

## Farming as a Business and the Need for Local (Agri-) Business Development Services

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### SYNOPSIS

**S**mall-scale farmers, local farmer organizations, and other local entrepreneurs (such as traders and processors) benefit from advisory services with a business orientation. By helping these groups to access markets, financial and input supply services, as well as knowledge oriented to their particular value chains, local (agri-)business development services (LBDSs) support innovation and entrepreneurship. Capacity to provide LBDSs must be developed at the individual, organizational, and institutional levels. National universities and business schools need to develop curricula that reflect an entrepreneurial mindset in public and private service delivery. Farmer organizations have an important role to play in articulating demands related to local economic development plans, lobbying for the right type of business services, and providing services themselves. The development of private LBDSs for smallholders will require public investments. Many programs have realized that working with smallholders to strengthen agribusiness management, business plan development, and other elements of agricultural enterprises benefits from a process approach that starts with existing business service providers. If agribusiness services are fully subsidized, they may not reflect agribusiness demands and their sustainability will remain uncertain, yet services supported fully by demand will not be inclusive. Involving other value chain actors in financing local services for enhanced quality of production increasingly appears to be the most sustainable approach. The primary element for success in establishing local business development organizations is to base the intervention on local human and financial resources, which means that practitioners must emphasize linking with product marketing and processing, creating links with savings and credit activities, developing cooperatives, and building capacity.

### BACKGROUND AND CONTEXT FOR INVESTMENT

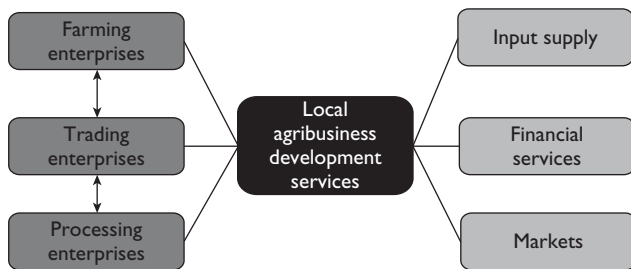
A new appreciation of small-scale entrepreneurship has emerged with the growing awareness that subsistence agriculture cannot eliminate rural food insecurity and that the commercialization of smallholder agriculture is integral to economic growth and development in many countries (Pingali and Rosegrant 1995; UNDP 2004b; DFID and SDC 2008; Jaleta, Gebremedhin, and Hoekstra 2009). Welfare gains from market-oriented production arise from specialization that builds on and creates comparative advantages, from the potential for large-scale and/or intensive production, and from the dynamic effects of technological, organizational, and institutional change that arise through the flow of ideas from exchange-based interactions (Jaleta, Gebremedhin, and Hoekstra 2009).

Small-scale farmers and their emerging enterprises require local services that help them integrate into value chains (chain empowerment) and relate to other chain actors (traders, processors) and services (value chain finance) (Webber and Labaste 2010; KIT, Faida Mali, and IIRR 2006; KIT and IIRR 2008, 2010). These “local agribusiness development services” (LBDSs) improve the performance of a small-scale enterprise oriented to agricultural production, be it individual or cooperative, in accessing markets, financial services, and enhanced agribusiness environments.<sup>1</sup> LBDSs encompass training and advisory services, market information services, technology, and business linkage information (UNDP 2004a). By improving the efficiency and competitiveness of agribusinesses in specialized and quality production, agro-processing, input use, and produce marketing, LBDSs help to close a critical two-way gap between smallholders and markets: Small-scale, entrepreneurial farmers need better links to markets and value chains, while market actors

(including small-scale traders, processors, manufacturers, and exporters) need sustainable sources of produce from smallholders. Figure 3.1 depicts the roles of LBDSs in relation to local product value chains. Box 3.13 summarizes the effects of successful LBDSs in Uganda.

Capacity for providing business services is generally confined to nonprimary production and/or medium-scale enterprises in the private sector in urban areas. In rural areas, the public sector and civil society provide most advisory services and concentrate on agricultural production. In their current form, these advisory services cannot cope with farmers' growing demand for services oriented to markets and value chains. Nor can they cope with growing demands for sustainable sources of produce from other

**Figure 3.1** Roles of Local Agribusiness Development Services in Relation to Actors in the Agricultural Product Chain and to Support Services



Sources: Adapted from Wilk and Fensterseifer 2003; Roduner 2007; NAADS 2010 (unpublished); and KIT and IIRR 2010.

**Box 3.13** Effects of Local Business Development Services for Farmers in Uganda

In Uganda, local business development services were identified as offering the key support required to prepare business appraisals, develop marketing plans, apply for bank credit, and obtain advice on financial and legal matters. Farmers' demand for these services widened the involvement of private agricultural service providers in helping farmers with market-oriented production.

Sources: NAADS 2010 (unpublished); Friis-Hansen and Aben 2010.

actors in the value chain, including national and international exporters.<sup>2</sup> The limited individual, organizational, and institutional capacity to develop small-scale agribusinesses locally clearly remains a major constraint to market-oriented production.

**INVESTMENT NEEDED**

Different forms of investment can strengthen agribusiness development services catering to diverse groups of farmers and entrepreneurs. These strategies include reforming public extension systems (building capacity and balancing public and private service provision), developing the capacity for private LBDSs, and developing agribusiness centers for service provision and learning. In practice, a mix of strategies is usually followed, as in pluralistic extension systems (TN 1).

**Reforming public service providers and offering services through public and private channels**

Public extension systems can respond to demands for local business development through various combinations of reforms involving capacity building, reorganization, and complementary public, private, and nongovernmental service provision. Some public systems strengthen competencies in business development by reorienting programs and staff; others choose to recruit personnel with the required skills (usually recent graduates of universities and professional training institutes). Mozambique strengthened capacity to provide more market-oriented, demand-driven services by outsourcing some services to large-scale farmers, companies, and NGOs (see box 3.12 in TN 1) and involving more smallholders in Farm Business Schools and in developing business plans. At the district level, Mozambique organized farmer-promoters to supply advisory services and inputs (box 3.14). In Ethiopia and Uganda, business services were provided by cooperative unions to primary cooperatives (see <http://apf-ethiopia.ning.com/page/business-development> and <http://apf-uganda.ning.com/page/farmers-organisations>). Some business development services are simply unavailable from the public advisory system and need to be outsourced to the private sector or civil society, as with NAADS in Uganda (box 3.15) (Friis-Hansen and Aben 2010; van Weperen 2011).

Some countries leave the provision of business development services solely to private entities such as produce boards (for any number of commodities, such as cotton,

### Box 3.14 Farmer Agribusiness Promoters in Mozambique

Owing to major public and international NGO investments in agribusiness at the district level in Mozambique, farmers' demand to become more market-oriented has grown rapidly. Because only a limited number of public extension workers could meet that demand, District Services for Economic Activities (SDAE, Serviço Distrital de Atividades Económicas) involved large numbers of farmer-promoters in different advisory services. Farmer promoters are involved in small-scale input supply and related advisory services, such as cashew spraying, chicken vaccination, groundnut pest control, and similar activities. Smallholders with knowledge related to market access increasingly participate in the development of smallholder business plans, as pioneered by NGOs in various Local Economic Development Projects. The Farmer Field School (FFS) program, in which farmers serve as facilitators, has been expanded to all provinces. The Field School approach is also used widely for enhancing market-oriented farm management in Farm Business Schools.

Sources: DNEA 2007; Kahan 2007, 90–92.

coffee, and cashews) or value chains with their own brands (box 3.16). The risk is that services geared to the demands from particular subsectors or value chains will exclude many small-scale farmers and entrepreneurs. One possibility is to provide startup capital for private providers of business development services at the local level, based on business plans and matching funds, and at the same time offer incentives for current public and private business service providers to meet the needs of small-scale entrepreneurs rather than focusing exclusively on medium-scale operations, as done in Mozambique.<sup>3</sup>

An important aspect of these various innovations in offering LBDSs is that public advisory systems need mechanisms to capture and share the lessons emerging from them. They must open up and develop alliances and networks for learning and interaction between different actors from different value chains and services, especially through partnerships, multistakeholder platforms, and networks ([www.kit.nl](http://www.kit.nl); [http://www.delicious.com/tag/apf\\_ethiopia](http://www.delicious.com/tag/apf_ethiopia)).

#### Developing private capacity to deliver local business services

Service providers' skills can be strengthened through a series of related investments at different levels. Often an initial step is to develop the capacity of existing, often urban-based private organizations to work in rural areas with

### Box 3.15 Developing Small-Scale Agribusinesses in Uganda: Strategies and Outcomes

The National Agricultural Advisory Services (NAADS) program sought to enhance small-scale entrepreneurship through efforts to develop value chains and widen access to market-oriented production services. Since 2002, NAADS have made considerable progress. About 50 enterprises have been selected for development and promotion, more than 45,000 farmer groups were engaged in market-oriented enterprise development and promotion, and 200 higher-level farmer organizations were established. Public-private partnerships were formed to support a substantial number of out-grower schemes involving “nucleus” farmers. The nucleus farmer strategy encourages small-scale farmers to increase their market orientation by providing value-adding and agroprocessing facilities as well as links to markets.

Sources: Authors; Benin et al. 2007; Friis-Hansen and Aben 2010.

As a result of these efforts, more small-scale commercial farmers started to emerge, and their production rose to such an extent that more organized marketing and agroprocessing facilities were needed. The private enterprises and private service providers emerging to support this growth still require capacity building and enabling policies to sustain their development. Other challenges remain in scaling up the successful aspects of NAADS. Access to credit and inputs can be problematic, and farmers' empowerment in value chains is still limited by a lack of capacity, information asymmetries, poor links among key players along the value chain, and markets characterized by low activity, low volumes, and other symptoms of poor competitiveness. Additional public investment is needed to complement the efforts of the private sector in developing agribusinesses at the smallholder level.

### Box 3.16 KILICAFE, a Local Agribusiness Service Provider in Tanzania

KILICAFE is the name of a brand and farmer organization for specialty Kilimanjaro coffee. The smallholders who are members of KILICAFE have come to play a major role in interactions with agricultural service providers, including providers of research, advisory, financial, and input services. Aside from linking producers to markets, traders, and millers, KILICAFE provides a range of services to its members. At the Farmer Business Group level, KILICAFE provides pulping services; at the chapter level, it works to strengthen Farmer Business Groups; and at the national level, it offers marketing and financial services. Services include credit links and financial management of loans for working capital and for establishing central pulping units. KILICAFE sources financing from donors and/or financial institutes to purchase central pulping units and issues repayments from coffee sales to the Farmer Business Group on four-year term loans. Input credits are organized at the chapter level, where each chapter Annual General Meeting sets limits on how much to spend on inputs per kilogram. These credits are not cash loans but guarantees to input suppliers for future payments. Marketing is done by sending green coffee samples to the Coffee Board (for buyers at local auctions) and shipping samples directly to overseas coffee roasters (for direct exports).

*Source:* Wennink, Nederlof, and Heemskerk 2007.

KILICAFE provides technical advisory services and training, such as training farmers in production methods to improve the quality of their product, training in central pulping unit operations, and training in business management. These services are provided at the Farmer Business Group level through seminars that are open to all members. In addition, leadership training is conducted at the chapter level for all Farmer Business Group Management Committee members (chairpersons, secretaries, and treasurers). This leadership training empowers smallholder farmers to own fixed assets, which can be used as collateral for bank loans. KILICAFE also provides communication services such as a quarterly newsletter, radio broadcasts, and website ([www.kilicafe.com](http://www.kilicafe.com)), all containing information on coffee price trends, a farm activities calendar, association events and activities, and new developments.

Farmer Business Group members also demand other services from KILICAFE, such as supplying agricultural inputs well in advance. Some groups want KILICAFE to clearly specify coffee processing quality standards and ensure adherence by all Farmer Business Groups. To achieve uniform quality and obtain premium coffee prices, producers need to use only recommended technologies, although low prices also influence the adherence to quality-enhancing standards.

entrepreneurial smallholders (TN 4). Another important building block is to strengthen the capacity of private business development service providers in rural areas to support local development of basic farm business plans, market studies, and feasibility studies (DNEA 2007). Complementary investments involve developing multistakeholder innovation platforms or networks to assemble all actors in a particular value chain at the local level (to initiate collective action for local business development) and at the national level (primarily for advocacy). Investments in Farm Business Schools, such as those implemented through FAO in Botswana, Kenya, Malawi, Nigeria, and Zambia, will assist farmers in expressing demand for LBDSs (Kahan 2007:90–92; Malindi 2011). Finally, management capacity will be needed at the district or local government level to match the demand and supply of LBDSs (TN 1) in addition to registering, supervising, and evaluating them.

The source of human resources to provide LBDSs must not be neglected. Universities, professional education

institutes, and vocational training institutes need support to update their curricula to reflect the growing demand for capacity in agribusiness, marketing, and entrepreneurial skills. A vital part of curriculum change is for these institutions to develop the capacity to train, coach, and support local providers of agribusiness development services (see <http://ruforuminnovationsproject.blogspot.com>). One such initiative is Business Minds Africa: Professionals for Agricultural Entrepreneurship in East-Africa (<http://www.businessmindsafrica.org>), a partnership between East African Universities, RUFORUM (see module 2), International Institute of Rural Reconstruction (IIRR), the Royal Tropical Institute, and Van Hall Larenstein University of Applied Sciences, Wageningen.

#### **Business development service centers**

Another potential area for investment is to provide services through a “one-stop shop” mechanism, in which any

number of services (technological, business development, financial, and input supply, for example) are offered in a central location. These services centers can have additional objectives of learning and training and are mostly run through public-private partnerships. Examples include agribusiness centers (box 3.17), agribusiness incubators, and local economic development agencies, all of which could be designed to provide integrated LBDSs for small-scale farmer entrepreneurs. Services could include starting and registering a business, farm business planning, access to finance, training, and technical advice. Agribusiness incubator programs support emerging small-scale farm businesses and build capacity through learning by doing (box 3.18; see also TN 3 in module 5). Local economic development agencies, funded by the public sector, foster public-private partnerships at the local level (examples have been documented in Mozambique; see UNCDF 2009).

Investments are also needed at a higher level for mentoring and coaching these services. As part of public investment programs, national capacity should be developed for supporting business development services at the district level, with the aim of establishing and strengthening private local providers (boxes 3.14 and 3.18). In Mali (box 3.18) and Mozambique (Eduardo Mondlane University's Sustainable Trade Academy in Chibuto), an agribusiness incubator concept was also used to improve university graduates' capacity in small-scale enterprise development.

## POTENTIAL BENEFITS

The potential benefits of LBDSs for smallholder farmers include increased entrepreneurial knowledge, better market linkages, enhanced access to credit, and better marketing opportunities. Smallholders have expressed this demand and given the opportunity will refocus extension on these more market- and value chain-oriented agricultural advisory services (Webber and Labaste 2010; Friis-Hansen and Aben 2010; KIT, Faïda Mali, and IIRR 2006). Services to develop local farming businesses provide support to producers, traders, processors, and other actors farther along the value chain. Each group has different needs and requires different funding arrangements, which can be local, regional, or national. Service providers can also support the development of local economic development plans and strategies. Anticipated impacts among smaller-scale farmers and entrepreneurs include enhanced rural income (both directly and through employment) through enhanced small-scale entrepreneurial activity, based on the use of local resources and competitiveness (Webber and Labaste 2010).

## POLICY ISSUES

LBDSs, public as well as private, need an enabling environment to make an impact. Wherever options and opportunities exist with respect to financial services, and wherever markets and market infrastructure exist and function

### Box 3.17 Casas Agrárias in Mozambique: Lessons from One-Stop Agribusiness Centers

Around the town of Lichinga in Mozambique's Niassa Province, farmer associations established Casas Agrárias with support from OIKOS (a Portuguese NGO) and Estamos (a local NGO). Casas Agrárias are agribusiness centers for marketing crops—for example, they can offer temporary storage and processing facilities—and facilitating access to credit, inputs, and agricultural advice. The centers' processing activities include milling maize, processing rice, and extracting vegetable oil from groundnuts and sunflowers. The Casas Agrárias are special entry points for supporting public-private partnerships, developing capacity in farmers' cooperatives, and involving national and provincial farmer organizations. Farmer management committees manage these centers, which have a limited number of extension staff

*Source:* Authors.

(four to five) from public or nongovernmental agencies, trained in input and output marketing. Important lessons from the Casas Agrárias are that investment in these centers must focus on developing capacity among at least four to five people for each center to maintain its services, training staff and farmers in agribusiness management, and offering specialized training in storage and input supply for farmers and cooperatives. Another lesson is that Casas Agrárias need to become sustainable and autonomous. As soon as possible, they must be handed over to farmer cooperatives and unions to operate, supported with adequate financial and administrative management training, and linked with district savings schemes.

### Box 3.18 The Cheetah Network Integrates Agricultural Education and Business Incubation in Mali

Business incubators are programs designed to accelerate the successful development of entrepreneurial activities through an array of business support resources and services, developed and orchestrated by incubator management and offered both in the incubator and through its network of contacts. Incubators vary in the way they deliver their services, in their organizational structure, and in the types of clients they serve (see module 5, TN 3).

Mali's national agricultural research organization (Institut d'Economie Rurale, IER), national agricultural university (Institut Polytechnique Rural de Formation et de Recherche Appliquée, IPR/IFRA), United States universities, and small-scale subsistence farmers formed an alliance to develop the Mali Agribusiness Incubator Network ("Cheetah Network"). Through its business incubators, the network identifies and assists entrepreneurs in efforts related to agriculture. The alliance led university staff and graduates to review and revise course curricula significantly to

develop more skills and change mindsets related to promoting small-scale agribusiness in Mali and the United States.

The Cheetah Network supported male and female graduate students from the agricultural university in creating a number of entrepreneurial incubators (essentially, small clusters of small-scale enterprises focused on a similar goal). One cluster involved a women's cooperative in Zantiebougou focused on producing, processing, and storing shea butter for export and on developing a high-quality market for its products in the United States and Canada. Another cluster involved the production of certified seed potatoes in Borko and Gao for regional export. The entrepreneurial incubators have strong elements of learning for farmers as well as graduate students and staff. They aim at institutional sustainability through their links with research and the university and at financial sustainability through the introduction of fee-for-service systems.

Source: USAID 2009.

properly, LBDSs can be appropriate. National policies and local government regulations (for example, those governing input supply and marketing) must foster the development of entrepreneurship by ensuring a level playing field, and public agencies must not interfere in input and output markets. Additional policy issues for LBDSs include:

- **Social targeting.** Small-scale agribusiness entrepreneurs often constitute only 1–2 percent of rural households, yet *emerging* small-scale entrepreneurs may constitute up to 25 percent. Another large category of households has limited capacity for risk, focuses on food security, and relies on multiple income sources (remittances, local agricultural labor, petty trading, and others). Policies that support efforts by these groups to organize—in cooperative enterprises, outgrower schemes, contract farming, and farmer shareholding in marketing and processing enterprises—make it easier to address their varied entrepreneurial capacities and level the playing field. Close attention should also be given to the implications of gender in value chain development and agribusiness development services.<sup>4</sup>

- **Local governance.** Local governance influences the local development context (including prevailing policies), which influences investments in developing private agribusiness services (Friis-Hansen and Aben 2010). Elements of the local development context that influence LBDSs include: (1) the emphasis on local public-private partnerships, (2) synergy between local economic development programs oriented to value chains and livelihood systems, (3) the involvement of farmer organizations; and (4) local capacity to manage multistakeholder platforms, networks, and interaction between service providers (TN 1).

- **Public and private sector roles.** Policies influence whether and how interaction between value chain actors and private supporting services are brokered by public agencies, locally and nationally (Webber and Labaste 2010). Locally, the public sector is more prominent in empowering farmers through local economic development, whereas the private sector often predominates in value chain development. These roles need to become synergetic for value chain integration (KIT, Faïda Mali, and IIRR 2006). Three additional considerations affect

public and private sector roles in LBDSs. First, LBDSs facilitate integration between farmers and others in the value chain, increasing the likelihood that value chain partners will provide financial services for farmers (KIT and IIRR 2010). Second, private LBDSs tend to have greater capacity for facilitating access to financial services. Third, public support is needed to develop the capacities of service providers, coordinate local providers, empower farmers, and provide professional and vocational training in business development.<sup>5</sup>

- **Local entrepreneurs and environmental services.** LBDSs can support smallholders in identifying incentives for sustainable production, coping with the effects of climate change, supplying green services (to enhance farmers' ecosystems or sustain the environment), and addressing demands from specific value chains (organic food). Incentives can include sharing in the profits from forestry concessions, hunting licenses, and carbon emission rights; premium prices for certified organic produce; or agronomic strategies promoted by the public sector to prevent soil nutrient mining (Odada et al. 2008; Pyburn, van der Lee, and ter Heegde 2011; box 3.19).

- **Sustaining local service provision.** For LBDSs to be sustainable, they must be supported by the value chain actors or customers involved (see module 5). In the transition to more value chain- and market-oriented production, however, the public sector has a role in providing services, especially to smallholders who cannot afford them at first. Farmers indirectly finance services for traditional export commodities and are beginning to do so in emerging value chains (IAP 3 gives other examples of embedded services).<sup>6</sup> Some national programs have partial fee-based systems for delivering LBDSs, including Uganda (for NAADS; see box 3.7 in the module overview) and Azerbaijan (Lamers et al. 2008).

## LESSONS LEARNED

As the examples in this note indicate, much of the experience in providing LBDSs to small-scale farmers, cooperatives, and other agricultural entrepreneurs has been gained through pilot projects funded by donors and NGOs. National programs for advisory services, such as those in Tanzania, Mozambique, and Uganda, have started to incorporate these

### Box 3.19 A Successful Business Model for Mozambique's Farmers to Provide Environmental Services

With the support of a specialized service provider, Envirotrade, a prize-winning community project in Mozambique developed a successful business model for the sale of carbon offsets to support the conservation of forests and the planting of new ones. The scheme, one of three winners of an international climate grant competition, is being rolled out to other environmentally sensitive sites in Africa.<sup>a</sup> Sustainable farming practices introduced as part of the Nhambita Community Carbon Project increased cashew and fruit yields and improved livelihoods for about 1,300 families. Since its launch six years ago, the initiative, based in the buffer zone of the Gorongosa National Park, has traded more than 120,000 tons of CO<sub>2</sub>, earning the community over US\$1 million. Participants are paid for carbon stored by the trees they plant, the forests that they manage,

and the fires that they prevent. For example, Felício Lucas Melo, 33, has two plots that can sequester over 55 tons of CO<sub>2</sub> per year, earning him US\$244 in direct payments and an additional US\$25 that is paid into the community carbon fund, which is used for improvements to schools, clinics, and wells.

Envirotrade is a Mauritius-based company with offices in both the United Kingdom and South Africa and project operations in Mozambique. Its business model is not a substitute for resolute international action to address the issues associated with human-induced climate change, but it offers a means for concerned businesses and individuals to link with forest farmers in developing countries to change how natural resources are used and reduce harmful environmental impacts.

Source: "Cash from Carbon," *Spore* (143) October 2009, [http://spore.cta.int/index.php?option=com\\_content&task=view&lang=en&id=1016&catid=7](http://spore.cta.int/index.php?option=com_content&task=view&lang=en&id=1016&catid=7), accessed July 2011.

a. Another green community program, the Kakamega Forest Again Project in Kenya, also won the top US\$35,000 prize in the contest, organized by Hyundai Motor America and Carbonfund.org, in conjunction with the Climate, Community, and Biodiversity Alliance.

experiences in the drive toward more value chain- and market-oriented agricultural advisory programs and systems (van Weperen 2011). Demand from farmers and their organizations for high-quality business development services at the local level is burgeoning. Confirmation of this demand emerged in an analysis by the AgriProfocus country focus program with farmer organizations and their supporting agencies in Ethiopia, Kenya, Mozambique, Niger, Rwanda, Uganda, and Zambia.<sup>7</sup> Many countries have sought to meet the demand for local business services through an increasing emphasis on local economic development planning at the district level, with the involvement of key local stakeholders in the public and private sector (see <http://go.worldbank.org/EA784ZB3F0>). It is clear, however, that demand for LBDs cannot be met by public service providers unless they receive adequate public funding.

Based on the large number of pilots to date, a number of lessons have emerged for practitioners. The lessons are grouped around key issues: (1) creating awareness; (2) building agribusiness service capacity; (3) implementation; (4) and developing dedicated agribusiness service organizations.

### **Creating awareness and enhancing demand articulation**

At the start of a program for LBDs, the level of commercialization of smallholder agriculture and the corresponding demand for different types of service providers must be analyzed. Demand is strongly determined by the economic, regulatory, and service context (Jaleta, Gebremedhin, and Hoekstra 2009).

An inventory of available local agribusiness service providers at different levels and by sector (public, private, NGO, and civil society) can avoid duplication and contribute to synergy based on public-private partnership. This kind of inventory is often the basis for a local farmer entrepreneur development strategy, as part of a local economic development strategy.

Farm Business Schools and cooperatives have an important learning role in promoting entrepreneurship among farmers, but initially they require external facilitation. Farm Business Schools facilitate learning about production, management, business finance, and marketing. Useful tools have been developed for this purpose by FAO (Dixie 2005) and the Swiss Agency for Development and Cooperation (SDC) (Poitevin and Hossein 2006), including modules on understanding the market; supply and demand; helping farmers decide what to do; producing for the market; producing

profitably; postharvest handling; and improving market arrangements (KIT, Faida Mali, and IIRR 2006).

Farmer organizations have an important role to play in articulating demands related to local economic development plans and in lobbying for the right type of services. They also have a central role in ensuring that services remain oriented to their demands and in providing some services themselves (boxes 3.14–3.16). Higher-level farmer organizations are needed to influence the agribusiness context and interact with actors farther along the value chain.

### **Building agribusiness service capacity**

An analysis of the capacity development context for business services is key. Often the capacity to strengthen providers of agribusiness services to smallholders does not exist. Nor is there capacity at the district level to manage local public-private partnerships to provide such services. The capacity gaps are particularly wide among local service providers and in the capacity available to develop, mentor, and coach these providers, leading to a need for capacity development at the individual, organizational, and institutional levels.

National universities and business schools still aim to produce civil servants rather than self-employed service providers. Aside from skill development, a special challenge for these institutions is to develop an entrepreneurial mindset in public and private service delivery. Interaction between course programs and the professional sector is needed for curriculum improvement based on demand (see module 2 and Spielman et al. 2008).

The development of private providers of local agribusiness services for smallholders also requires public investments, preferably through training and matching grants/credits for starting small-scale agribusiness services based on a business plan.

Different types of agribusiness development services are needed for different types of entrepreneurs and farmers. These services will often be specific to certain value chains or even to different levels of a given value chain. Many programs developed to offer small-scale agribusiness services have realized that working with smallholders to strengthen agribusiness management, business plan development, and other elements of agricultural enterprises requires a process approach. Programs often begin by working with existing associations and individuals, some of which, through coaching and facilitation over time (often two years), develop and graduate into small-scale entrepreneurs and enterprise cooperatives. A typical process like this in



Mozambique cost US\$300 to move a loosely formed association through seven steps to become a registered, market-oriented cooperative qualified to obtain financial services.

### **Implementing business development services at the local level**

Business development is about chain development, facilitated by chain mapping and assessment (market orientation and risk assessment; local versus international markets; fostering an enabling business environment); chain engagement (developing a vision; building trust); chain development (participatory approach and ownership; addressing risks and savings; engineering an organizational development program; promoting entrepreneurial attitudes); chain monitoring and evaluation; and chain learning and innovation (KIT, Faida Mali, and IIRR 2006, Weber and Labaste 2010).

Services to develop small-scale farming businesses have a central role in facilitating access to input and financial services, but they have no role in directly supplying inputs and rural finance, which occurs in embedded services (IAP 3 and Roduner 2007). A distinction must be made between business development services and financial services. The public sector has a role in providing LBDSs to smallholders but not in directly providing financial services.

Who pays for LBDSs remains a major dilemma. If agribusiness services are fully subsidized, the services provided may not genuinely arise from agribusiness demands, private services may be crowded out, and the financial sustainability of the services will remain uncertain. If services are to be fully supported by the demand, larger enterprises may be able to pay, but others may be excluded. Involving other value chain actors in financing local services for enhanced quality of production increasingly appears to be the most sustainable approach (KIT and IIRR 2010).

To be scaled up, successful models of agribusiness development require a systems approach that pays attention to access to credit, access to high-quality inputs, the development of farmers' capacity, and the formation of public-private partnerships (box 3.15). A final lesson is

that the innovation required for farmers to improve the quality of their produce cannot be sustained by farmer organizations without proper incentives or premiums (box 3.16).

### **Developing dedicated agribusiness service organizations**

The primary element for success in establishing local business development centers is to base the intervention on local human and financial resources, which means that practitioners must emphasize linking with product marketing and processing, creating links with savings and credit activities, developing cooperatives, and building capacity. More specifically (see the discussion of incubators in module 5):

- An agribusiness center requires a critical mass of staff trained in agribusiness management (at least four or five people) to maintain its services. Ideally it is governed with involvement from the private sector, but for smallholder producers it is often also supported by the public sector. Centers require adequate links with market actors, input suppliers, and financial services, including local credit and savings schemes.
- Incubators can incorporate an element of capacity building for more business-minded and market-oriented service providers through interactions with universities or business schools. This interaction builds capacity in the staff of the business development center, builds capacity in the students involved in the work, and influences the content of the related academic programs.
- Through training in financial and administrative management, centers must become autonomous as soon as possible and handed over to farmer organizations (local and national) and/or the private sector.

All programs directed at developing local agribusiness services must give considerable attention to fostering a long-term commitment to building these institutions in a stable policy environment as well to strategies that will ensure financial sustainability, based on cost sharing for the services that are delivered (World Bank 2010).