clear and strictly demands co-investment by agri-business partners, at times this issue still comes up in the partnerships with Shalem and Psaltry. To assure significant co-investment in 2SCALE activities by the smallholder farmers as well as the SMEs 2SCALE invested much effort in the development of appropriate credit mechanisms as local SMEs have to cope with cash flow constraints, and smallholder farmers are perpetually short of cash.

Conclusions

In spite of the challenges mentioned above, 2SCALE is already seeing the replication of this inclusive business model with locally based SMEs elsewhere. For example, Acila Enterprises, another 2SCALE partner based in Uganda that also aggregates sorghum for the country's breweries, is planning to adopt some of Shalem's strategies for gaining loyal business relationships with smallholder farmers. Experience sharing and exchange programs between different 2SCALE partners and others using this model will encourage replication of the successes (and management of the pitfalls) experienced with Psaltry and Shalem.

IFDC | Recruitment of new sorghum contract farmers by Shalem, Kenya

2SCALE has supported Shalem to develop workplans which will enable them to access further financing to expand the business, creating more demand for sorghum. This is expected to increase the number of smallholder farmers supplying sorghum to Shalem, and also to expand the businesses for other actors such as finance institutions and input suppliers. The first steps for increasing the number of smallholder farmers have been made by expanding sourcing to other parts of the country. With support from 2SCALE, Shalem has now expanded to three other counties (Homabay, Kisii and Kati) in Kenya. This will not only involve more smallholder farmers but also other agribusiness actors in those counties. 2SCALE supported Shalem to carry out mobilization of smallholder farmers in these new regions and also to set up demonstration and training sites for producers.

From the 2SCALE experience it can be concluded that aggregators, be it intermediate traders or processors, are suitable partners in inclusive agribusiness arrangements. In comparison to the large end buyers, such as breweries or other large-scale users, such SMEs have a number of advantages as business partners with local agribusiness actors. Aggregators are closer to producers and as a result have a better ability to understand and effectively communicate with the smallholder suppliers. The intermediate buyers are also fully dependent on the effective and sustainable supply of smallholder farmers for their business success, and as a result, are obliged to invest in sustaining business relations with them. Finally, the intermediate buyers, by being closer to the smallholder farmers, are better able to build a relationship of trust and business loyalty, which is the foundation of a successful inclusive business.

This paper is part of a series in which 2SCALE facilitators and coordinators share their experiences. Contributors: Abalo Adodo, Grégoire Oniankitan Agai, Mathias Ahounou, Geneviève Audet-Bélanger, Tekalgn Ayano, Judith Chabari, Assefa Degefu, François Dossouhoui, Peter Gildemacher, Olugbenga Stephen Idowu, Alhassan Issahaku, Peter Kirimi, Eric Lakoussan, Arnoldus Maatman, Janet Macharia, Douglas Magaja, Jacqueline Ndambuki, David Njenga, Irene Njogu, Francis Nthuku, Thompson Ogunsanmi, Gabriel Olengo, Kwame Pipim, Hiwot Shimeles, Faoussa Tadjou, Addis Teshome, Baba Togola, Mahamane Toure, Youssouf Traore, Niek van Dijk, Ajay Varadachary, Raphael Vogelsperger, Allan Wayira and Bertus Wennink.

2SCALE manages public-private partnerships (PPPs) for inclusive agri-business in Africa. Partnership agreements are developed with companies with inclusive business agendas. 2SCALE offers support services to companies, farmer groups and other relevant stakeholders – enabling them to produce, transform and supply quality food products to local, national and regional markets, including Base of the Pyramid consumers. 2SCALE strengthens the capacity of grassroots and value chain actors, supports innovation and coordinated action, and improves skills to assure effective participation in markets. The focus countries of the programme are Benin, Ethiopia, Ghana, Ivory Coast, Kenya, Mali, Mozambique, Nigeria and Uganda.

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Design: Anita Simons, www.symsign.nl