HIGHLIGHTS

Upgrading to compete in a globalised world: What opportunities and challenges for SMEs in agriculture in ACP countries?

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On 23rd September 2009, CTA and other partners convened the 13th ‘Brussels Development Briefing’ - part of a series of bimonthly Development Briefings on ACP- EU rural development issues. Around 90 participants gathered in Brussels to discuss the opportunities and challenges for SMEs in agriculture in ACP countries.

Upgrading to compete in a globalised world: What opportunities and challenges for SMEs in agriculture in ACP countries? This Briefing examined the effects of the financial crisis and food crisis on organisations in developing countries. It also discussed the opportunities these can provide to link local small and medium enterprises (SMEs) to global economies. Experts reviewed investment programmes needed to support SMEs in order to promote growth and investments, upgrade and upscale SMEs to reach regional and exports markets. Moreover, this session shared concrete examples of successful SMEs who have boosted innovation and technology, processing, value-addition, and upgraded infrastructure.

This Briefing was a joint initiative of CTA, European Commission (DG DEVCO), the ACP Secretariat and ACP Group of Ambassadors, CONCORD and various media.

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Mr. Luca Marangoni

Introducing the 13th Briefing, H.E. Ms Brave Ndisale, Chair of the ACP Committee of Ambassadors recalled the contribution of SMEs to employment, growth and sustainable economic development and the need to strengthen the manufacturing sector and foster competitiveness.

The Ambassador stressed that SMEs can play a strategic role in agriculture-based economic systems like ACP countries, where most of the poor live in rural areas and where income generation not only from agricultural production but also from agro-processing, trade and service activities can complement agricultural wages and thus contribute to risk diversification. Nevertheless SMEs are facing big challenges due notably to the crisis both financial and productive. The global agri-food sector is also increasingly dominated by: global value chain vertically coordinated, the raise of standards (food safety standards, product and process standards etc) and the power of retailers. At the same time, demographic growth, urbanization processes, non-food use of agricultural, higher incomes and changing diets are increasing the world demand of commodities and food and creating new growth opportunities, markets in developing countries, niche and specialized markets and new technologies. Globalization imposes new conditions and rules for competitiveness in international markets and the imperative for SMEs is to link up with other actors, both at the local and at the global level, and find new ways to interact and learn. Many of the difficulties SMEs face, due to their size and limited access to resources, could be overcome by promoting links between them horizontally, into clusters and networks, and vertically, in value chains. This could enhance local firms’ capabilities and access to distant markets and be accompanied by upgrading of technological and human capital, as a result of a greater exposure and access to information, business practices and technologies. H.E. Ms Ndisale concluded by calling governments and donors to support investment in Research and Development, infrastructure and services, improved regulatory frameworks and business environment.

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H.E. Ms. Brave Ndisale


Mr. Alberto Portugal Pérez


Mr. Rafik Feki

Mr. Luca Marangoni, from DG Development at the European Commission recalled the prominent role micro and small enterprises play in every economy and therefore the emergence of private sector in less developed countries as an engine of growth. He underscored the fact that SMEs, compared to larger enterprises, have proved to be more flexible in absorbing the economic shock. Three areas are important for SMEs in ACP countries from his viewpoint: (i) regional integration; (ii) access to financial and non financial services; (iii) business linkages. Mr Marangoni recognized that ACP countries were absorbed by the question of EPAs but a much wider issue is the integration of regional factors of competitiveness (infrastructure) in Regional Indicative Programmes funded by the EDF. The regulatory framework for public-private partnerships and the reduction of technical barriers to trade should be as well considered within this context. The cooperation between regional businesses and regional institutions is stressed in order to harmonize reform efforts among member states of such institutions. As the result new business opportunities might appear by expanding trade and further value chains could be developed and enhanced. The non tradable business can be a mean to support local markets as to contribute to the development of ACP countries. He highlighted the importance of upgrading to international standards for businesses in ACP countries and stressed that financial and non-financial services were, in the past, supply and demand driven. At present together with recognizing the SMEs in the market, private financial service providers are emerging, but remain still limited in number and relevance of services offered. One challenge he underscored was the way through deepening the access to such services in rural areas. His third remark was on business linkages which combined vertically and horizontally are considered to be the core of the value chain and to further create opportunities for the formation of clusters for SMEs and as a result a competitive advantage. Commission's spokesperson insisted on the inability of working together of African SMEs in the past due to the absence of strong institutions to facilitate such linkages. He emphasized that governments and donors should promote the creation of clusters by supporting infrastructure and providing subsidies and tax incentives. At national level, SMEs and policy makers should work together with international technical assistance to improve business environment, production standards and to create market linkages.

Dr. Hansjörg Neun, director of CTA, put emphasis on the two prerequisites for ACP local producers to reach a level where they can export their products to foreign countries, particularly to Europe: the existence of an operational local market and the presence of the local producers on the regional market. Dr Neun underlined the fact that if the two levels existed, concerns about quality standards and financial requisites could be further raised up. As discussed at the CTA Advisory Committee on Trade held, it was good for ACP countries to learn from international standards in order to make local and regional markets work first. On the issue of upgrading and its link to development he showed his concern regarding the best level of development for every population in order to effectively improve their livelihoods and living standards. He stressed further that Europe was not the best example to be followed by the SMEs in developing countries as it was a business environment highly subsidized, a system which turned out to be very damageable as value chains are not working properly anymore and farmers are forced to pour their overproductions. There is a need to upgrade only those who need to be upgraded in order to participate in the local, regional and international markets.

Challenges for SMEs in agriculture

Alberto Portugal Pérez, Development from the Development Economics Research Group at the World Bank talked about the impact of the financial crisis on trade and foreign investment in ACP countries, especially on SMEs. For Mr Portugal Pérez, the financial crisis has been inflicting havoc on the global economy. Trade has fallen drastically

Professor Carlos Pietrobelli

Mr. Paul Engel

Mr. Denis Noel

since the offset of the crisis. In the first quarter of 2009, world trade fell by 30 percent on average (in current USD). The declines have been widespread across countries and products, largely reflecting the sharp drop in global demand. The exports from ACP countries are no exception. Recent monthly data of exports to the US, EU and Japan show that ACP exports growth to these markets, which account for more than half of ACP exports value, dropped more considerably than exports growth of other developing countries taken as a block. This trend has been accentuated by the sharp decline in demand for the commodities they export, as well as in their prices. Foreign investment to ACP countries has also been expected to diminish sharply1. Foreign companies' reduced profit margins, combined with difficult financing conditions and volatile commodity price, as FDI in ACP countries is heavily concentrated in natural resource sectors, have begun to trigger reduced FDI commitments for 2009–2012. SMEs play a significant role in all economies and are key generators of employment and income, and drivers of innovation and growth. Given their importance, they are essential for economic recovery. As a result of the financial and economic crises, SMEs have been confronted to a dual shock: a dramatic drop in the demand for their goods and services and a tightening in their access to finance. Access to finance remains one of the most important challenges for the creation, survival and growth of SMEs, a problem exacerbated by the crises. Among policies supporting SMEs, a distinction can be made between policies addressing firm-specific constraints (technology upgrading, promotion of quality control, market development, network formation, and export promotion, skills development for workers, etc) and economy-wide policies to improve the business climate (regulatory reform, transparency, etc.). Finally, trade enabling policies such as trade facilitation granting preferential market access to ACP exporters can be effective to counter falling trade. They can expand the benefits of trade to SMEs trough raising the probability of entering foreign markets and increasing the exports value of existing exporters. They also have an impact on SMEs producing non-tradable intermediates and services.

Rafik Feki, from the Productivity, Quality, Enterprise Upgrading Unit, UNIDO shared his views on the issues and challenges of SMEs competitiveness and upgrading. In an increasingly vulnerable and unpredictable economic climate, hit by various crises (food, financial, climate, health, real estate, etc.) which have affected numerous sectors and countries, the agricultural and food-processing industry is undergoing far-reaching structural changes due to the globalisation of markets and changes in demand, and marked in particular by technological development and changes in production processes. Despite the efforts made in recent years with a view to helping developing countries and above all the least developed countries – in particular the ACP countries – to build a more competitive industry capable of establishing itself on international markets, the gap between the level of competitiveness of the sector in these countries, composed mainly of SMEs, and that of the developed countries is constantly growing. Apart from commercial infrastructures which are often weak and unsuitable, many SMEs lack the required capacities to produce competitive goods which comply with the increasingly stringent requirements and specific demands of purchasers and importing countries, in particular as regards product quality, food safety, the environment and working conditions. As a consequence of the opening up of these markets, these SMEs are starting to suffer from the effects of competition law, even on local and regional markets, imposed by imported products, which are generally more competitive.

Restructuring and upgrading the industry in the ACP countries is, therefore, an indispensable pre-requisite for ensuring their integration in the global trading system. Thus, SMEs in the ACP countries must overcome constraints linked to productive and supply capacities and reinforce their bargaining capacities in order to improve trade relations and comply with the various standards in force.

In order to support the sector in ACP countries in this endeavour, the UNIDO is implementing a

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Mr. Vincenzo Galastro

Mr. Hasit Shah

3Cs approach – which focuses on enhancing the productive capacities of companies (C), the conformity (C) of their products with standards and market requirements and the connectivity (C) of these companies to markets.

As regards support to help SMEs boost their competitiveness, the approach adopted is based on ensuring the development of upgrading policies at national level by adapting institutional and regulatory mechanisms, strengthening the capacities of support structures, creating national expertise in upgrading and developing pilot projects to support companies. SMEs in these countries have been able to benefit from strategic analyses which have enabled them to identify their strengths and weaknesses and define an action plan to be put in place to improve their competitiveness. These companies also enjoy technical assistance and ongoing supervision for the implementation of these action plans.

The implementation of the upgrading plan, which is generally composed of capital and intangible investments, therefore helps to boost the capacities of the beneficiary companies. This plan should include, by way of capital investment, activities relating to the modernisation of production facilities, the acquisition of laboratory equipment, improving the IT system, improving conditions for the storage and transportation of products, etc.

As regards intangible investments, the companies benefit from various technical assistance actions focusing on different functions, improving information systems, improving hygiene and working conditions, putting in place a quality and food safety management system, etc.

Professor Carlo Pietrobelli, Professor of Economics at University of Roma Tre, Italy presented Clusters, Value Chains and Technological Capabilities Building. In the present context of globalization, and even more in the current economic and financial crisis, the pressure to compete is especially strong also for small and medium-sized enterprises (SMEs) in developing countries. In addition, being "competitive" is often not enough, as the advantages from exporting successfully are not equally distributed among the participants to international trade, and competitiveness needs to be looked at together with "upgrading", getting a better deal from competitiveness. In turn, this requires a remarkable process of innovation, and may take the form of upgrading of products, of processes, of functions carried out by firms, and of inter-sectoral upgrading. The idea implicit behind this approach is that the scope and extent of benefits deriving from international trade and competitiveness are not equally distributed among countries and firms, and that some activities and business functions offer better opportunities, larger "rents" to be acquired.

However, the upgrading potential of SMEs – as well as small farmers - often remains untapped, as they operate in isolation, are locked into uncompetitive production patterns and are unable to approach dynamic business partners that could bring in new expertise and know how. How can SMEs overcome this isolation, and operate in a business environment more favorable for their process of upgrading? The answer lays in two related and interdependent strategies: develop the linkages with local and distant partners, and invest in the creation and strengthening of technological capabilities. In the 1980s "clusters" of small firms were "discovered" in industrial countries, and their economic performance was studied to understand its determinants. Clusters and networks of small firms became of economic interest to policy- makers, donors and international organizations because they enjoy the collective efficiency that is produced by the (complex) equilibrium between competition and cooperation, and that is itself the result of external economies and joint actions. However, while the former (external economies) occur automatically and are associated to productive agglomeration, the latter (joint actions) are harder to achieve, but in turn produce the largest benefits. Since then, policies and programmes were carried out to support enterprise clusters and networks.

Since the late 1990s another paradigm of productive


Ms. Juliette Newell


Mr. Mabousso Thiam


H.E. Mr. Patrick I. Gomes

organization emerged, and the existence of the socalled "Global Value Chains" (GVC) was noticed (http://www.globalvaluechains.org). Indeed, small farmers and producers in developing countries had to interact more and more with larger firms and buyers, and access to international markets was often governed by these players and the standards and requirements they impose. Today global value chains are present in developing countries because of changes in national and international regulatory frameworks and in technology and management practices. They often represent one of the few options for local firms and suppliers to get access to larger markets and to new technologies.

Moreover, they choose different forms of governance - i.e. organization and coordination, but also distribution of power and rents - which in turn affect the upgrading perspectives of local small firms.

While the potential benefits from GVCs for medium- income developing and emerging countries are well documented, the studies dealing with the impacts of GVCs on low-income, poorer developing countries such as the ACP are scarce. Clearly, access to these value chains per se does not guarantee much, and efforts to develop local technological capabilities are essential. How can SMEs and small farmers benefit from such linkages?

During the **debate of panel 1** under the chairmanship of Mr. Paul Engel, director of ECDPM - the European Centre for Development Policy Management in Maastricht, the representative of UNIDO, key issues raised were the the need for a conformed infrastructure for SMEs in ACP countries and quality, as an essential element that ACP products should integrate and the importance of infrastructure in meeting quality standards. Another key area is the development of the local and regional markets in the agri-food sector and the need to upgrade these products, at national ACP level in order to meet exporting standards and to make sure these products enter the value chains.

The South-South dimension of the food crisis should be also taken into account. Keeping in mind the regional and local dimension, international organizations' and governments' efforts should focus on ensuring safety nets and covering basic needs for vulnerable population and therefore contributing to the redistribution of food and creating new demand or local SMEs. Mr Feki emphasized the need to help local businesses in ACP countries becoming more competitive on their local market as they started to face competition problems from the European products entering these markets. Consequently, strengthening capacities of local agricultural SMEs in order to remain competitive on the local and regional markets is a must and needs additional upgrading of quality standards.

Professor Prietrobelli brought into attention the issue of improving efficiency of local SMEs as a way to address domestic and regional markets. He considered the issue of domestic markets that better serve the nutritional purposes of a number of countries as very relevant. He argued that a way of responding to that is by improving the national standards infrastructure. Finally, he insisted on the fact that SMEs and the development of private sector are not different from poverty reduction and that enhancing the capabilities of firms and small farmers will eventually provide a sustainable development and reduce the reliability on external resources.

Paul Engel underscored that SMEs in developing countries seem to live in a permanent credit crunch and raised a question on the possibilities of providing better credit to SMEs in the developing world and possible ways to overcome challenges. World Bank's representative pointed out that the situation of credit crunch at SME level in developing countries is not new at all. Mr. Perez further considered that governments should put in place a set of measures and policies to make these economies more attractive and as a result create a boosting business environment.

As far as credit development is concerned, the question of associations and financial partners needed great attention from the beginning. The banking sector should be provided with a guarantee that the company would get technical

support, expertise and coaching in the use of the granted funds. As a result the financial sector could be built up in ACP countries.

The director of CTA stressed the role of information and communication in awareness creation among SMEs regarding their role in the policy making process. Finally, in the context of alternative forms of energy offered by agriculture the challenge of feeding the population becomes directly a challenge for SMEs in the agricultural sector, he added. All speakers agreed on the fact that awareness raising is part or should be part of the strategies of upgrading for SMEs. Finally, H.E. Ms. Ndisale added two new elements to the discussion. The first one consisted of the existence, in Africa, of the principles of regional integration and the need to benefit from assistance from the public sector and donors to further develop clusters, achieve standards to compete on international markets. The second element put emphasis on subsidies as a tool to achieve policy objectives.

New opportunities for the ACP private sector in times of crisis

Vincenzo Galastro, from IFAD presented the African Agriculture Fund ("AAF") initiated by the Agence Française de Développement (AFD), African Development Bank (ADB), Alliance for a Green Revolution in Africa (AGRA), International Fund for Agricultural Development (IFAD) and Banque Ouest Africaine de Développement (BOAD). .This is a new US$500 million private equity fund being established to focus on food production and distribution throughout the continent of Africa. The Fund will target the entire range of food related agribusiness from primary agriculture, through processing to services and infrastructure. In addition to the main large scale private equity transactions the Fund will include a team focused on investing 20% of the Fund in SMEs and rural micro-finance.

80% will be invested in large-scale private equity transactions; with 20% spread across: SMEs and rural micro-finance. There will be three classes of shares (1) "A" shares - to take first loss on behalf of C shareholders up to 6% return; (ii) "B" shares - neither give nor receive any first loss benefit; (iii) "C" shares - to receive a benefit from A shareholders. Up to US$13 million has been earmarked as donor funding to the AAF as a Technical Assistance Facility. Whilst the Fund is targeting a first closing of US$150 million, the indicative commitments amount to between US$90 million and US$120 million.

André Dellevoet, Executive Manager, Africa Enterprise Challenge Fund (AECF), Kenya presented the experience of the AECF which goal is to promote pro- poor growth in Africa, thereby increasing employment, livelihood opportunities and incomes and to reduce poverty. Its purpose is to catalyse private sector entrepreneurs in Africa to innovate and find profitable ways of improving market access and functioning for the poor – especially in rural areas. The AECF will focus on sectors particularly important to the poor - finance and agribusiness. The (repayable) grants will support innovative ways of expanding financial services to rural areas and new ways of distribution to reach poor clients. Similar programmes in the past were successful in delivering banking (i.e. savings, loans and transactional services) and non-bank (i.e. insurance) financial services to consumers in rural areas using innovative distribution methods and technology solutions. Improved access to financial services benefits the poor directly, as users of these services and indirectly, through financial deepening which is a causal factor in increasing growth and the incomes of the poor. In the agribusiness sector, grants from the previous challenge funds were successful in catalysing local supply chains, creating effective demand for the produce of smallholder farmers and supporting firms that provide intermediary services to small farmers and better access to input and output markets and transfer knowledge (extension) and information; and introducing new production methods and establishing local production processes where none existed before. These interventions directly benefited large numbers of the poor as producers, as well as employees of rural farmers and agribusinesses. The indirect benefit of these projects was also substantial through replication. Within these sectors, the focus will be on pushing forward innovation frontiers touching rural areas. This could include projects with an entirely rural focus or projects that would benefit both the rural and urban poor.

The first projects under the AECF seem to confirm the soundness of this approach. Some examples:

1) Moninet; the introduction of innovative mobile banking and payment services in East-Africa, benefiting some 800.000 clients with access to financial services at a reasonable cost by the end of year 3 of the project;

2) The Ghana Grain Partnership; the development of a maize value chain in Ghana, which will benefit 10.000 smallholders by substantially increasing their incomes;

3) Smallholder cocoa improvement in Sierra Leone; benefitting 16.000 farmers by increasing their incomes;

In the first year of the AECF's operations, the Fund has already built up a portfolio that will benefit over 4 million smallholders and their families. The donors who have already agreed to contribute to the AECF are the African Development Bank (AfDB), the Consultative Group to Assist the Poor (CGAP), the UK Department for International Development (DfID), International Fund for Agricultural Development (IFAD), and the Netherlands Ministry of Foreign Affairs, (NMFA). Other donors may join in due course. Until now, the Fund disposes of a start-up capital of 36 million USD. It is hoped that this will grow to 100 million USD in 3 years.

Experiences from the private sector: scope and need for upgrading

In panel 2, we had the presentation of three private companies from Africa and the Caribbean which highlighted various strategies as to increase market access. The Sunripe Group from Kenya is an independent grower, processor and exporter of fresh fruits, flowers, vegetables & Organics. It is a vertically integrated diversified group of companies that incorporate farming, processing, freight and logistics, and serve over 25 nations with fresh produce daily. The group has gained significant experience over the past 40 years in the organic, horticulture and floriculture industry and remains a dominant player within East Africa being the largest exporter of fresh organics from the region. The group employs over 2200 persons who produce, process, pack and export about 40 product lines of fresh vegetables, fruit and flowers to 25 countries year round and ensures sustainable production with total regard for the environment. All products meet all aspects of food safety, security and legal requirements for each country: BRC, ECOCERT, LEAF and GLOBALGAP and are the largest exporter of fresh organics from East Africa. Part of the vertical integration involves total control of the logistics chain and as a result our Freight In Time (FIT) was developed. FIT now has freight operations in Burundi, Rwanda, S. Sudan, Tanzania, Kenya and Uganda.

The company re-invests all profits to ensure R&D supports newest product lines and invest into the cold chain and farming/processing operations. All packhouses are BRC higher level accredited and the the majority of our production is GLOBALGAP compliant. Working 25 countries means that we have a good understanding of clients needs and delivering product 52 weeks of the year. This requires massive planning and farming over a 1000 km radius and involves value addition at the processing plants. The company works closely with research institutions and technical teams to implement IPM practices where possible to reduce the use of crop protection chemicals. The company is committed to reduce emissions, increase recycling of waste and ensure proper crop rotations, tree planting, water harvesting, reduction in packaging and reduced use of energy.

Noelville Ltd., a family owned Company in Grenada, aims throughout its activity to avoid the situation when developing countries exported raw materials, as coco and nutmegs, and imported finished products at a higher price. The managing director of the company, Mr. Denis Noel, presented a new use of nutmeg, traditionally known as a food item, which his company is using to produce pain killers. He pointed out the success of his products in countries like Russia, Australia etc. and called for assistance in his efforts to get access to the EU market. Mr. Noel insisted on the fact that a lot of products had other uses that people were not aware of and highlighted the need for R&D in the herbal sector. The manager of Noelville Ltd. is well convinced that through proper planning this sector could contribute significantly to the development of Caribbean economies and bring substantial benefits to the region.

Tijule Ltd. begun its activity in 1984 and had as primary objective the use of local raw materials and the generation of employment in an area characterized by a low education status. It faced from the beginning several challenges as the lack of funds, equipment, market and financing related problems but managed to overcome them. Although the SME is trying to maintain quality standards as they export 90% of their production, lately it was stricken by the economic crisis. For that reason, Ms. Juliette Newell, the managing director of Tijule Company, stressed the need for financial assistance in order to upgrade her company in terms of training, market research to develop new products, support in maintaining their certifications which at present are obtained on an annual basis, reorganizing the factory layout to bring it to international standards and improve efficiency.

In the **debate of the panel 2** moderated by Mabousso Thiam, Director of CDE discussions on the questions of specific value brought to SMEs by smallholders and the contribution to poverty reduction were raised. Mr. Shah from Sunripe Company in Kenya pointed out that working with smallholders was indeed difficult and that his company managed to create a long term relationship with this type of actors by regrouping them in small clusters, and ensuring the technical assistance necessary for them to grow the crops. Setting up fixed programmes and fixed prices helped them avoid speculations and insured a fair share for the small producers.

The issue of branding the SMEs as a sector with a high rate of failure was also raised by the Ambassador of Grenada and some testimonies on the present and future South-South cooperation were asked for. In response to the first question Mr. Paul Engel argued that at some point it was important to embrace failure in order to build capacities, innovate and develop new businesses. On this specific question Mr. Shah's opinion was that capitalization represented the first reason for which businesses didn't succeed in Africa. Incidence costs are very high and should be better considered when starting a business on the African continent. The second big problem for SMEs failure is the cash flow management, argued Mr. Shah. The emergence of the South-South trade (with Russia, Middle East, India) was highlighted as the hurdles faced on the European markets disappear, the requirements are less exigent and the payments are higher. Competition policies should ensure that different actors in the value chain got a fair share in the end and relationships between bigger and smaller players in the value chains have to be mediated by promoting Business Models in the interest of all parties. Finally, the issue of according financial assistance in dollars to SMEs that are not exporting and therefore are not able to sustain the debt in the long term was brought to the attention of the speakers. From his company's point of view, Mr. Shah recognized that since the two European currencies collapsed (€, £) his company tried to put in place instruments together with different financial institutions in order to mitigate exchange risks, but no concrete results were obtained up-to-now.

H.E. Mr. Patrick I. Gomes, Ambassador of Guyana drew the conclusions of the meeting. In his opinion fully understanding the context of local, regional and international markets in terms of impact and consequences in access to capital, innovation is essential. SMEs represent vectors that will drive agriculture and rural development. A strong interrelation between small farmers, R&D, innovation, diffusion will generate value and furthermore reinforce the value chain. It is imperative to have stakeholders involved in the policy making process at all levels and at early stages. Continuity is seen by H.E. Mr. Gomes as the key element. Learning from past experiences, success stories and bringing them at international level create benchmarks and lead to further innovation. Finally, Ambassador Gomes reiterated that the understanding of the context was an important step for the future, as even if new opportunities appear, like the South-South trade, challenges will always emerge.

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