

Bruce McNamer on Policy Roundtable for Committee on World Food Security

Working Title: A View from TechnoServe

Thank you for the opportunity...

TNS's perspective is based on more than 4 decades of experience.

Since 1968 TNS has worked to open market and business opportunities to small-scale agricultural producers and rural entrepreneurs in some of the world's poorest countries. Our route to enabling them to invest and compete successfully in the agricultural economy almost always entails promoting and leveraging the investments of both smallholders and others.

In 25 countries – in sectors ranging from coffee to mangoes; sorghum to cocoa; cotton to dairy; last year TNS worked directly with over 280,000 s/h farmers, 2,500 small businesses employing 50,000 people and generating over \$200mm in revenues.

THE POLICY CONTEXT

The Concept Note for this Roundtable does a very good job of capturing the core of the challenges and opportunities for investment in s/h farming. I particularly appreciate its acknowledgement of the 4 types of capital that smallholder investment encompasses: Human, Intellectual, Natural and Physical (p.5), and of the catalytic role played by governments and donors in stimulating private sector investment. But TechnoServe's experience suggests that the framework it lays out could be strengthened in a few important areas:

High-Potential Value Chains Matter - We would encourage a more explicit and emphatic emphasis on a value chain approach for implementing the recommendations of the concept note. While it is difficult to argue with a high-level policy and macro perspective and framework for effecting change, at some point we begin talking about specific investments seeking specific returns for smallholders and others in specific industries, sectors and commodities. This is the point where policy makers sometimes begin to get squeamish – for this necessitates something that feels like “picking winners” ...or getting too micro in orientation. But pick we must – and then proceed...for it is in the context of a fully-integrated, value-



Policy Roundtable:
How to Increase Food Security
and Smallholder-Sensitive
Investment in Agriculture



Our Vantage Point

- 43 years applying business solutions to issues of smallholder agriculture
 - Building businesses and industries
 - Developing entrepreneurs
 - Improving the business environment

chain approach that real value (real money, real incomes, real returns) can be unlocked for multiple stakeholders - and from such successes come both learnings for the broader policy environment and the continued construction of a cross-value chain eco-system of successful farmers, traders, financiers, businesses, and government.

Information + Knowledge = SHF Capacity - The paper does a good job too of speaking to the information needs of smallholders, and the implications of information asymmetry. But it says little about how smallholders are expected to gain the business and organizational skills needed to interpret that information. They need more than market price and weather information – they require training in financial literacy, an understanding of costs, margins, returns, etc....and on how to effectively organize to access markets. When smallholders farmers are also smallholder business men and women, then commercial success is much more likely.

Entrepreneurship matters – Critical to the development of a thriving private sector supporting smallholder farming is the development of an ecosystem of small businesses involved in agriculture. Whether providing inputs, extension or veterinary services, spraying, plowing or harvest, transportation or storage, value-added packaging or processing companies, and the accounting, IT, technical and other services to these companies. These small and growing enterprises, too, require capital – human and financial – and conducive policies to thrive. Yet their success can greatly accelerate prospects for smallholder farmer success

Execution Matters – The concept note rightly points to the importance of a common plan for implementing new initiatives to catalyze and structure programs and investments. This is certainly crucially important. But all too often, execution and not planning is where we fall down. All too often, there is insufficient human capacity, a lack of accountability and ownership (the word “coordination” can become a watchword for no one owns this process)...insufficient focus on results and poor follow through. And failure to execute on programs has a doubly negative impact – results are not achieved...and we are left wondering whether the failure was in the design itself...or simply in its execution – and thus no real lessons can be learned.

Infrastructure investments should align with best Value Chain opportunities -

The concept note rightly points to the importance of investments in infrastructure to boosting agricultural productivity and incomes. With the costs and demands for such investments typically very high, it is difficult at times to develop coherent

37 Specific Recommendations

- Target infrastructure investments to best value chain opportunities
- Support smallholders directly:
 - Ease formalization
 - Build their skills
 - Expand financial services
 - Demand & support transparency
 - Strengthen their voices
 - Support PES

strategies around such infrastructure investment. To that end, we would recommend aligning infrastructure investments with the most attractive value chain and sector opportunities as a way of focusing investment and generating higher and more immediate returns to both infrastructure and value chain investments.

Support Smallholders directly:

- **Ease formalization** – Smallholder aggregation is essential to reduce transaction costs and enable smallholders through their organizations to access the input and output and markets they need. However, a welter of bureaucracy, regulation, corruption and lack of capacity very often place considerable and inflexible constraints on, for example, registration of a cooperative, or a of farmer-owned businesses. As notable efforts have recently been made (as measured by the World Bank’s “Doing Business” scorecards) in ease of registration, capitalization and the like for small businesses, similar (and parallel efforts should apply to small producer organizations of various structures. Policies need to ensure that farmers can easily form organizations that are able to do business. There is no one size fits all solution; flexibility is key. Appropriate business units may be 30 farming smallholder households , as in the case of cooking banana growers in Uganda, 200 HH as in specialty coffee in Tanzania, or may be 2,000, as for dairy producers in Kenya.
- **Build their skills** -- Underlying much of what we are discussing here is the simple premise, but difficult task, of commercializing smallholder agriculture. If the objective is to empower smallholders then above all, this requires that these producer households have the capacity to analyze their alternative production and investment options in financial terms. Policies and public resources need to support this shift.
- **Expand Financial Services** – A related critical aspect of this shift to a commercial mindset is the expansion of a producer’s planning horizon, i.e. a shift from a short-term transaction/trading mindset to one that is more long-term and can consider longer-term investment and pay-back cycles. Of course this requires more than just analytical skills. Financial services beyond agr production credit have important roles to play in this transition. Savings facilities can be critical to households being able to accumulate assets for investment, and to better leverage productive debt. Insurance products, including health and death policies, can be very important to household food security and to asset maintenance. Policies should support the financial industry to innovate and expand these services.

- **Demand and Support transparency** (incl. locally) – Broadly speaking, policies should demand and support transparency in financial and investment transactions that include smallholders. The best way to root out and resolve both ineptitude and corruption in cooperatives and farmer organizations is empowering member farmers with information on the business dealings of their organizations’ staff and leadership, along with the skills they need – and support -- to duly monitor them.

- **Strengthen their voices** – The voices of small farmers need to be heard. The best way is to give truly representative bodies a seat at the table where major investments that will affect them are being discussed. One way to achieve this is to develop standards and expectations for **Business and Civil Society Roundtables**

- **Support PES** - Payment for Environmental / Ecosystem Services (PES) – Formal markets — some voluntary and others mandated by law — are emerging for a range of ecosystem services - carbon sequestration, water filtration, or biodiversity maintenance. We support further and rapid development of both the science and the business models (with particular focus on transaction costs) to continue development of a viable governance, measurement, certification, and marketing to promote such services.

Improve policy harmonization -- We recognize the progress being made on regional policy harmonization on seeds and plant materials, transportation, customs, etc. But it sometimes seems to move at a glacial pace. Efforts need to be intensified -- not only to speed it up in general but also to extend it – especially in those areas where technology is poised to help drive major change - e.g. to telecoms, (micro)insurance and banking, etc. and enable citizens and investors alike to derive optimal advantage from regional markets and assets/infrastructure.

In that regard isn't it finally time for there to be a broad effort to contend with Africa's policies around GMOs – Can we find a solution that includes rigorous testing and protections, or will we continue to fight for food security with one hand tied behind our backs?

And if regional policy coordination and alignment is a challenge, it is often no less difficult within a single country than it is across borders.

And while TechnoServe is not a policy shop we have engaged in a number of policy

 **37** Driving Policy Change

- Lead from the bottom

- Improve policy harmonization

- Improve internal coordination

- Invest in learning

issues, and have been interested observers of the efforts of others.

From both we have learned the importance of:

Lead from the bottom - By this we simply mean that our experience is that often-times policy change needed to enable investment is best driven from the grass roots, by those who are affected by the policy – rather than by broad-based enabling environment initiatives. And, importantly, this bottom-up approach is arguably the best way to build the local capacity needed in the real-life process of policy analysis and change management. This works best, however, if policy makers recognize the value of “point”/value chain specific policy approaches as a complement to broad based policy reform.

Improve internal policy coordination - the concept paper notes the policymaking challenge within governments of coordinating actors different arenas and institutions to shape a conducive and effective context for smallholder investment in agriculture. Without spending too much time on the issue, we recommend that CFS look to efforts like Ethiopia’s Agriculture Transformation Agency (ATA) and Ghana’s Savannah Accelerated Development Authority as prototypes for coordinating such initiatives.

Ethiopia’s Agriculture Transformation Agency: Achieving policy change has often been a challenge in Ethiopia. The ATA was approved in January 2011 by the Council of Ministers, to advise implementing agencies such as MoA and the Ethiopian Institute of Agriculture Research (EIAR) on policy change and new strategic approaches. The ATA is being professionally staffed by agriculture professionals, some from the Ethiopian Diaspora, while also bringing in promising civil service employees from MoA and EIAR on rotational assignments. The ATA will be accountable to a board chaired by the Prime Minister and co-chaired by the Minister of Agriculture. ATA was established to support implementation of a set of recommendations that emerged from a series of rigorous agriculture sector diagnostics extension, the seed system, soil fertility, irrigation, agriculture finance, and value chains. The concrete nature of the policy recommendations and the high-level buy-in represented by the ATA are hopeful signs that the reforms will be implemented.

Ghana’s Savanna Accelerated Development Authority (SADA) – SADA was developed to overcome the recognized challenges and limits of internal coordination and implementation possible via Ghana’s existing Regional Planning and Coordinating Units (RPCUs). It builds upon the informal relationships and networks that have developed over recent years. It has 4 main objectives:

- Creating SADA as a regional development coordination mechanism that promotes integrated development
- Establishing a strong institutionalized consultative mechanism that reflects different stakeholder interests and engagement modes
- A Government Donor consultative mechanism within the overall framework of the Paris Declaration
- A governance and accountability process that ensures public accountability through Parliament and civil society.

Invest in Learning – Last, but certainly not least, is the absolute necessity to invest in learning. Over the past 20 years, while noting some wonderful advances, smallholder agriculture overall has made scant progress. TechnoServe looks forward to working with you all and a wide range of partners to draw on the lessons of the past to inform our future efforts with an end towards spurring increased investment and rapid progress in smallholder productivity, incomes and food security.

Thank you