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Immediate versus Sustainable Poverty Reduction? Supporting Agro-Industries in Africa

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To help smallholders out of poverty, an integrated industry-wide approach is necessary. Focusing on smallholders alone will not do the job.

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The dominant poverty reduction approach of many official aid agencies focuses on livelihoods, marginal income increases and food security. When operating in productive sectors, donors mainly want to support production by small-scale farmers or informal sector producers. But we observe that many of these initiatives are not sustainable, because they focus solely on small-scale farmers/producers and fail to take an industry-wide perspective. They ask what can help these farmers/producers now, and not what is necessary to make the industry grow and to integrate these small-scale or informal producers into that industry.

An economic transformation approach focuses on increasing production and productivity in targeted economic activities, such as specific industries, through building technological capabilities. It sees small-scale producers as embedded within an industry in ways that affect their production and productivity as well as the performance of the industry as a whole. Support to smallholders or small-scale processors should be considered in terms of both improving their capabilities but also linking them into an organized industry.

POLICY IMPLICATIONS

1. Smallholder producers can have a role in agro-export industries, but they need to be networked into national supply chains in ways that increase their productive capabilities. There are different ways in which this can be done.

2. Outgrower schemes are an important means of linking smallholder producers to exporters or processers, but the costs of setting up the schemes are high. Bearing all the costs for setting up the schemes is risky and can make exporters or processors uncompetitive. Subsidizing the cost of outgrower schemes is one way to support smallholder integration. But the subsidies should be linked with incentives for the exporters or processors to improve the capabilities of the smallholders and means of contract enforcement.

3. African governments need to bear some of the cost and risks of increasing the capabilities of small-scale producers. Rather than directly taking on this task, governments could provide incentives to commercial producers and processors to undertake this task. In the process, governments should demand that commercial producers and processors increase their own capabilities.

4. Donors can help to finance the cost of this learning as well as the cost of government technocrats monitoring the enforcement of these 'learning rents' – subsidies in return for building capabilities.

Smallholder farmers versus agro-industries

Many donor and government initiatives focus on improving the livelihoods of smallholders by linking them to export markets or helping increase their ability to produce export crops. These initiatives focus on the position of smallholders within a value chain, but may neglect the health and competitiveness of the export industry as a whole. Supporting smallholders in isolation of the larger industry in which they are embedded is not good for the smallholders or for the expansion and upgrading of the industry. The fate of the two is intertwined.

Furthermore, support to smallholders that does not increase their technological capabilities in sustainable ways will not provide smallholders with a means to keep their position in value chains in the context of dynamic international markets. Thus, the income gains of smallholders may be short-lived, as happened in the case of smallholders and pineapple exports in Ghana.

Given institutional support and sufficient time, some smallholder systems have been able to successfully participate in high-value agricultural export markets. In these cases technological and organisational arrangements have been created that allow smallholders to access high-value export markets. There are different ways this can be done, and the way adopted is derived from the country context, the existing landscape of actors and the structural and institutional relations in which they are embedded. However,

THE CASE OF SMALLHOLDERS AND PINEAPPLE EXPORTS IN GHANA

Ghana began exporting pineapples to Europe in small quantities in the mid-1980s. Pineapple exports increased from 650 tons in 1984 to reach just over 70,000 tons by 2004. However, from 2005 Ghana's pineapple export industry went into crisis, total exports decreased and the industry was restructured. Just before the crisis, pineapple production for export was split between approximately 12 large farms (300-700 ha), about 40 medium farms (20-150 ha) and possibly as many as 10,000 smallholders (0.2-10 ha). The crisis led to a general exodus of smallholder producers from production for export and to the collapse of many medium and large producer-exporters. In 2009, total exports began to rebound, but production had become concentrated among a handful of large producer-exporters.

Smallholders and commercial farmers producing for export were dependent on each other and their fates were intertwined. The small-sized operations of producer-exporters in the early 1990s led them to depend on smallholder farmers to increase their volumes, in order to meet the volumes requested by their buyers. But they did not provide adequate support to smallholders in the production process to ensure good quality nor did they put in place formalized quality assurance mechanisms. Reliance on smallholder production also created disincentives for producer-exporters to invest in improved practices and equipment and expand their own farms. As a result, the quality of Ghanaian pineapples declined after the shift from air to sea freight, and so did the competitiveness of the industry.

There was little support among donors or within the government to develop the industry by building the technological capabilities of producer-exporters. Instead, the focus was largely on smallholder production as a means of poverty reduction. For example, the World Bank decided to bring together five smallholder pineapple cooperatives, with two small producer-exporters, to form an export company. Farmapine, as it was called, began exporting in 2000. However, it faced major problems from the beginning, to which it was unable to respond quickly. The company also did not have enough start-up working capital, of which too much was spent on the salaried technocrats hired to run it. While Farmapine became the second largest exporter in the first half of the 2000s, it faced problems exporting good quality pineapples and it collapsed after the European market shifted to the new variety because it was unable to make the shift.

Smallholder production collapsed after 2005 because the previous institutional relations that evolved during the 1990s were no longer viable, and there was no attempt to alter the institutional relations to fit the new conditions. There was no attempt partly because producer-exporters were struggling themselves and could not provide support to smallholders, and partly because donor-government initiatives sought to support smallholders largely in isolation of the industry's needs as a whole. As a result, they neglected the need to find institutional innovations suitable for the new dynamics of the pineapple export market.

such cases highlight the general need for three institutional mechanisms: collective action, mutually beneficial farmer-agrobusiness linkages and public-private partnerships.

Informal versus formal sectors of agro-industries

Agro-industries in Africa are often characterized by two sub-sectors that overlap but are largely separate: (1) a modern or formal sector characterized by the use of higher technology, economies of scale and higher productivity; and (2) a traditional or informal sector characterized by lower technology, small scale of production and/or processing, and low productivity. Keeping agro-industries dichotomized into formal and informal sub-sectors undermines the creation of a competitive industry, whether import or export oriented. Smallholders and small-scale processors in the informal sector can actually undermine the performance of the formal sector, as the case of the palm oil industry in Ghana illustrates.

African countries can only create competitive industries based on higher technological capabilities by bringing the informal into the formal sector. Initiatives targeting informal poor producers in ways that focus on improving their livelihoods within the informal sector may achieve immediate poverty reduction but will not lead to economic transformation.

THE CASE OF PALM OIL INDUSTRY IN GHANA

The structure of the palm oil industry in Ghana has been shaped by the presence of two different markets: local consumption and industrial use in local manufacturing. As a result, Ghana's industry has two sub-sectors that are largely separate. The industrial use sub-sector consists of medium and large-scale oil palm estates (plantations and mills). It is characterized by higher technology, economies of scale, higher productivity of farm and mills, and higher quality crude palm oil or further refined palm oil products that are sold to companies for use in manufacturing. The consumption sub-sector consists of private smallholder oil palm cultivators who largely sell their fruit bunches to small-scale mills or household (largely manual) processors. It is characterized by use of a low yielding oil palm variety, low productivity of farm and mill, and low quality crude palm oil that is sold in the village or at small town markets.

Smallholder sell to both sub-sectors, and thus the two sub-sectors are interconnected through the actions of smallholders. Outgrower and smallholder schemes connected to the large commercial estates were created to increase the supply for large mills. More than half of the estates' oil palm fruits are bought from smallholder farmers.

Smallholder farmers will sell their fruits to the highest bidder. Thus, even outgrowers who have received loans and assistance from the estates will sell to other estates or to small-scale processors if the spot price is higher. In areas where there are several estates in close proximity, competition for fruits is intense and has led to price wars between the estates as well as with local buyers for the home consumption sub-sector. In these areas, setting up outgrower schemes is seen as costly and potentially unsustainable. Estates without a donor to subsidize the cost of an outgrower scheme use other, non-price mechanisms to try to win farmer loyalty.

It is difficult to access land in the existing oil palm growing areas in Ghana due to intense competition over land and to the land tenure system. Recent governments will not expropriate land and have not been willing to change the land tenure system. Thus, establishing new large-scale estates is impossible in the oil palm belt and existing estates are constrained in their ability to expand their nucleus plantations. Thus, existing or new processors must rely on smallholder cultivation to bring the mills to capacity or to expand their production of palm oil.

Yet, smallholder yields in oil palm cultivation are low due to the age of trees, poor maintenance, lack of knowledge on production management, high cost of fertilizer application, inadequate credit facility and lack of incentives to smallholders. And the variety of oil palm cultivated by smallholders produces poor quality palm oil for industrial purposes.

The growth of Ghana's industrial palm oil industry depends on integrating smallholder oil palm cultivators more effectively into the industrial sub-sector. It involves smallholders shifting cultivation to a new variety, improving productivity, and organizing the selling of smallholder oil palm fruits in a way that pays the farmers a good price, avoids price wars among buyers, and ensures a consistent supply for processors. More generally, solutions need to be found to promote collaboration rather than competition between the two industry sub-sectors.

FURTHER READING

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