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# Market-based solutions for input supply: making inputs accessible for smallholder farmers in Africa

## Introduction

For agriculture to prosper, farm inputs need to be available, affordable, accessible, and good quality. Seeds, fertilizers, and agro-chemicals, are essential for improving the productivity and incomes of smallholder farmers in developing countries (World Bank, 2007, 2013; Rosegrant et al., 2001; AGRA 2013; FAO, 2013). As input supply is a critical factor in inclusive agricultural and rural development, many donors support initiatives that improve smallholders' access to inputs. Some of these programs are successful, others are not. The Netherlands Development Organization (SNV) and the Royal Tropical Institute (KIT) have practical experience in exploring market-based solutions for improved input provision. These lessons can help donors and policy makers increase the impact of their input support programs. To define these lessons, practitioners managing input-related projects from SNV and KIT, came together at a workshop in Johannesburg in December 2014. This briefing paper is a result of that workshop.

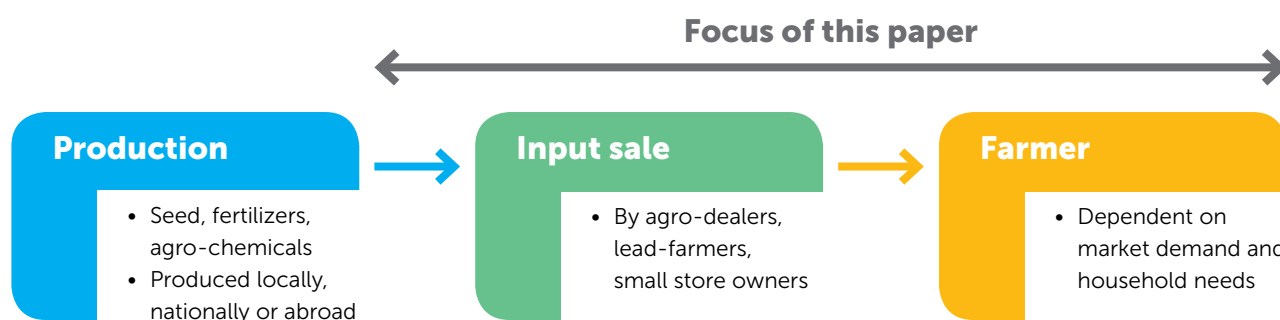
SNV and KIT have developed three market-based approaches to input supply: the agro-dealer approach, the chain leader approach, and the local traders approach. These approaches are based on experiences from agricultural value chain development, agro-dealer support, and seed sector programs in Cameroon, Ghana, Mali, Mozambique, Niger, Tanzania, Uganda, Zambia and Zimbabwe.

This paper is structured in three sections. The first introduces what market-based input supply is. The second section explains seven principles for the promotion of market-based input supply in Africa, based on SNV and KIT's practical experiences. In the final section, three approaches to support market-based input supply are outlined.

## What do we mean by market-based input supply?

We interpret market-based input supply in the following ways:

- We use the term 'market-based' because we focus on market forces to connect input supply and demand. Farmers are considered active market participants – as clients with needs and interests - able to accept and decline offers; which sellers must take into account. In this case, clients are the opposite of passive beneficiaries or a 'target group'. Of course, not all farmers can realize demand due to a lack of resources. However, if products and services are required but unavailable or inaccessible, it implies a latent demand. Not all demand is met by supply. High transaction costs and poor sales can make for an unprofitable business case. Under what condition therefore is free distribution of inputs an appropriate response? To what extent is it a sustainable solution?
- 'Inputs' refer to seeds, fertilizers (organic or chemical), and agrochemicals (pesticides, herbicides and insecticides). Seeds include community-produced seed with a label or other quality recognition, such as quality declared or standard seed. Our focus is only on crop production. The livestock and aquaculture sectors have different dynamics, challenges and solutions.
- We concentrate on the first stage of the agro value chain - the 'process of distribution' of inputs to farmers, linking:
  - 1 input manufacturers to agro-dealers (and other input suppliers); and
  - 2 agro-dealers (and other input suppliers) to farmers.



## Seven principles for promoting market-based input supply

SNV and KIT have derived seven principles to guide any effective and efficient input support program.

### **PRINCIPLE 1** Understand agro-input dealers

We know from experience that many input vendors have various sources of income besides selling inputs. In Zimbabwe, SNV estimates that on average 40% of agro-dealers' income originates from input sales. Agro-dealers usually sell other products too, such as food, wood, charcoal, and building materials. Many agro-dealers are engaged in farming and are therefore also users of inputs. Simplistic notions of agro-dealers do not help ensure effective input supply. Recognizing this diversity, alternative sources of revenue should be encouraged to enhance the sustainability of input provision. After all, realistically an agro-dealer can only sell maize seed for a limited timeframe each year. This principle of understanding agro-dealers has implications for what support to provide. For instance, training in financial management and business planning should cover other revenues streams, not only selling inputs.

Example from  
SNV Zimbabwe

*In the western region of Zimbabwe, improving the supply of seeds, agro chemicals and fertilizers was not very effective. SNV realized the high demand for livestock feed and started to assist agro-dealers to supply animal feed as well as other inputs. Some agro-dealers have diversified into selling cement, responding to demand expressed by farmers.*

Example from  
SNV Zambia

*Agro-dealers in Zambia are supported by SNV to sell solar panels, in addition to inputs.*

**PRINCIPLE 2 Inclusiveness is key when considering input buyers...**

Donors, governments and development organizations want input distribution to be inclusive, concerned as they are that the poorest farmers have access to inputs. When following a market approach, most input supply support programs concentrate on peri-urban areas where agro-dealer shops are common. Economic activity and overall development is usually more advanced there than in remote rural areas, enabling agro-dealers to access more purchasing power. Input support programs that focus predominantly on peri-urban areas will not reach the majority of those in the poorest and remotest rural areas. Whilst starting programs in peri-urban areas is a deliberate choice, there is little evidence of a trickle-down effect occurring, supposedly to benefit those outside peri-urban areas. In more inclusive approaches, agro-dealers operate closer to production areas. To make their business viable, agro-dealers need a critical mass of client farmers.

Example from  
SNV Ghana

*SNV helps established agro-dealers to open up seasonal community outlets to supply inputs to farmers when they most need them.*

**PRINCIPLE 3 ...But not everyone can sell inputs**

When agro-dealers are unable to run a feasible business in a certain area, relatively advanced so-called 'lead farmers', or emerging commercial farmers, are able to sell inputs to other farmers instead. There are a lot of resources and risks involved in the sale of inputs, which excludes resource-poor actors in favour of more established, resource-rich farmers.

Example from  
SNV Zambia

*Lead-farmers or 'sub agro-dealers' are selling seed, fertilizer and agro-chemicals specifically for vegetables, replacing conventional agro-dealers that are located far away from the production areas.*

**PRINCIPLE 4 Be aware of both demand and supply**

Projects supporting input supply should always review the demand side: what is the local demand for inputs, who is expressing this demand and how is this demand met currently? This seems obvious, yet many projects fail to consider and understand existing and latent demand conditions. Responding to demand should be the key driver of input supply. Even if it means selling less conventional items like animal feed, seeds of local varieties, standard seed, and organic fertilizers. For instance, demand might be limited for relatively expensive items such as fertilizers or hybrid vegetable seeds, but not for cheaper items like local seed or compost. Organization of the supply is critical as well. In areas with a limited presence of agro-dealers, alternative vendors need to be identified, such as lead-farmers, small shops, and informal traders. Often, different kinds of support are therefore required, for example specific training, investment in equipment and provision of start-up capital.

Example from  
SNV Niger

*Lead farmers took up the role of input sellers as the governmental stores set up by a World Bank project were unable to meet actual demand.*

Example from  
SNV Zimbabwe

*In 2014, 20 agro-dealers were supported to map and aggregate the demand for agro-inputs from surrounding farming communities. This enabled them to place a larger order from a supplier with more favorable terms.*

### PRINCIPLE 5 Experiment with innovative ICT applications

ICT-supported subsidy schemes have shown promising results in allowing resource-poor farmers to use high-quality inputs they normally cannot access. Project management can benefit from the new opportunities created by ICTs and mobile phone technologies. For example, innovative use of ICT tools for voucher systems can make input supply and uptake more efficient and cost-effective.

Example from  
SNV Zimbabwe

*Responding to the quick expansion of mobile payment systems, SNV partnered with mobile service providers to mobilize farmer contributions and organize disbursements of agro-inputs from input suppliers, agro-dealers and lead farmers. This has reduced transaction costs for buying fertilizers and other inputs.*

## Box 1

### The comeback of subsidies and the role of vouchers

Input subsidies had almost vanished in the 1990s as result of structural adjustment programs. However recently, input subsidies are making a comeback in Sub-Saharan Africa. Ten African governments spend roughly US\$1 billion annually on input subsidy programs, amounting to almost 30% of their public expenditures on agriculture (Jayne and Rashid, 2013). Over the last ten years so-called 'smart vouchers' have been introduced, guided by the following aims (Morris et al., 2007):

- 1 To promote development of the private sector (and not hamper initiative by private business).
- 2 To target the right farmers (who did not use relevant inputs before - not established, commercial farmers with large landholdings).
- 3 To be an integral part of a wider strategy (including complementary inputs and strengthening of output markets).

- 4 To have a clear exit-strategy at two levels i) farmers graduate from the subsidy and ii) the eventual reduction of the subsidy program, which is a financial strain on government treasuries.

Although increasingly more research is being conducted, the debate on the pros and cons of smart vouchers and subsidies goes on. For example, the case of Malawi's fertilizer subsidies has often been hailed as a success story. However recent evidence has questioned these favorable analyses. More comprehensive studies show input subsidy programs' track record are mixed - with costs often outweighing the benefits (Jayne and Rashid, 2013). SNV and KIT keep abreast of trends related to smart vouchers and we test new approaches in the field ourselves. Importantly we also learn from other examples, such as the successful introduction and use of smart vouchers for fertilizers in Nigeria.

### PRINCIPLE 6 Use innovative finance mechanisms

Lack of capital is often a problem for farmers and agro-dealers. Increasing agro-dealers' access to capital can be improved using consignment stock, targeted vouchers, and inventory capital. It is important to understand that as an input supply intervention progresses, the appropriate financial instrument will change according to the evolving needs of actors involved. Financial institutions, agro-dealers, buyers, farmers and their associations can collaborate effectively in a value chain finance arrangement to pursue common interests (KIT, 2012). For instance, when farmers have access to agro inputs, their production levels are likely to improve, thereby attracting buyers looking for supply. Agro-dealers are interested in increasing their sales. A financial institution can provide a loan to farmers, through the agro-dealer, and recuperate the loan from the buyer. Such schemes can be developed with the help of a facilitator, such as a governmental organization or NGO, providing all actors' interests are taken into account.

Example from  
SNV Zimbabwe

*Access to finance for agro-dealers evolved from consignment stock to regular loans derived from a revolving fund.*

Example from  
SNV Niger

*Loans to input vendors became sustainable when the project started to involve banks experienced in microfinance.*

Example from  
SNV Zimbabwe

*A microfinance institution provided finance to 200 farmers so they could buy inputs from local agro-dealers. Farmers needed the inputs to enroll in a remunerative contract farming scheme for Michigan pea beans.*

**PRINCIPLE 7 Capacity building is crucial**

Building and strengthening capacity of farmers to properly use inputs remains critical. Farmers may lack adequate skills and knowledge in applying certain inputs, resulting in poor performance and low productivity. This affects their interest to buy and use these inputs, which affect demand negatively.

Example from  
SNV Ghana

*SNV helped agro-dealers to establish demonstration fields where the use of new agro inputs were shown to farmers. This is an investment an agro dealer might not be able to take on individually, but is essential to expanding demand for inputs.*

**Box 2**

**Direct seed marketing: faster and cheaper?**



Photo: TREE AID

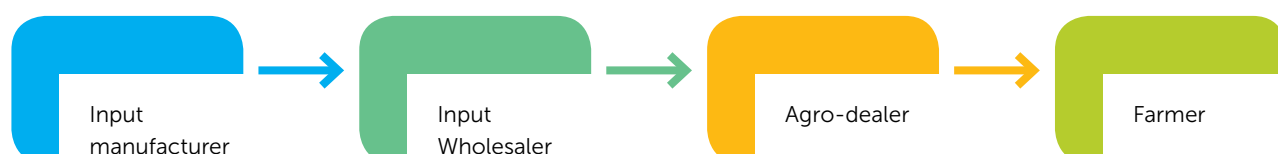
In some cases input provision, especially the marketing of seeds, is organized directly by the input manufacturer without involving of a network of agro-dealers or shops. KIT has experience in direct seed marketing through the Integrated Seed Sector Development Program (ISSD, see for more info [www.issdseed.org](http://www.issdseed.org)). ISSD's goal is to improve smallholders' access to quality seed through formal or informal seed systems. Informal systems are usually neglected by government policies and development programs, but account for around 95% of the seed farmers use. One component of ISSD's work is developing community seed management and local seed businesses, to strengthen 'seed entrepreneurship'. This includes strengthening links with policy makers and improving the interaction with formal seed systems.

In partnership with Centre for Development Innovation (CDI - Wageningen University), KIT is involved in country-specific ISSD programs in Burundi, Ethiopia, Mozambique, Tanzania and Uganda, as well as in cross-border programs under the auspices of the African Union. ISSD initiates direct seed marketing to cater to local demand. One advantage of this is the proximity of the seed producer to its clients, thereby eliminating transport and promotion costs. The transaction can also be more flexible, as for instance 'paying in kind' becomes a possibility. Finally, community trust and relations are pivotal in compensating for the lack of standardized quality assessment mechanisms associated with certified or quality declared seed. Another benefit is that costs are lower compared to certified varieties marketed through formal seed systems. ISSD also supports marketing beyond neighboring communities. For example in Ethiopia, this is done through radio, TV and newspapers, as well as through local seed fairs and demo-plots.

## Three approaches to support market-based input supply

### APPROACH 1 Agro-dealer approach

In this approach, which is implemented in Zimbabwe, Zambia and Ghana, input provision is driven by profit-seeking agro-dealers. The agro-dealers must serve a minimum number of farmers with a certain amount of buying power, whilst providing a stable supply of inputs on reasonable terms. Additional revenue streams, such as output marketing, transport, selling solar panels, cement, and animal feed, often strengthen the business case of the agro-dealers and complement the sale of inputs.



Agro-dealers often give technical advice to their clients. However, additional extension services are usually required to maximize the farmers' return, through lead-farmers, demo plots, and government extension.

To promote the uptake of inputs, credit can be provided at farmer and agro-dealer levels. Consignment stock, in combination with stock insurance, is useful in the start-up-phase to create trust between agro-dealers and input wholesalers. Weather and crop insurance are options for a later stage. SNV is currently experimenting with weather insurance, together with a seed company in Zimbabwe.

#### Some entry-points for interventions using this approach are:

- 1 Establish linkages between manufacturers or wholesalers of inputs and agro-dealers. This includes facilitating effective working arrangements for these actors.
- 2 Strengthen agro-dealer associations. This is important for obtaining credit for loans, advocacy and lobbying, and reducing transaction costs between input manufacturers and agro-dealers. For example, SNV Ghana works with the Ghana Agri-Input Dealers Association.
- 3 Analyse farmers' needs. For example, in Zimbabwe some farmer communities' preferred improved livestock feed supply instead of seed.
- 4 Build and strengthen capacity of agro-dealers. Training should cover technical issues, market opportunities and business skills. Training should not be limited to the input business, but include other ventures as well to enforce the agro-dealers' business case.
- 5 Supply vouchers through agro-dealers. Key aspects to consider are: who will receive the vouchers (targeting); a clear exit-strategy; a thorough analysis of actual demand; and, involvement of private sector. Dialogue with government and other stakeholders, particularly the private sector, is important to ensure subsidies will actually contribute to market development, and not lead to distortion.

## Case study

### The Rural Revitalization Program in Zimbabwe

Zimbabwe once had a thriving input supply system, but due to successive economic crises around 2008 the input supply and agro-dealer networks became dysfunctional in the country. SNV took up the challenge of revitalizing agro-dealer networks through the Rural Agriculture Revitalization Program (RARP), a program funded by DANIDA, FAO and AusAid. Some of the main activities of RARP are:

- Linking wholesalers to agro-dealers through consignment stock. Before agro-dealers did not stock their stores because of limited working capital.
- Providing insurance to wholesalers in the initial stages to reduce the risk of defaulting agro-dealers. To avoid the risk of moral hazard, agro-dealers were not told about this insurance.
- Technical training for agro-dealers in how to properly store and correctly use inputs. Agro-dealers have varying interests and capacities - some are specialists whilst others are general dealers. It is important to recognize some agro-dealers are more interested in trading than in running a shop.
- Creating demand through training farmers on how to properly use inputs, but also how to deal with contracts, group formation, leadership selection, and enterprise budgeting. The latter was also important in a market analysis determining the local demand for inputs.

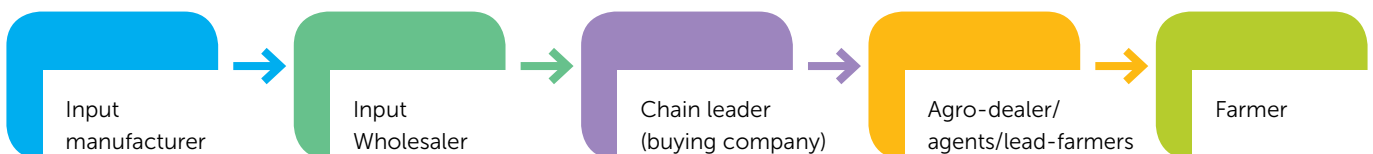


Photo: SNV

From 2009 until 2015, a total of 1,200 agro-dealers and 10 input manufacturers and wholesalers were included in the program. It is estimated that 120,000 households have benefited from RARP. Currently the program is experimenting with ICT-based extension, and with weather and crop insurance. It is looking for alternatives to the consignment stock model as it sometimes leads to overstocking by the agro-dealers. RARP specifically focused on strengthening input distribution, contrary to some of the other cases in this report where strengthening input supply is only one component in a wider value chain development program.

#### APPROACH 2 Chain leader approach

This approach, implemented in Uganda and Tanzania, typically focuses on one commodity only, and on a value chain that is organised around a powerful actor, a 'chain leader'. The input supply is driven by a remunerative market for farmers, while the chain leader assures the product is bought. The leader is willing to work with agro-dealers, to provide inputs directly or indirectly to the farmers.



This type of arrangement can be attractive to financial institutions, since through the buyer they can lend to different segments of the value chain. Typically, farmers get the inputs on credit, the buyer deducts the cost when purchasing the product, and the agro-dealer is paid by the buyer.

This approach is most suitable for well-structured (sometimes called 'modern') value chains and is not suitable for highly competitive open markets (so-called 'spot markets'). The more buyers who operate in such markets, the higher the risk of side-selling. Long-term relationships tend to develop when the buyer has established a strong market presence and regularly engages with farmers. The risk of side-selling is also limited because of the buyer's dominance in the chain (hence the 'chain leader'). Extension services are important for the buyer who looks for increased turnover through higher production volumes by increased farm yields and improved quality.

**Some entry-points for interventions using this approach are:**

- 1** Strengthening farmer associations. This includes creating economies of scale in input supply, organizing repayment of input credit, providing extension services and setting-up collective marketing. In Tanzania, SNV trains farmer associations in financial and business planning in order to successfully supply inputs to their members.
- 2** Strengthening lead farmers. This includes providing assistance for lead farmers to sell inputs (mainly seeds) and to buy outputs, if needed. In Uganda, 300 farmers host seed fairs, selling seeds and buying grain from 60,000 farmers. The farmers receive a commission from the chain leader for seed sales, purchases, and farmer retention (see case-study below, Sunflower oil seed in Uganda).
- 3** Engaging financial institutions. This focuses on making the case that providing loans to lead farmers and agro-dealers is good business. Eventually, the buying company can provide a guarantee, for example to support an inventory credit arrangement.
- 4** Setting up a coordination platform. Communication or joint action among stakeholders doesn't arise spontaneously. The oilseed platform in Uganda, initiated by SNV, has become one of the most successful stakeholder platforms in the region.
- 5** Mapping of the existing agro-dealer network. This will generate information about the areas that are well served, and those that are underserved, within the agro-dealer network.

## Case study

### Sunflower oil seed in Uganda

Sunflower oil is in high demand in Uganda. Production of sunflower oil increased from 29,000 tons in 2000 to around 90,000 tons in 2011-12 (FAOSTAT). The domestic market for sunflower oil has increased significantly due to population growth and changing consumption patterns. As a result, around 60% of farmers in the Lira region are now growing sunflowers (Schoonhoven-Speijer and Heemskerk, 2014).

Mukwano, a major Ugandan commodity trader, has been pivotal in the expansion of the crop, beginning with the local sourcing of sunflower in 2001 to substitute their imports of palm oil. Mukwano is the market leader, currently working with 60,000 farmers on a contract basis, approximately one fifth of the farmers growing sunflowers in the Lira region. The value chain has become more vertically integrated since processors and millers started working directly with farmers, and there is also more horizontal integration, as farmers are more organized.

From 2009 until 2013, SNV Uganda ran a program to support the oil seed value chain. The program included strengthening the distribution of inputs. Due to Mukwano's large market share, investment for value addition was less risky. Side-selling was limited and trust had been developed. Together with SNV, Mukwano introduced the improved seed variety, PAN 7351, imported from South Africa. As only Mukwano was licensed to release the variety (in the short-term) and most processors did not have the equipment to process the sunflower, Mukwano's investment was protected and not significantly affected by side-selling. SNV also helped to set up a coordination platform to encourage communication and joint action among stakeholders. Extension services are important for buyers looking for increased



Photo: Trust for Africa's Orphans

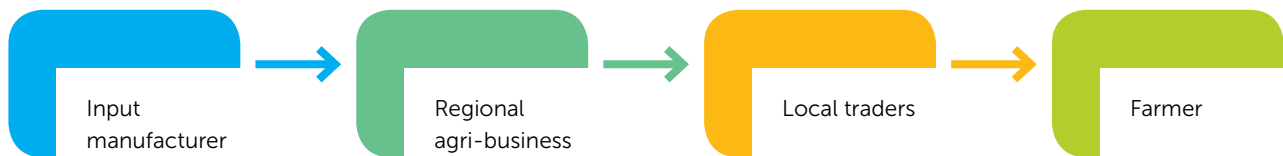
turnover, through higher production volumes (by increased farm yields and improved quality). 300 model farmers now host seed demos, selling seeds and buying grain from a total of 60,000 farmers. These model farmers get a commission from Mukwano for seed sales, as well as for purchases and farmer retention. Farmers can decide for themselves who to sell to, yet often prefer Mukwano because of cash payment, seed and market security.

All this is made possible by Mukwano's large market share, as investment for value addition is less risky. Side-selling is limited and trust has been developed. As a result of the program, farmers realised better harvests, higher prices and reliable extension support. The processor now operates at increased capacity and 20 new small processors have started up activities as well. Over 60,000 MT of sunflower is produced, earning about US\$24 million for farmers per year. Hence, the project has been a success. But there are worries too, firstly that the strong commercial orientation of the project tends to exclude the most vulnerable farmers. Secondly, working with the private sector raises questions about fair competition as support provided to a selection of private sector actors can create an oligopoly or monopoly.



### APPROACH 3 Local traders approach

In this approach the value chain does not have a 'chain leader', but is characterized by many buyers, low value addition, large transaction costs, high demand and an unregulated market. This is the reality in many agro chains. Investment from buyers into input provision for farmers is too risky because of side-selling. Also, buyers are hesitant to finance technical support to optimize input use as they are not sure the produce is sold to them. These buyers, sometimes small-scale processors or retailers, work through local traders, the main players in the value chain, to secure supply.



Here the business case is at the traders' level. The buyers shift transaction costs and coordination to the traders. When buyers pre-finance inputs for farmers, it is likely they will not get their money back because of side-selling. Local traders however are rooted in the communities and have connections among farmers, making cost recovery more likely. When necessary, local traders can provide credit in a flexible manner, largely based on trust. The buyers need to develop networks of local traders, providing traders with incentives whilst taking into account they can suffer from side-selling as well.

#### Some entry-points for interventions using this approach are:

- 1** Strengthen extension services. Due to intense competition, the ultimate buyers and traders do not have incentives to provide extension services since they do not necessarily benefit from them. SNV Mozambique for example is contracting a private extension company to train lead farmers and, where available, extension agents from the government and private sector. Those trained in extension will continue to work with the lead farmers, who will receive commission-based compensation.
- 2** Work with reputable traders. Input support programs need to work with traders running a profitable business, who have a good reputation among their peers and the community, and are genuinely interested in tackling the input issue. The provision of inputs can be an additional income generating activity for traders or a way to improve ties with their suppliers.
- 3** Establish linkages between traders and input wholesalers. For example, traders' associations can create economies of scale when buying inputs from wholesalers. Traders with a good track record can be assisted by buying inputs on credit, either directly from the wholesalers or through their association.



Photo: Felix Clay/Duckrabbit, 2013

Sesame farming is on the rise across many African countries, including Mozambique. Increasing worldwide demand has led to the entry of new buyers, more competition and rising prices. Sesame is becoming a new cash crop for many Mozambican farmers.

Before this increase in popularity, Export Trading Group (ETG) dominated the sesame market in Mozambique and until recently had around two thirds of the market share. SNV and ETG started working together in 2010. ETG imported an improved sesame variety from Tanzania to improve productivity and disease resistance. Tractor services and pesticides were provided as well. However, the project faced challenges, mainly due to late payments and side-selling.

Now an alternative approach is being pursued by SNV. Instead of relying on the end-buyers for input supply, input supply is being strengthened at the local trader level. The traders take on the role of agro-dealer, which is much needed considering the agro-dealer network in Mozambique is very weak,

reaching only a limited amount of farmers (and mostly in peri-urban areas). Traders are able to reach small-scale farmers and often know farmers individually which greatly increases flexibility in terms of microcredits and procurement.

The challenge is to select reliable traders willing to think in 'win-win' terms: more business for the farmer means more business for the traders themselves. Traders have to make a judgement whether supplying improved seeds to farmers will lead to more business for them, and whether side-selling will actually reduce their profitability. It seems that the largest and smallest traders are not willing to invest and take the risk.

A key factor in ensuring the success of this alternative approach is the social network of traders - developing trustful, longer term relationships between traders and farmers. This is challenging, yet to improve farmers' access to better seeds where there is no agro-dealer network, innovative approaches are required.

## Summary of three market-based approaches

	Approach		
	Agro-dealer	Chain leader	Local traders
Business case for inputs	At the agro-dealer level	At the level of the chain leader/ processor	At local trader level and regional agri-business level
Commodity-specific	No	Yes	Yes, but approach can be extended to other commodities
Value-addition	Depends on commodity	High, quality important	Not much, scramble for volumes
Context	Strong agro-dealer network	Strong chain leader 'pulling' the chain, often a monopoly	Strong market demand but many buyers. No investment in input buyers due to side-selling. Agro-dealer network weak.
Inclusiveness	Agro-dealers concentrated in peri-urban and high rainfall areas	Buyers with long-term commitment tend to care more about inclusion of women, youth and smallholders	Depending on reach of local traders. In principle high as approach is 'localized'
Finance	Agro-dealer associations can obtain credit to guarantee working capital.	Buyers to provide finance at different segments of value chain. Contract/trust act as mitigation for repayment of input credit.	Local traders provide inputs on credit to farmers, based on trust. Local agri-business can obtain credit or inventory capital.
Extension	To some degree by agro-dealers as well as lead farmers, public and private extension.	Investment by the buyer since it has a direct interest in raising farm yields and improving quality	Relies on weak public extension, companies do not invest. Alternative approach necessary (i.e. lead farmers)
Risk	Weak agro-dealers	Side-selling and low input cost recovery. Creating a monopoly.	Weak extension services, low quality produce due to high competition. Dishonest traders.

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