

www.agra.org



Markets Strategy

Increased support and access to local and regional markets for smallholder farmers



The Alliance for a Green Revolution in Africa
West End Towers, 4th Floor
Kanjata Road, Muthangari Drive, Waiyaki Way
P.O. Box 66773, Westlands 00800
Nairobi, Kenya

Tel: +254 (20) 3675 000
Email: info@agra.org

Design & Layout: Ecomedia



AGRA Markets Strategy

Context

AGRA's vision is to *"catalyze and sustain agricultural transformation in Africa through productivity increases and access to markets and finance that improve the livelihoods of smallholder farmers"*. AGRA aims to improve the food security and increase incomes of 30 million smallholder farm households in 11 African priority countries by 2021. The magnitude of this ambition has required AGRA to re-think some of its approaches and reflect on what was learned through previous phases of its work. Agricultural transformation requires an integrated delivery approach across an ecosystem of technical interventions and partnerships.

AGRA must work through, and with a coalition of private agri-businesses, NGO's, farmer organizations, and government agencies. This entails taking a systems approach to tackling the underlying causes of market failures rather than just the superficial symptoms. Moreover, AGRA realizes that political commitment is at the heart of accelerated agricultural transformation; hence continual and long-term engagement with government on enabling policies, regulations, standards, and on improved delivery and accountability of flagship projects is critical. Finally, AGRA's funds will never be enough to drive agricultural transformation, and hence it must work in collaboration with a wide range of other actors. Given that AGRA's annual expenditures in a given country are generally less than 2% of the government's budget for agriculture, it is imperative to leverage the financial strength of governments towards agricultural transformation. However, resources are not always the constraint. What is often more important is how existing resources work together such as aligning donor support along these priorities. This learning demands that AGRA pursues a deliberate path to integrating its programs, building a wider coalition of partners, and developing interventions with the potential for scaling and contributing to a larger fabric of meaningful system-wide change.

Agricultural markets in Africa are undergoing rapid change, as larger numbers of farmers adopt improved production technologies and begin to market surplus grains. AGRA's vision in the area of smallholder market support is to allow farmers to derive maximum benefit from their labor and other investments, in order to improve their incomes and stimulate economic growth in Africa's rural economy. AGRA's strategy for market development is based on three pillars of intervention: 1) Creating an enabling environment for grain trade; 2) Markets Support Interventions; and, 3) Development of Competitive, Resilient, Inclusive Regional Commodity Markets and Value Chains.





Key Pillars of AGRA's Markets Strategy

PILLAR ONE: An Enabling Environment for National and Regional Grain Trade

This pillar responds to market failures related to policies and regulations.

A. Identify and advocate for policies which encourage greater trade in grains

Most African governments want to develop agriculture as a business, however, many are unaware of the negative impact some policies can have on this desired outcome. Predictable policies filter through the market into transparent pricing signals, and allow value chain players to act with greater assurance as they transact and otherwise conduct their business. This work stream is founded on:

- Improving the information basis for government actions which have minimal market-distorting effects.
- Ensuring a more inclusive platform for policy interventions to actively include legislators and key stakeholders in food grain value chains (e.g., representatives of farmers, financial sector, and agribusiness).

Illustrative activities in this work stream will include:

- National Food Balance Sheets and Forecasting:** Governments can benefit from assistance to understand the country's food security status. Assisting governments to develop national food balance sheets (as done in Zambia) and coupling this with more accurate forecasting tools similar to those used by large-scale traders in global commodity exchanges will help develop an evidence-based approach to projecting needs for food aid or implementing export bans/quotas/tariffs. A transparent, evidence-based approach to decision making will bring greater stability to markets and avoid unnecessary distortions.
- Building Strategic Grain Reserves through an Organized Market:** Strategic grain reserve agencies and cereal boards exert sizeable influence and have the power to distort markets and hurt businesses. The simplest step for strategic grain reserves (SGRs) and marketing boards to take, to become more market-friendly is to buy and sell through an organized marketplace, be it a commodity exchange or over-the-counter market. Experience with these approaches has been gained from commodity exchanges of Malawi and Ethiopia. This acts as a stimulus for market participation from producers, supports the price discovery process that can guide production and marketing decisions, and creates accountability within government and the wider marketplace about SGR and marketing board activities. It is worth considering the use of derivative evidence and tools to link policy change for desired outcomes. This will bring other benefits, including cost control, transparency and predictability, and crowd in private sector investment.

B. Develop a Common Framework that Incentivizes Private Sector Investment in Agri-business

AGRA is building a team to conduct targeted analyses, carry out advocacy for policy and regulatory reform, facilitate public-private dialogue, and source funding for public goods specific to building trust between government and private sector. This team will act as a secretariat to a broader coalition of donors, businesses, farmer groups, and policy analysts. Aligned action under a unified vision give a higher chance for success.



C. Create trusted spaces to discuss national level experiences and challenges in meeting competing government priorities

Some types of government behaviors are more complex as they relate to political imperatives such as food security, linkages between business and politics, vested interests, and patronage networks. Governments therefore sometimes pursue suboptimal policies and public investment strategies. However, it is apparent from several cases that simply sharing evidence on disabling policies as a basis for advocacy does not assure success. It is important to offer governments alternative policy tools.

Advocating against unpredictable and destabilizing government interventions requires continuous engagement with governments given that staple food production and trade are and will remain highly politicized. AGRA already works on micro policy reforms, and has continuous engagement with agriculture policy makers at continental level—through the Comprehensive Africa Agriculture Development Programme (CAADP) partnerships—and at country level. Business-led advocacy, similar to the AGRA Micro Reforms for African Agribusiness (MIRA) model, has shown its utility for engagement on specific policy issues. Therefore catalyzing public-private dialogue by an honest broker as part of a wider participatory policy-making culture will be key. Where possible, such arrangements will be institutionalized into law to further buttress this approach.





PILLAR TWO: Markets Support Interventions

Smallholder Market Support

Farmers who adopt improved production technologies generally harvest more than the family requires for food and feed purposes during the coming year. Hence, they seek to sell these surpluses to the buyer offering the best price. AGRA works to ensure that these transactions take place in as open and fair a manner as possible. This begins with informing farmers regarding the market standards that will guarantee them the best price possible. AGRA's private sector-led approach to agricultural extension, based on the recruitment of village-based advisors (VBAs) is ideally suited to informing large numbers of farmers regarding these standards, and how to achieve them. VBAs demonstrate the importance of using crop varieties with the ideal grain color, texture, and taste preferences. They teach farmers how to shell their grain onto tarpaulins to prevent spoilage through contact with the ground, and how to clean and dry down their grain to the percentage moisture required by buyers. VBAs advise farmers on the best post-harvest management technologies and services. They can link farmers to threshing services, and even serve as links to buyers.

Business Development Services for Small and Medium-sized Enterprises

Small and medium-sized enterprises (SMEs) are defined as businesses with a staff of up to 300 and a revenue base of up to US\$30 million.¹ According to the International Finance Corporation (IFC), SMEs are considered important drivers of growth, and account for up to 90% of all businesses in sub-Saharan African markets. In many agricultural commodity value chains SMEs also take up

¹ Definition given by African SME Organization www.africansme.org





many of the downstream activities of processing, storage, transportation, wholesale and retail that are necessary to send farmers' produce to the end market.

SMEs in the agri-food chain often perform poorly in the market due to the following key challenges:

- Limited access to finance, including working capital and investment capital to finance the acquisition of improved technologies or construction of key assets such as storage and processing facilities;
- Sub-optimal business models, including supply chain management, which result in the supply of grain whose quality is too low for food grade products and animal feed;
- Unpredictable government' interventions in food markets, such as export/import bans and price distortions;
- Breakdowns along grain supply chains with respect to volume and quality exacerbated by a lack of incentives for players to invest in quality production.

AGRA works to stimulate both demand and supply sides of technical assistance and financial products for SMEs. This entails identifying large processors, wholesalers and retailers and supporting them to build and sustain competitive supply chains. The supply of agricultural commodities in the right quantity, quality, and at the right time is the main indicator for success. AGRA invests in enterprise-building services to formalize and scale up upstream businesses and make traders, and providers of quality enhancing services such as threshing, drying, and primary processing investment-ready. This includes business development services, industry expert services in supply chain management, food processing, marketing, and business planning. Core interventions focus on:

- Identifying high-potential SMEs and supporting them with business and technical advisory services to scale up operations. These advisory services involve a performance-based model for service providers. The model requires them to produce business plans and achieve results through effective support to SMEs.
- Matching grants for emerging medium-sized aggregation/storage businesses in under-served areas where smallholder farmers are increasing their yields, and marketing greater surpluses.
- Providing access to working capital finance for SMEs.
- AGRA influences the ecosystem within which SMEs operate by supporting the development of business, enabling goods and services such as packaging, commodity handling and processing machinery, as well as payment processing services and market data.

Access to Finance

Unlocking access to finance remains strategically important for the grains value chains as finance is needed for both capital expenditures and operating expenditures. A sizeable gap remains between the demand and supply of finance in agricultural value chains. The difficulty in improving access to agricultural finance is due in part to the fact that the underlying causes of under-supply are multi-faceted. They include lack of access to quality inputs, climate risks, and variability in management capacity. Other challenges which increase the perceived risks include asymmetric information problems, marketing uncertainties and vulnerability of most actors to price shocks.

Several options can be used to reduce the funding gap. These include: matching grants; advisory services; de-risked financial products; and leveraging large anchor buyers.





Other Areas that AGRA will Address Through Partnerships

Logistics

The high costs of logistics and inefficiencies eat into farmer margins and drive up the overall cost of living for consumers. It is therefore crucial to reduce the logistics cost and improve efficiency and speed to support the regional trade of grains and other commodities.

AGRA facilitates the commercialization of new e-logistics services for grains by linking grain traders, warehouses and millers with logistics service providers across the East Africa region. Based on the results obtained from this experience, it plans to apply this approach more broadly in the future. The platform, which is an online portal and mobile phone application, facilitates links between demand and supply of transport and logistics services in the region. It aims to create increased efficiency and transparency in pricing for grain traders.

Market Information Services

AGRA supports market information services (MIS) to facilitate growth and efficiencies in commodity trade. This includes:

- Using ICT to provide content which is relevant to the trade.
- Publication of nominal prices that are complemented with informative trend analysis and, wherever possible, prices reported reflecting the quality of the produce sold.
- Providing reliable output forecasts and stock monitoring.
- Consolidation of MIS platforms to improve their performance.

Information and Communication Technology

The application of ICT for agricultural value creation and management is important in generating efficiencies, better oversight and improved response time. However, these applications are currently progressing in an ad hoc manner where information is not commonly shared in real time for decision making, and validation by different stakeholders. AGRA will explore ICT opportunities in pursuit of:

- Process and protocols automation: Simplified, automated digital processes to enable streaming, processing, capturing, servicing, reporting and sharing of transaction data in the value chain.
- Reduced blind spots: End-to-end visibility of the progress of various services, data, documents, and other information as it is produced, exchanged, or otherwise shared, over the course of grain transactions.
- Reduced costs: Elimination of unnecessary communication costs, delays associated with regulatory compliance, manual documentations and their physical movement, and in decision-making processes and practices.
- Improved response time: Reactive, streamlined and optimized business processes coupled with real-time and high quality data allow the ecosystem and partners to significantly improve response times across the value chain.
- Firm-level analytics for improved management: Collection of high quality data that can help market actors improve their services and operations through analytics.



PILLAR THREE: Competitive, Resilient and Inclusive Regional Commodity Markets and Value Chains

Cross-Border Trade

The expansion of cross-border trade in food staples has important implications for investment incentives (both domestic and foreign investment), and for the resilience of the market system to withstand price shocks, pest invasions (such as Fall Armyworm) and weather extremes emanating from climate change. Farmers in food surplus zones need access to growing markets, including across national boundaries and in alternative markets such as animal feed. Food deficit zones are highly vulnerable to price hikes of staple foods which are a threat to the purchasing power of the poor, especially in urban areas, and hence, food security. Therefore, mechanisms that facilitate greater inter-regional trade and create predictable market access are key to increasing investments in agricultural productivity, value addition, and trade and stabilizing food security across the region.

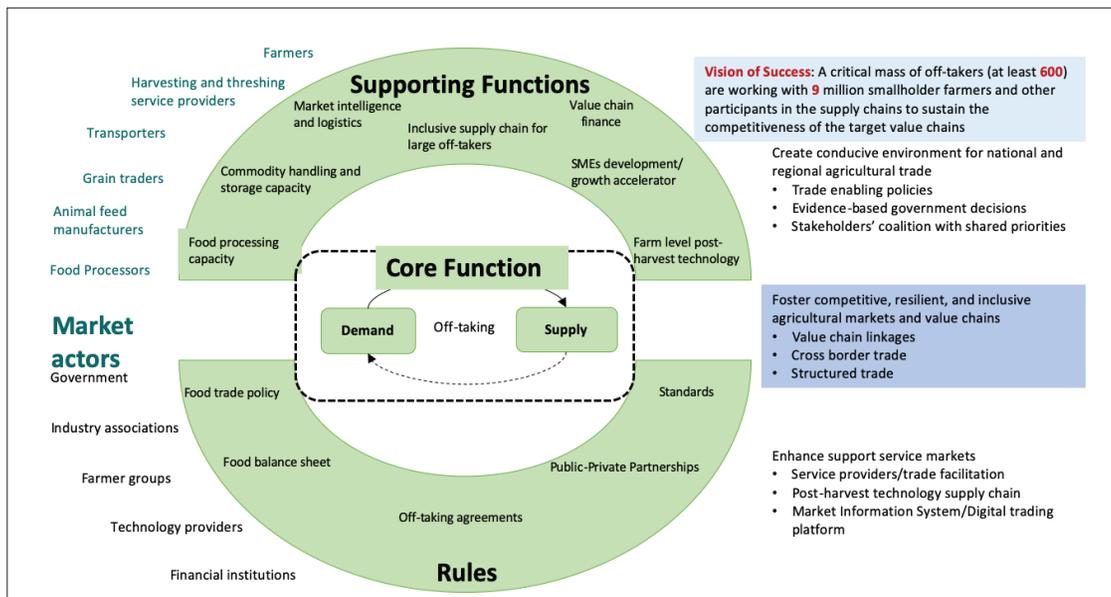
The value of informal grain trade is significant and highly volatile. Transaction costs are higher in informal trade largely because of lack of certainty regarding the attributes of what is being traded. For example, a lack of grading standards makes it difficult to describe commodities on offer. Where volumetric standards (e.g., bags) apply instead of standard weights, variation exists in terms of average weights. Hence, informal trade often involves physical sampling or checks to ascertain quality and also quantity. Standardization, which forms part of structured trading systems, eliminates this and associated costs.

While tariffs on trade between regional blocks are relevant, they do not constitute the main barrier to trade in grains in various regions across Africa. Quite often non-tariff barriers (NTBs) restrict trade. For agricultural products, trade restrictions may be justified if they are the result of legitimate concerns over health and food safety but, in most cases, when sanitary and phytosanitary measures are applied they tend to constitute NTBs or actually mask protectionism.

Structured Trading

The grain markets in many African countries are characterized by one-off transactions which lead to a lack of close coordination between producers and buyers. This starts a domino effect of market failures in the provision of support goods and services such as finance, transport, inputs, extension and mechanization, resulting in unpredictable supply, low quality produce and high post-harvest losses. Solving these issues requires establishing repeat transactions between buyers and sellers and growing the trust in these relationships. This can be achieved through a functioning structured trading system.





The Markets and Post-Harvest Management Unit seeks to increase smallholder farmers' income and food security by working with market actors to foster competitive, inclusive, and resilient markets

Several instruments are used in structured trading systems in the grain subsector, including:

- Contract farming or off-taking agreements
- Warehouse receipt systems and warrantage
- Agricultural commodity exchange

However, warehouse receipt systems and commodity exchanges need certain factors to be in place to work effectively. These include the rule of law, regulatory mechanisms, agreed standards, a lack of interference of government in grain prices, large tradeable volumes of grain, availability of proper storage infrastructure, and access to appropriate financial instruments among others. Given that many of these conditions are not in place and the political will to bring them about is currently anemic, AGRA prioritizes interventions around forward contracts, offtaking arrangements and, where it resonates locally, derivative markets.

- **Quality based pricing:** AGRA promotes quality-based pricing on grain to restructure incentives along the supply chain to adhere to improved quality practices. Quality premiums offer farmers a premium for quality produce, and therefore a higher margin. As agricultural markets grow more sophisticated, they demand higher quality grain. Offering farmers a quality premium incentivizes them to adhere to quality specifications and demand for services and goods to help them comply.
- **Stimulating service markets:** AGRA promotes the use of drying tarps, sheller/thresher services, drying service, storage etc. to stimulate the supply of these goods and services among smallholder farmers.
- **Migrating transactions to digital platforms:** As repeat transactions take place between producers and buyers and trust begins to blossom, AGRA will migrate these transactional relationships onto digital platforms and emerging block chain applications to further enhance, transparency, traceability and reduce transaction costs.
- **Market diversification:** Transactional relationships are also promoted for crop and market diversification to include grain legumes and animal feed markets.
- **Linking to derivative markets.** Derivatives help make apparent the return on investment on any productive investment on a season-by-season basis, for example, by a farmer into inputs, irrigation and equipment. AGRA will explore appetite in different countries to engage with derivative markets. The Johannesburg Stock Exchange is a possible starting point to utilize the capacity, experience and confidence of market actors in the exchange.

