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Big brands like Unilever aren't the answer to helping Africa's farmers

Global brands have attempted to work more closely with low-income farmers in Africa, but informal markets may offer better terms

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Linking low-income communities to the supply chains of large corporations - so-called inclusive business - has been a major trend over the past decade.

In food and agriculture, this means including poor farmers in the supply chains of food manufacturers and retailers, rather than a traditional trade via middlemen. There's strong logic, given that there are more than half a billion small farm households around the developing world. Farmers get access to higher value markets. Food businesses get access to new sources of supply. Donors and governments get a better development bang from trade and investment.

But despite a huge and growing portfolio of successful pilot projects, there is evidence that under many circumstances inclusive business may struggle to get to scale. It can be a poor match to the realities of both farmers as suppliers and the businesses as buyers.

First, the farming realities. There is growing competition for what farmers produce. Sub-Saharan Africa in particular is in the middle of a fundamental reorientation of its agriculture, away from global exports and towards supplying its own burgeoning urban populations.

A recent report from the OECD reveals that in the case of west Africa, where 42% of the population is already urban, agriculture has shifted from 50% dependent on exports to the global market in 1961, to only 12% in 2010. Food supply networks are stretching from urban areas deeper into the countryside, via small towns that have cropped up across rural sub-Saharan Africa.

The market has moved closer to the farm, providing farmers with more choice of what to produce and where to market. Contract farming and exports to the global market are no longer the only games in town.

Unilever's onions were too cheap

Cash is an important part of the story. Most smallholder households are severely cash strapped. The retreat by many governments from universal provision of health and education means that households must find money for school fees, placing a huge burden on poor households. Cash crops are grown to cover fees, and food crops for the family become cash crops in emergencies.

Small wonder then if farmers are more inclined to sell to traders for cash than stick with a scheme that involves contracts, membership of a producer groups, delayed payments and strict compliance with standards for quality.

I found this when researching a contract farming initiative in Uganda that linked very poor farmers with a food manufacturer - Mukawno - based in the country but with sales across east Africa. Presented as an inclusive business success story, the initiative was in fact struggling to compete with growing informal cash-based trade with local processors or traders from neighbouring Kenya.

In Tanzania, a planned inclusive business project to link onion farmers to Unilever was abandoned when it was realised that the local fresh market paid far more than the global commodity price.

We don't hear about the failures

Then there's the buyer's perspective. Food manufacturers and retailers want what they have ordered. Small farmers' reliability to fulfil orders will always fluctuate, as they have to manage risk in the face of climate variability and creaky infrastructure. The goodwill of a progressive company will stretch to a few failed consignments, but it is unreasonable to expect them to adjust to the vagaries of smallholder agriculture. There is a fundamental issue of business compatibility.

I saw this in the case of a small innovative Kenyan company that linked hundreds of smallholders to the Dutch flower auction. The company wanted to expand into higher value markets and sell directly to supermarkets. With the help of a donor, an interested supermarket, and supply chain experts, the concept was piloted with some success.

But over the years it became increasingly clear that this company and its suppliers were better off trading with the auction rather than with supermarkets, because the auction takes what the company and its smallholder growers supplied. Prices may on average be somewhat lower, but once all the costs are factored in, overall value to the farmers is higher.

These issues of business incompatibility crop up across multiple projects. Successes may look distinctly shaky once donor funds and NGO support are withdrawn. But little gets written up, so what gets cemented into the business and development literature is almost entirely positive. Scratch the surface, however, and there is evidence from Nicaragua to Nairobi of dynamic informal markets trumping inclusive business.

Inclusive business needs informal sector

There is much to be gained from engaging agrifood businesses in development. Improving the welfare of workers, reducing environmental impact, and making trade fairer in their own operations and those of their suppliers is as pertinent as ever. But including more smallholders into supply chains can be a distraction from this core corporate agenda.

If we are to combine inclusion and business in a more grounded and scalable way, driven less by wishful thinking and more by evidence, we need to look beyond big business. The irony is that inclusive business needs to be approached more inclusively.

In many countries, the informal economy dominates food trading, processing and vending. But those actors may be subject to harassment and downright hostility from officials who see them as illegal, unhygienic, tax avoiding and anti-progress.

There is tremendous scope for improving the economic, social and environmental performance of the informal economy at scale, without pushing people out of jobs. If the post-2015 development agenda - across jobs, food security and inclusive growth - is to succeed, governments should be focusing resources into understanding and improving the informal economy.

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