Smallholder farmers can serve large processors: a case study on how an M4P programme can bridge the missing middle

MADE case study #1, October 2015

The "Market Development Programme for Northern Ghana"

The Market Development Programme for Northern Ghana (MADE) is a four-year programme funded by the UK Department for International Development (DFID). MADE contributes towards the achievement of DFID Ghana's objective to promote growth and reduce poverty in the 63 districts covered by the Savannah Accelerated Development Authority. The expected impact of the MADE programme, spanning 2013-2018, is to stimulate economic growth and reduce poverty in the Northern Savannah Ecological Zone.

MADE uses the Making Markets Work for the Poor (M4P) approach to achieve a positive change in the annual real incomes of over 78,000 smallholder farmers (SHF) and small-scale entrepreneurs engaged in its target market sectors. Crucially, the programme's focus on M4P determines that MADE only supports financially self-sustainable initiatives that offer social returns of a scalable nature.

This case study

This case study aims to present practical lessons learned on how MADE's facilitation role is addressing a market dysfunction to allow the largest rice mill in West Africa, owned by Avnash, to source paddy from local producers in an inclusive and sustainable manner. It is the first study in a series that will follow MADE's progress in the use of the aggregator model, with an expected follow up case in October 2016.

It provides evidence on how MADE dealt with the challenge of testing and exploring models of effective connection (I), the challenges we encountered (II), and provides some preliminary lessons learned on the viability of this approach (III).

What readers will get from this case study:

- **Top of the supply chain (TOSC) buyers and processors**: through this case study, TOSC buyers will learn that they can procure and source profitably from local producers → *read the Introduction and Section I in detail.*
- **Aggregators**: this study will show aggregators the commercial benefits they can gain from improvements made to their business model through the provision of value added services to SHF → *read Section I in detail.*
- **Development partners, specially M4P practitioners**: we expect fellow practitioners to draw lessons from MADE's experience that show it is possible to serve the poor without distorting markets → *read sections II and III in detail.*

This study shows that the small nature of SHF's landholding patterns, infrastructural limitations and other challenges make it essential for TOSC buyers to ***find innovative ways to***

source locally. This includes finding solutions to aggregate production and ensure the *necessary investments* are made by the relevant actors along the supply chain in order to mitigate these shortcomings. In the rice sector, MADE has played an important role *in linking aggregators with a strong TOSC buyer, Avnash,* that is looking to source from a supply base that combines large volumes, homogenised procedures and minimal management requirements.

The following sections will show the main areas where MADE's support is adding value to market actors, including Avnash. More broadly, the case study aims to share lessons learnt on how to bring development benefits to the poor without distorting markets; the critical role of understanding incentives and how to leverage them to facilitate market development; and how to deal with market development facilitating challenges including the so-called unintended effects.

What are aggregators? According to the IFC, "the term aggregation describes the process of working with groups of smallholder farmers rather than individual farmers […]". In Northern Ghana, aggregators buy produce from a number of SHF out-growers in order to sell it to TOSC buyers.

Market dysfunctions in the rice sector in Northern Ghana: the market constraints MADE set out to address

- SHF produce low input/low output producing varieties of rice that urban consumers do not like, of a quality that is inferior to imported rice.
- There is a lack of breeder and foundation seed and poor post-harvest techniques.
- Current processing practices are high cost and produce poor quality products.
- There is an undersupply of public goods (research, extension, irrigation). And even if products exist, they are not disseminated effectively.
- Scattered SHF cannot access knowledge on southern market demand (varieties, grades, types of milling, price points). Wholesalers in the large cities hold market power.
- Rural banks and MFIs have the products and low transaction costs to successfully lend uncollateralised, but their failure to invest in training of staff and systems prevents them from realising that potential – this undermines access to finance. Also, competition in the markets is limited by the presence of donor supported wholesale finance and a ready market for banks to lend to government and large corporates (perverse incentives).
- Poor contract enforcement undermines contract growing. One way to address coordination and lack of access to finance is to promote contract growing. Side selling is common.

Challenges and opportunities of sourcing locally

The commercial success of TOSC buyers[1] depends on their capacity to source efficiently from a standardised and reliable supply basis. Understandably, sourcing from SHF presents risks. However, it is becoming increasingly appealing for large processors to find innovative ways of sourcing locally.

Indeed, forward looking companies that rely on the agricultural value chain understand that, given population growth projections, in 2050 there will be a need of increasing agricultural production by 70% in order to feed 9 billion people.[2] Simultaneously, current intensive agricultural practices are unsustainable because of their carbon-centric approach, at odds with projections of reduced agricultural productivity because of climate change by 2080. These factors show that the future of sustainable agricultural sourcing lies in changing practices in order to source sustainably from local producers.

The challenges of sourcing from SHF in Sub-Saharan Africa (SSA) include:

- SHF are hindered by infrastructural shortcomings (such as bad roads and lack of access to irrigation services), and suffer from lack of access to services such as credit and agricultural inputs, as well as access to skills on good agricultural practices or training. Across SSA, this results in missed opportunities to meet agricultural productivity potential.[3] For instance, in most countries, Government agricultural extension services are limited – with a ratio of agricultural extension agents to agricultural household of 1:1,500.[4]
- Moreover, SHF's inability to deal with external shocks such as sickness or climatic events (partly due to very limited cash flow and high degrees of uncertainty) may result in side-selling if the sourcing contractual conditions of are not sensitive to SHF's vulnerability to external events.

These challenges, however, are outweighed by the array of opportunities that sourcing from SHF present:

- Sourcing from SHF is, to a great extent, an untapped market: in most African countries where land is underutilised, SHF are the main land workers (more so

[1] In this case study, we will also refer to these companies as large processors.

[2] http://www.fao.org/news/story/en/item/35571/icode/

[3] KPMG, "AGRICULTURE IN AFRICA", 2013 (https://www.kpmg.com/Africa/en/IssuesAndInsights/Articles-Publications/General-Industries-Publications/Documents/Agriculture%20in%20Africa.pdf)

[4] According to the Ghana News Agency, this ratio is 1:1,115 in Upper Manya-Krobo Districk (http://www.ghananewsagency.org/economics/lack-of-agriculture-extension-agents-affecting-farming--78250)

than sophisticated commercial farmers). With targeted investment, there is room for technological improvements that can exponentially increase productivity.

- SHF manage labour-intensive crops and are better placed to operate in contexts where bad infrastructure (mainly transport, electricity and irrigation) and unstable social and environmental situations can pose a challenge.
- TOSC buyer companies are increasingly interested in sourcing locally in order to reduce their carbon footprint.
- There are rising consumer concerns about the soundness of the ethical supply chain (illustrated by the Fair Trade movement). Indeed, consumers abroad but also in African countries are increasingly aware of sourcing practices, and demand fair procurement practices. There are famous instances of reputational risk that has affected food manufacturers (e.g. for purchasing palm oil grown in deforested land), and 64% of UK consumers reported they avoided products or services because of companies' behaviour.[5]
- In terms of land tenure, while there might be legal uncertainties as to ownership, SHF are more aware of customary practices than central Governments – as recent conflicts derived from the acquisition of land by multinational companies have made evident.

What does it take for TOSC buyers to succeed in switching sourcing models?

- In order to achieve the shift towards local sourcing of products, TOSC need to adapt their sourcing practices and identify key partners in the supply chain.
- Moreover, they need to ensure their corporate efforts to source sustainably trickle down to ensure incentives are aligned throughout the supply chain. This effort requires a shift away from traditional approaches that had TOSC buyers taking advantage of their access to markets to take most of the profit, while the risk was borne by SHF and intermediaries to win-win yet profitable and viable models/approaches.

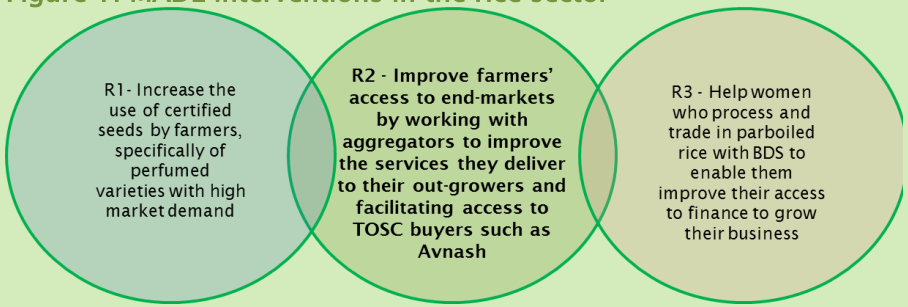
M4P programmes can play a role in facilitating this transition.

[5] Co-Op, 'Ten Years of Ethical Consumerism, 1999-2008' report, available at: www.co-operativebank.co.uk/corp/pdf/Ethical_Consumerism_Report.pdf

The MADE approach in practice

MADE is currently implementing three interventions to tackle market dysfunctions in the rice sector, as shown in Figure 1:

Figure 1: MADE interventions in the rice sector



This case study is primarily concerned with our activities under R2, aimed at improving SHF's access to end markets by working with aggregators.

MADE initial activities under this intervention started with the identification and appointment of service providers ("*sub-facilitators*") to support rice aggregators in the establishment and management of GAP demo plots. The aggregators were selected on the basis of their willingness to develop improved business and service delivery models to farmers.

We then capitalised on our market knowledge to broker relationships between the selected aggregators and input dealers on the one hand, and potential investors and sources of finance on the other hand, actively aligning the incentives of market players. This included identifying TOSC buyers such as Avnash, and facilitating linkages with our selected aggregators.

Currently at the second stage of the intervention, we are leveraging our relationship of trust with our partner aggregators to "push" the model of an enhanced delivery of value added services to SHF, including the provision of improved seed varieties, inputs or GAP, inter alia. This is supported by our knowledge of the success of such initiatives in similar contexts, including in Northern Ghana.[6] We are also rolling out a Business Development Services (BDS) intervention to mitigate the adverse effects on the livelihoods of women processors (parboilers) that the operations of Avnash may entail.

We expect these activities to lead to aggregators securing additional investment and entering into a contractual supply relationships with Avnash, a TOSC buyer. Simultaneously, through MADE support, we expect aggregators to pilot the delivery of improved inputs and services to SHF.

This will ultimately lead to farmers receiving better services and using improved inputs applying GAP, while showing that aggregators can buy sufficient produce from SHF at higher prices and sell to TOSC buyers in quantities and at a frequency that makes the North a reliable supplier.

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[6] See the Masara N'arziki experience in Kubzansky M., Cooper A., Barbary V., "Promise and Progress: market-based solutions to poverty in Africa", Monitor Group, May 2011

I. The MADE model – connectors are key

The following sections provide an overview of the process MADE followed in order to adopt a market based solution to address market dysfunctions[7] in the rice sector in northern Ghana.

How MADE selected the connection model: a review of other options

During the conceptual design of MADE, the team was mindful of the existence of different forms of connection that could be beneficial for the SHF. These included:

1. Direct "SHF – processors" connection: this option was ruled out due to low potential for scalability and high likelihood of inefficiency.
2. "FBO/cooperative – processor" connection (corresponding to entities that would fall within groups A or B from Figure 2). This option was ruled out because FBOs tend to be necessity driven, lacking the commercial incentives that make them viable and sustainable business partners. Another key reason for dismissing this model is the limited reach of FBOs – in Ghana, membership averages 26 farmers.[8]
3. "Aggregator – processor" connection. We selected this option following considerations related to commercial viability, scalability and impact. Indeed, some of our aggregators can reach as many as 2,000 smallholder farmers, as shown in Table 1.

The short literature review below reinforces the choice of the third operational model.

In "*Promise and Progress: market-based solutions to poverty in Africa*"[9], the Monitor Group explores different private sector led approaches that address poverty across African countries. Indeed, in a continent where over 80% of the workforce depends on smallholding agriculture as a main source of livelihood, integrating SHF into commercial value chains makes development and commercial sense.

The report concludes that for market-based solutions to succeed, they need to "operate with business models suited to the extreme conditions of low-income markets". Of particular relevance to MADE is the model of aggregators that collect cash and staple crops from SHF and supply large buyers, often combining this function with that of the provision of inputs and services to ensure the quality and

[7] See page 2

[8] Salifu A., Funk R., "Farmer Based Organizations in Ghana Note 1. How Are They Established and What Do They Do?", http://gssp.ifpri.info/files/2012/04/FBOs-in-Ghana.pdf

[9] Kubzansky M., Cooper A., Barbary V., "Promise and Progress: market-based solutions to poverty in Africa", Monitor Group, May 2011

timeliness of produce. Indeed, involving aggregators for ensuring the supply base of large buyers has the benefit of tapping into the aggregators' existing relationships with SHF suppliers. This model has been shown to increase SHF earnings by up to 40% and has a high potential for scalability – and it is the model MADE adopted and is promoting in its work with aggregators and SHF.

Critically, the report notes that aggregators' relationship with TOSC buyers allows them to use forward commitments and volume purchase agreements to invest in their supply chains through the provision of inputs (such as fertiliser), services (such as storing), transport services and credit. This has been confirmed by the support and services that some aggregating agribusinesses are providing to SHF in Northern Ghana.

The report states that while the model might seem unprofitable because of the cost aggregators bear by providing services to SHF in an unpredictable environment, certain large buyers in African countries have found that sourcing from aggregators grants them prices a third lower than open-market purchases. This is partly due to the lower transport costs that sourcing locally entails.

How Monitor findings fit MADE's partnership with Avnash: The core aggregator model elements are: anchoring contracts with TOSC buyers (in this case, Avnash); offering value-added services and inputs to smallholder farmers (which some of MADE's aggregator already do), and leveraging or creating associations or clusters of farmers (the operating model of most of MADE's aggregating agribusiness partners. partners). Sourcing from aggregators allows Avnash to build a SHF based supply chain that grants it access to large quantities of paddy while minimising challenges such as side selling.

Another relevant outlook on the options for addressing market dysfunctions to the benefit of SHF is provided in "***Understanding private sector value: an assessment of how USAID measures the value of its partnerships***"[10], where USAID conducts a review of the approach it adopted (the "Global Development Alliance" model) to link US foreign assistance with private sector partners. For this, the report explores the different shapes these partnerships have adopted over the years. Of particular relevance are:

- Financial and product resources: this group covers the cases when private sector companies co-finance a USAID initiative through the provision of financial support. These predominantly took place in the health

[10] USAID, "Understanding private sector value: an assessment of how USAID measures the value of its partnerships", August 2011

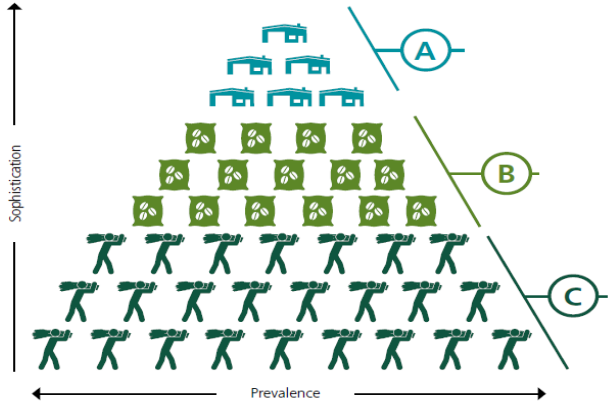
sector (such as through the provision of subsidised drugs from a pharmaceutical company). MADE's M4P focus does not encourage subsidising practices because they are generally unsustainable.

- **Market-based solutions**: where "companies execute a core business function" that is aligned with their core role – as buyers, suppliers, distributors or investors. In USAID's portfolio, this type of partnership is most prevalent in the agricultural sector. This is also the type of solution that MADE has adopted and is promoting.

How USAID findings fit MADE's partnership with Avnash: In line with USAID's findings, MADE is working with partners on the basis of an appeal to their core business needs (aligning the incentives of aggregators and Avnash), through the presentation of commercial opportunities (serving as a relationship broker and organising introductory meetings, for example) and the removal of commercial barriers.

A third outlook explores the aggregator model in more depth. In "***Working with Smallholders – A Handbook for Firms Building Sustainable Supply Chains***"[11] the IFC provides a detailed overview of the different types of aggregating business that TOSC buyers such as Avnash may work with, as shown in Figure 2.

Figure 2: classification system for aggregating businesses based on the needs of top-of-the-supply-chain buyers[1]



Aggregator companies belonging to group C include informal farmer groups that, through gathering at a geographical point, act as a hub for the dissemination of information on improved practices. In group B, small agribusiness models emerge – where aggregation is beneficial but probably not in terms of economies of scale because of the limited size of volume purchases in terms of resources.

[11] IFC, "Working with Smallholders – A Handbook for Firms Building Sustainable Supply Chains"

How the IFC findings fit MADE's partnership with Avnash: most of MADE's partners in the rice sector include companies that could be included in group B. MADE's aggregator partners are selected on the basis of being able to "support supply chain efficiency and reduce the costs of marketing inputs and purchasing crops", while earning a margin from trading. Importantly, the concept of "trust in leaders, trust in other members, and a shared purpose", is already important for group B and group A companies – and is very obvious in the relationship our aggregators have with their SHF suppliers.

MADE's operating model: brokering effective connections through aggregators

The examples above indicate that connections between SHF and processors have the potential of being both commercially and socially beneficial for the SHF. The challenge that MADE has had to address is that of brokering these connections without distorting the market, which would go against our M4P stance (see more in section II).

MADE's collaboration with Avnash Ghana has provided us with an opportunity to test the soundness of the programme's decision to apply the aggregator model. As shown below, key to it has been the alignment of incentives between all the major players of the rice value chain: SHF and aggregators have incentives for good markets, and Avnash has an incentive to source large quantities locally and competitively.

Driven by an incentive to source large quantities, thanks to the prospective relationship with Avnash, aggregators have reached back to their SHF suppliers and assisted them with the provision of services and inputs that work towards higher yields. ***This has proven key for allowing SHF to enter a dual market access dynamic, where they have improved access to inputs and output outlets.***

Avnash

Established in 2001, Avnash belongs to a large group of enterprises present across West Africa and Asia that taps into different markets – including real estate, power, gas and packaging. Seeing the strategic potential of establishing a rice mill in Ghana in order to access wider West African markets, Avnash has invested 18M USD in setting up a state-of-the-art rice mill in Tamale with a capacity to process 500 MT/day. It is the largest rice processing plant in Western Africa, due to start operations in October 2015.

Table 1: Rice aggregators working with MADE in 2014-2015

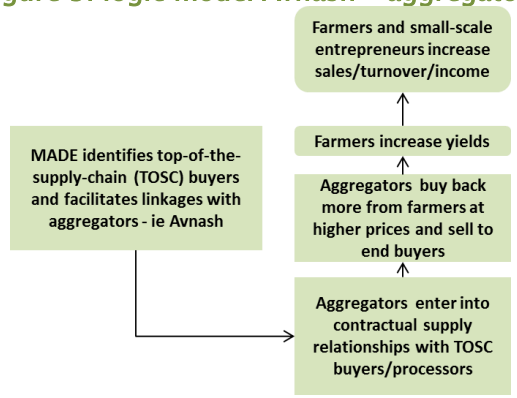
Business	Location	Associate farmers
Busaka ABC	Savelugu	1,200
Gundaa	Datoyili	750
Zeera Farmer Group	Chereponi	1,200
Excel Bit Com	Tamale	2,000
Zocoffams	Bamvim	500
Petoz inv. Ltd.	Wa	500
A.E. Farms	Jirapa	500
Tiyumba Farms Ltd	Tamale	250
A.A. Piegu Enterprise	Tamale	250
Karaga ABC	Karaga	1,300
TOTAL		**8,450**

As stated by K.V. Sheeva, supply chain manager for the plant, "*the biggest challenge will be sourcing good quality paddy in order to meet the plant's operating capacity*". Indeed, to break even and working at 50% utilisation, Avnash will need to process 84,000 MT of quality paddy per year of four selected varieties. The three northern regions currently produce 330,000[12] MT all grains combined.

MADE's Partners

Since the beginning of project operations in 2013, MADE has been building relationships with players in the rice value chain at different levels, with a particular focus on rice aggregators in the three northern regions. These aggregators include nucleus farmers, agribusinesses operating out-grower schemes, and FBOs, inter alia. Through them, the project works to facilitate the creation of sustainable, functioning markets that grant access to quality seeds, GAP and market access. Seeing the potential benefits of facilitating a relationship between them and Avnash, MADE established the basis for cooperation with Avnash at the time of project kick-off. Avnash was an attractive partner for MADE due to their need and expressed desire to source 90% of their paddy locally. This offered an opportunity to develop an inclusive supply chain involving an estimated 36,000 smallholders in Northern Ghana.

Figure 3: logic model Avnash – aggregators



[12] MADE market diagnostic information

Indeed, linking SHF and Avnash (through aggregators) works towards one of MADE's main objectives: lifting 78,000 SHF out of poverty. In order to supply Avnash with the required quality paddy, aggregators will incentivise their farmers to increase their production, through the provision of advice, agricultural inputs, or competitive pricing. This will increase the quantity and quality of rice yields for SHF and most importantly become a source of sustainable income for hundreds of thousands of women and men SHF.

Also, substituting a proportion of the rice that is currently imported from Asian countries with local produce will impact on its price – SHF can produce rice competitively at 24% of the cost of imported premium rice and reduce the trade imbalance.[13] Through this partnership, we expect that there will be a natural tendency to reduce inefficiencies along the production chain in order to increase yields. Ultimately, as the simplified logic model from Figure 3 shows, this increase in aggregation will lead to an increases turnover for SHF.

In order to meet their daily 500 T needs, Avnash had three possible solutions:

1. Increase the yields of their current supply base through the introduction of improved varieties, techniques and services;
2. Increase their supply base through work with an increased number of supplying SHF, potentially combined with 1;
3. Expand the aggregator base.

Brokering the relationship

After months of sustained dialogue and as a turning point in the activities described in "The MADE approach in practice" on page 5, MADE facilitated an introductory meeting in August 2015 between Avnash and top rice aggregators in the three northern regions that culminated with a visit to the Avnash processing plant. ***The objective of the meeting was to facilitate the exchange of ideas and provide Avnash with an opportunity to understand the challenges of its future suppliers. For the aggregators, it was the first opportunity they had to see the physical infrastructure that they had heard about, as well as to put a face to the Avnash counterpart.***

[13] Bill and Melinda Gates Foundation, "Developing the rice industry in Africa: Ghana assessment", July 2012

II. Key challenges encountered

This section explores some of the challenges MADE's market development system approach has faced, while presenting practical solutions to address them.

MADE adopted the view that shying away from **crowding out** small women rice processors (parboilers) would equate to ignoring that functional market players select the most performing partners that are quick to adopt new technology. Ignoring this reality, for MADE, would damage the effectiveness of measures that we perceived as being necessary to address market dysfunctions. Indeed, TOSC will pick the most reliable aggregators, and aggregators will favour the most performing SHF. We have found that:

- Introducing innovations in the market (such as harvesting techniques or the removal of parboiling opportunities) has evident effects on the livelihoods of the poor and vulnerable, who are MADE's main beneficiary. However, the market creates new opportunities for these crowded out players. For instance, as top performing SHF turn into small-scale commercial farmers, they will create employment opportunities for under-performers, often to their economic benefit.
- In addition to closely monitoring market dynamics, MADE is actively managing the consequences of market shifts: we are constantly exploring new income generating opportunities, and using a market development system to maximise their value. An example of our activities is our development of a BDS intervention to present livelihood alternatives for women processors.

Another challenge we have encountered is keeping a **light touch approach to market facilitation** that is consistent with the M4P framework. We have often found that the "slow" pace at which market actors operate makes it difficult to not intervene. There are two ways in which it can be tempting to force outcomes: market players may be *willing but incapable* (such as aggregators interested in selling rice to Avnash but incapable of sourcing enough quantities from their SHF); or *capable but unwilling* to perform a specific function in the market (one of the aggregators MADE works with has proven he is not willing to act in a commercial way – while the owner has a good relationship with SHF and existing infrastructure, he does not want to expand his business operations). In both cases it is important that M4P programmes remain sufficiently detached to provide support and facilitation as necessary, but not direct interference to speed up processes or relationship forming, as this may distort the market unsustainably.

Related to the above, we have found it challenging to **use MADE's financial resources to their maximum impact**

potential, especially in a market with as many perverse incentives as the northern Ghanaian one (ie in terms of overreliance on subsidies and experience of players at gaming the system). As is the case in similar contexts, some of the MADE partners resist our reorientation of their activities towards commercially sustainable models. We are constantly making use of our fiduciary safeguards to avoid spending project resources on partners that will not make the most of them.

While there are market benefits in the aggregation model (ie investment in SHF through the provision of inputs, services, transport services and credit)[14], **most of MADE's partners are not fully-fledged aggregators**, in the sense that they do not provide a full range of services to SHF. One of the project's objectives is to incentivise these aggregators to adopt new business models that incorporate the provision of value-added services without distorting the market. MADE's approach to BDS and to the Business Growth Accelerator Programme (BGAP)[15] stems from this concern.

Finally, from an operational viewpoint, we are faced with the challenge that "**traditional" VFM metrics may not be sufficient** to capture MADE's operations. We are developing metrics that move away from considering how much private sector investment we are mobilising, to how much that private sector investment is actually translating into impact. We are also developing metrics that can tell us how much of those benefits are benefiting SHF, as opposed to the returns that stay at aggregator or even TOSC level, in order to correctly assess the impact of our project. This stresses the importance for fellow practitioners to focus on the impact and outcome aspect of VFM, rather than leveraging private sector investment information. This fits broadly within result measurement challenges that M4P programmes face.

Photo: MADE Regional Agric. Directorate partners in a rice field, September 2015

[14] See Section I – review of the MONITOR study

[15] Launching in November 2015

III. Conclusion and suggestions for replication

The primary aim of this case study has been to provide practical insights into the market-based solution where MADE is acting as a relationship broker in order to inform the implementation of other market development programmes.

MADE is primarily concerned with the sustainability of all our interventions. After discarding the direct approach that would have required "pushing" market actors to provide certain services directly – therefore putting at risk their capacity to take ownership of the process and jeopardising its sustainability, we settled on an indirect approach that places more weight on catalysing market action and allowing market forces to take over.

However, as shown above, even the indirect approach presents the option of subsidising activities, which is not in MADE's interest for the same reasons as mentioned above, related to sustainability and commercial viability of interventions. Even if activities are not subsidised – and financial support is provided to cover direct costs that allow market players to test and observe the benefits of a selected set of services and interventions, leaving these players to take over costs once the intervention is over, it is key that this support addresses real business needs instead of creating new ones. Otherwise, a dependency syndrome is created.

MADE adopted the brokerage approach. We brought real parties together through a detailed understanding of their incentives and an effective leverage of these to work towards a mutually beneficial solution. The provision of this brokerage service includes conducting an analysis to understand relationships, provide information (transparent, facilitates discussion), and reduce information failures and asymmetries. It requires a thorough understanding of market players and dynamics.

Additionality: could this market change have taken place without MADE's intervention? A prevailing concern among development practitioners evolves around the likelihood of interventions taking place without the necessity of donor investment. In the Avnash case, thanks to MADE's very early involvement in the relationship, we identified an initial drive to source directly from individual SHF (contract farming). MADE proved its value as a short term broker service provider through the introduction of the aggregator model. This is a role that would ideally be played by private sector companies.

The following paragraphs provide suggestions for replication based on key lessons drawn at this early stage of the intervention:

The importance of aligning incentives

Aligning incentives is key for ensuring market players act together towards the achievement of common objectives. In a market intervention, if the drivers are not correctly identified and the incentive scheme is not understood, the likelihood of failure is much higher. In the case of Avnash and the rice sector, MADE wanted to test the ability of aggregators to meet the requirements of a large processor.

MADE began by identifying and spelling out the incentives at the core of the aggregator-Avnash relationship, that can be summed up as the fact that Avnash needs to source locally as efficiently as possible, and wants to share costs with aggregators in order to mitigate risks. On the aggregators' side, efficiency is driven up by the large size of orders. SHF's also invest in the success of this endeavour through the provision of their time, land, labour, and the potentially risky adoption of new varieties and techniques.

By providing a common vision, MADE aims to prove that SHF can serve big processors in terms of quantities, quality, delivery regimes. Before Avnash starts its operations, aggregators that are partnering with MADE are already able to mobilise almost 24,000 T of quality paddy per year (that is 109 T/day)[16]. The only limitation to increased production is that outlet markets are small, as there are enough SHF to guarantee the supply or produce.

The importance of identifying entry-points (e.g. quality relationships)

Key for the success of a market intervention of these characteristics is the quality of the relationship between all actors in the value chain:

- Aggregators have a good relationship with the SHF that supply them. Different models of engagement (including the identification of champion farmers where demonstrations are held) between aggregators and the supply basis all show that this is essential to minimise the usual issue of side-selling.
- Aggregators have a good relationship with Avnash. Partly facilitated by MADE (through, for example, the organisation of the introductory meeting), both sides have shown commitment. Avnash has spent time attending meetings, investing 18M USD in a large processing plant and showing confidence in the supplier basis. Aggregators, on their side, have committed resources to meet Avnash's requirements (including requested varieties and quality of their produce).

[16] This is based on a working year of 220 days.

The importance of showcasing what works

MADE has been instrumental in providing assistance for the showcasing of relationship models that work, providing motivation along the way. Rather than adopting a normative perspective with abstract recommendations, we have been extremely practical in the promotion of different business models – while maintaining a light touch market facilitation approach. This requires an extremely thorough prior analysis of market function and incentives, and a clear strategy for where different players can benefit from increased efficiencies – with a special focus on SHF. Part of this work is also raising awareness of the risks of crowding in, which can entail crowding out of certain players.

How to broker relationships?

In order to effectively broker relationships that can address market dysfunctions, MADE has found that market development practitioners need to have in-depth information and knowledge about the parties and industries where the programme is operating – in addition to a good understanding of best practices in those industries. Added to this, a relationship broker such as MADE needs to combine information with a strong credibility among the parties. This credibility is built through the capacity of providing relevant information and industry insights: Avnash came to MADE because they were aware of our team's good understanding of the rice industry in West Africa. They were also looking to capitalise on MADE's position of influence amongst aggregators, the government and other donors.

In conclusion, M4P programmes need to understand their facilitation role is directly related to the trust they can inspire in market players, but also to the trust they can help build between market players themselves. This is directly related to the importance of understanding incentives, and avoiding rushing outcomes – building relationships takes time.

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