Kingdom of the Netherlands

THEORY OF CHANGE

A guide to business model design for smallholder farmer support

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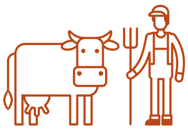


1. Introduction

This guide presents a practically oriented **Theory of Change** for the design of support programmes that aim to integrate small-scale farmers in commercial value chains. The accepted theory is that by providing smallholder farmers with the right inputs and skills, they are able to increase their productivity and income from their farming activities, which will lead to the wider outcomes of agribusiness growth, enhanced food security, and rural development. Many different programmes have been implemented that lean on this general thinking, but struggle to deliver successful and sustainable smallholder integration. To increase the likelihood of smallholder support programmes contributing to smallholder development, a holistic approach that outlines the steps to implement such programmes, identifies the roles and responsibilities of programme partners, takes conscience of specific value chain characteristics, and addresses the more technical considerations regarding the business model, is needed. This document addresses that need and serves as a guideline for a range of practitioners: agribusinesses and smallholders, programme funders, NGOs, and policy makers.

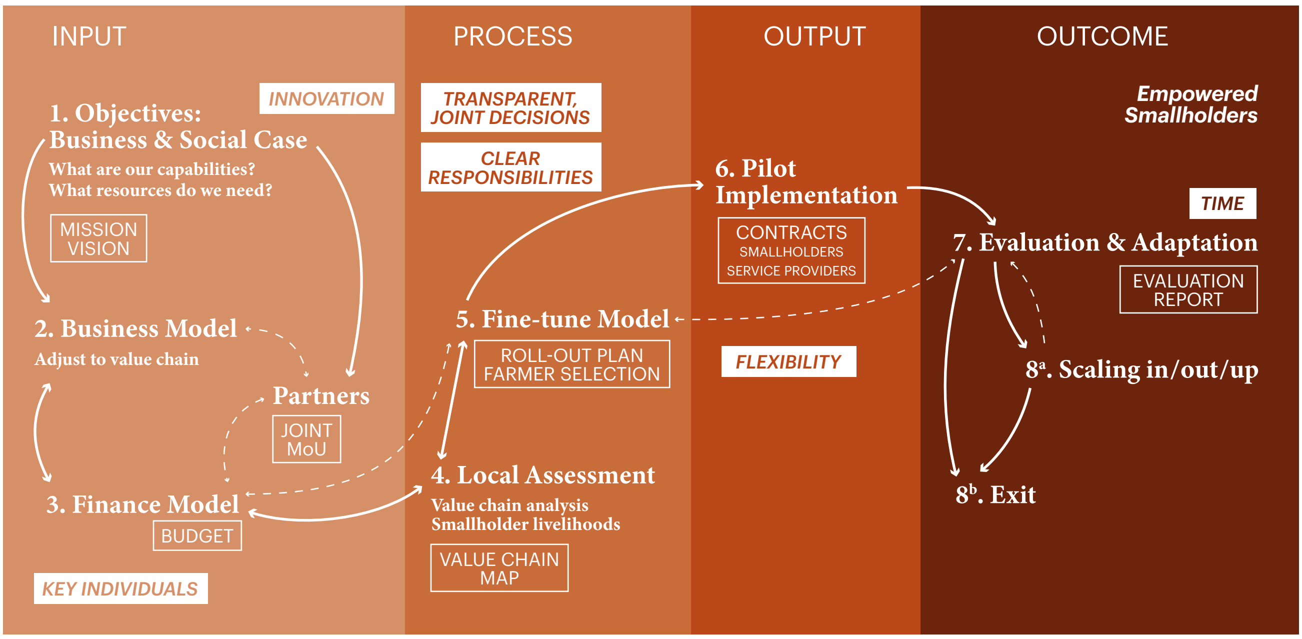


Figure 1: Summary of the Theory of Change

2. Smallholder and Agribusiness Objectives

2.1. Smallholder objectives

Smallholders in general are looking for ways to improve their livelihoods through their agricultural activities. There are three options for livelihood enhancement:

1. An increase in the yields and prices of crops traditionally grown by the smallholder;
2. Production of higher-value crops with higher margins; and
3. An increase in the area under production.

These three options can be implemented sequentially if the smallholders perform well. The smallholder needs to take into account that these strategies might incur additional costs, for example in the form of hired labour. Potential cost increases due to these strategies must not outweigh the extra income.

Smallholders seek to achieve a more reliable and predictable income and in the face of a number of challenges.

- They plant not knowing if there will be demand for their crop at harvest time;
- They do not have access to risk mitigation instruments such as insurance, leading to a risk aversion strategy where income streams are diversified to protect them from large income shocks;
- They have to make trade-off decisions on how to use their scarce resources. Available capital needs to be split between competing demands from the household and the agricultural business, and a similar consideration needs to be made whether to farm for household use or for cash income, and whether to use available labour for farming or for external income-earning activities.

Through participation in support programmes, smallholders aim to reduce the uncertainty related to their farming activities. Models that aim to integrate smallholders into commercial value chains need to respond to this broad spectrum of smallholder risks and trade-offs.

Some smallholders aim to expand their area under production and grow their farming turn-over to well over R1 million, others are content to improve their livelihoods within their existing land and water limits. Both these kinds of smallholders can be considered for commercial value chain integration.

2.1.1. How to formulate objectives: key questions

In particular, smallholders should ask themselves the following questions when looking at commercial value chain participation:

1 – Livelihood

- Do I want to grow food for own consumption, and if so, what area do I need for this purpose?
- What part of my income is derived from farming? How much profit (excl. costs) do I earn per annum?
- What other sources of income do I have to spread my risk from farming?

2 – Farming outlook

- What are the main obstacles for me in selling my crops or growing better crops?
- What are my immediate requirements to stabilise or grow my farm?
- What level of loan financing for my farming activities am I comfortable with?
- What kind of farming business do I want to establish (e.g. mixed farming, organic, labour intensive)?

3 – Current activities

- What current activities do I want to continue (e.g. existing supplier relations)?
- What other farmers in my community do I work well with? In what areas do we work together (e.g. transport, knowledge exchange, marketing)?
- Do I belong to a cooperative, and if so, what does it bring me? Is there a commercial farmer that supports me or other farmers in the area?

2.1.2. Output: Self-assessment

The self-assessment should result in the smallholder being able to express their overall desired livelihood strategy, and the particular role of farming in this wider strategy. Furthermore, the smallholder must have listed his/her capacities and strengths, as well as the challenges faced and requirements for achieving the envisaged farming operation. This will assist in evaluating a value proposition by a commercial agribusiness, as well as articulating the particular needs of the smallholder from partnering with the commercial agribusiness. Lastly, the smallholder needs to have insight in which actors can assist in addressing the challenges and requirements.

2.2. Agribusiness objectives

The business case is highly dependent on the orientation of specific agribusiness looking to work with smallholder farmers.

Profit-oriented businesses are primarily motivated by increasing their overall business or market share. Others are more socially driven and are looking for ethical business opportunities. This can be combined with certification such as Fair Trade or UTZ to access export markets. Domestically operating companies can build a competitive advantage through acceptation by local communities. External conditions can also form the reason why a company expands into business models that include smallholder farmers. For example, the South African government conditioned the takeover of Massmart by American retail giant Walmart, setting the company a target for small-scale supplier inclusion. Lastly, the business case depends on where in the value chain the smallholder is engaged: as client of inputs, as supplier of crops, or as processor. Regardless of the motivation, there needs to be an overall business case in the medium term for an agribusiness with full buy-in by management to involve smallholder farmers in their business structure. Recent developments in the area of technology, but also consumer awareness, make the business case easier.

2.2.1. How to formulate objectives: key questions

The agribusiness needs to engage multiple divisions in an internal assessment to answer a set of questions on the resources and objectives.

1 – Location

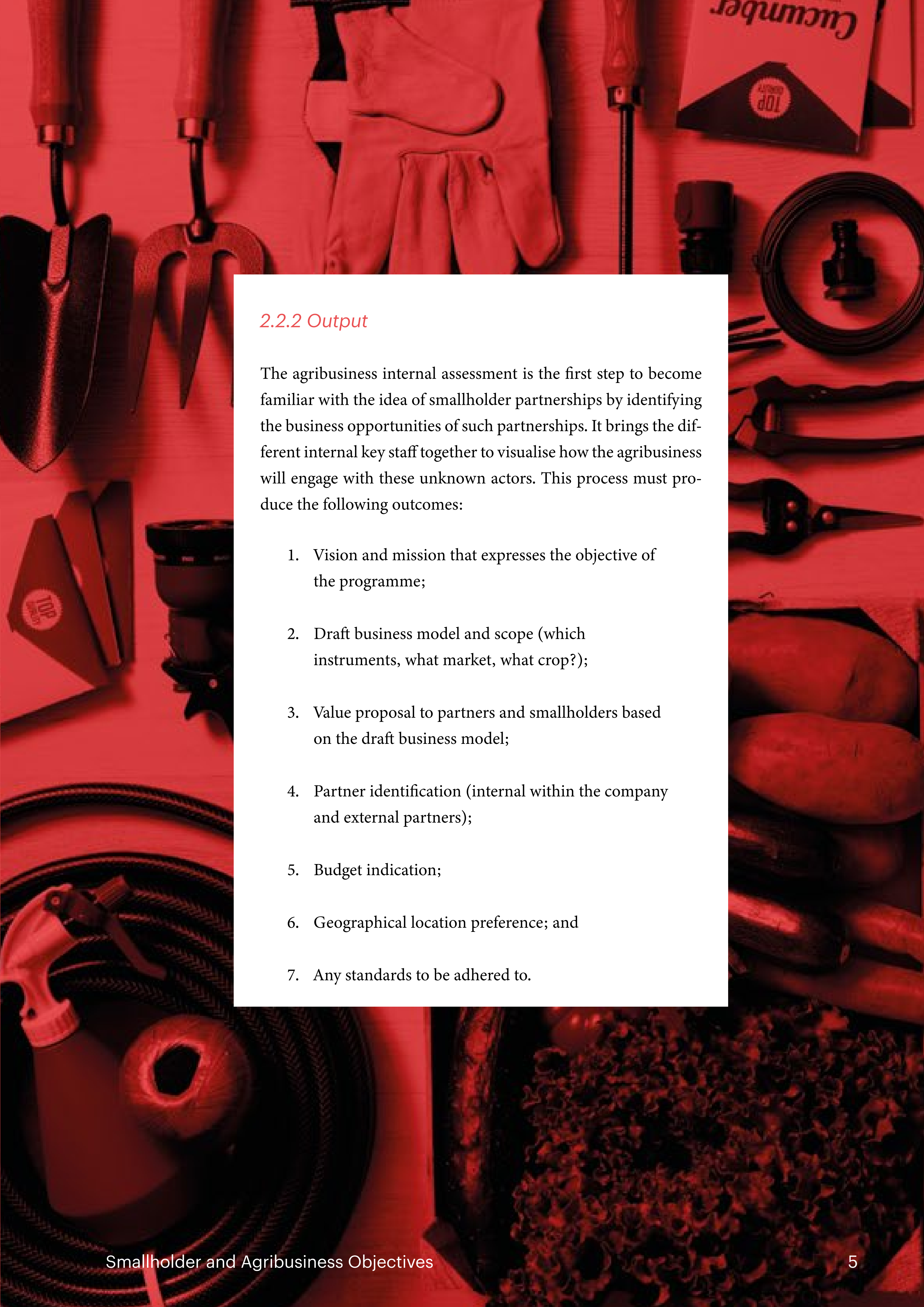
- Where are the agro-ecologically suitable areas for the product or service in scope?
- What are the other transactional costs related to this location? E.g. transportation, crime, institutional conditions.
- Are there opportunities for intensification or expansion by smallholder farmers in these areas?
- What hurdles are to be expected, both formal and informal?

2 – Product or service

- Will the company sell or source an existing or new product, and/or provide services?
- Does the product or service need to be adjusted to meet local conditions, and if so, how?
- How does smallholder integration affect the company's current operation?
- What kind of smallholders are suitable to work with/what are the minimum capacities the smallholders need to have?

3 – Internal organisation

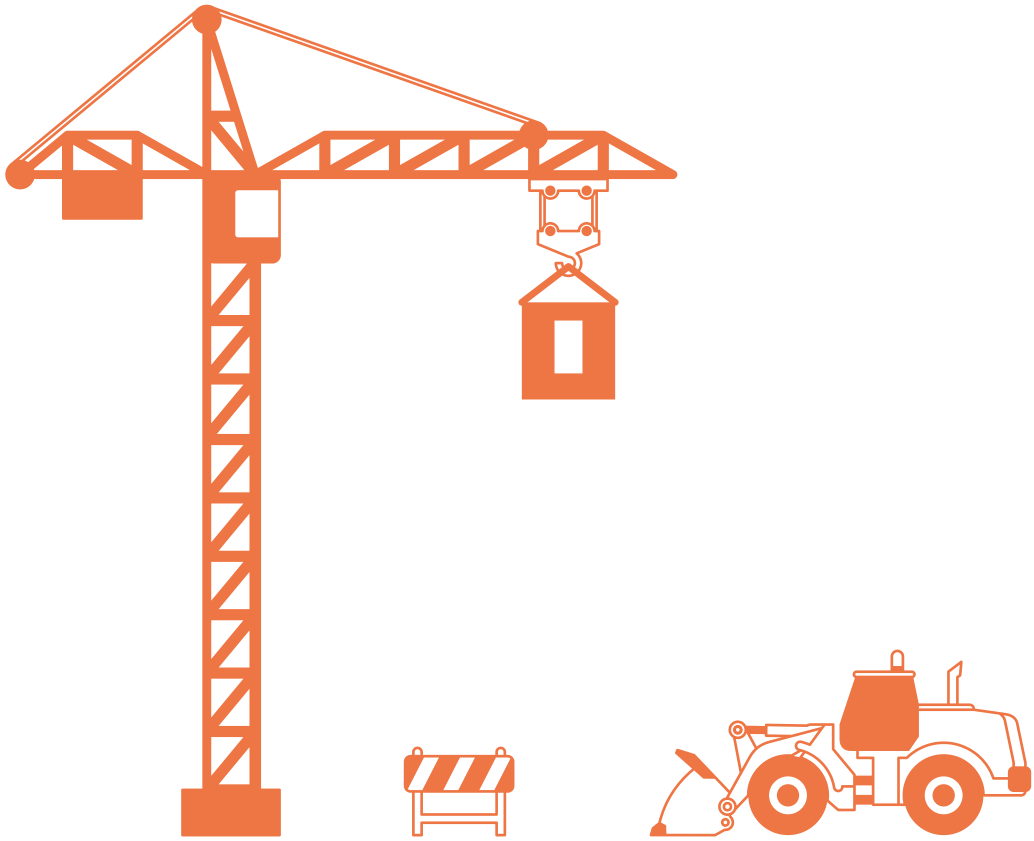
- Where should the new business be located within the company organisation?
- What organisational opportunities and constraints follow from this decision?
- Are leaders committed and patient enough to allow the new business to grow?
- How can company overhead be reduced?
- Is the organisational culture open enough for a new kind of business with smallholder partners?



2.2.2 Output

The agribusiness internal assessment is the first step to become familiar with the idea of smallholder partnerships by identifying the business opportunities of such partnerships. It brings the different internal key staff together to visualise how the agribusiness will engage with these unknown actors. This process must produce the following outcomes:

1. Vision and mission that expresses the objective of the programme;
2. Draft business model and scope (which instruments, what market, what crop?);
3. Value proposal to partners and smallholders based on the draft business model;
4. Partner identification (internal within the company and external partners);
5. Budget indication;
6. Geographical location preference; and
7. Any standards to be adhered to.



3. Developing a Business Model

The business model that brings the agribusiness and smallholders together can combine standard instruments: supply contracts, collective organisation, mentorship, equity and lease or management arrangements.

3.1. Supply contract: mitigated farmer risk, guaranteed supply, mutual responsibility

A supply contract, or offtake agreement, is an agreement between a farmer and an offtaker that specifies elements such as the crop to be grown by the farmer, and a mechanism to determine the price. Additional aspects such as volume, standards, time and delivery details can be included. The smallholder is secured by a guaranteed market, whereas the agribusiness is certain of crop supply. The supply contract should be simple and concise.

3.1.1. Designing a contract: Considerations

1 – Type of contract

Supply contracts particularly suitable for smallholder support are production-management and resource-providing contracts. In production-management contracts farmers follow specific production methods and input applications. Such a model partially overcomes the lack of technical skills that prevent smallholder farmers to produce for formal markets. It transfers control over the production process from the farmer to the offtaker, who also takes on a larger share of the risks. Resource-provision contracts interlink offtake with the provision of key inputs to the contracted smallholder. The costs related to these inputs are recovered through deductions at product delivery. Resource provision as part of the supply contract serves as an in-kind credit which reduces the challenges smallholder farmers face when accessing financing for upfront input cost. Whereas this eases the financial barriers to entry, and creates a shared risk between smallholder and offtaker, a considerable chance exists that smallholders become trapped in debt. It must be stressed that input provision requires the offtaker to monitor the use of these inputs, which increases its transaction costs. Combined with the financial resources the offtaker needs to free up, this poses a limit to the number of smallholders that can be contracted.

2 – Pricing mechanisms

Produce prices can be fixed ex-ante, linked to a spot price, calculated using a cost-based formula, or apply a revenue-sharing construction. Regardless of the mechanism, the most important consideration is that the price determination, and the relation to the spot market price, is transparent and clearly understood by the contracted smallholders. Furthermore, the payment to the farmer needs to take place within a few days of delivery. It needs to be well-understood who is responsible for transportation costs from field to the offtaker's facility.

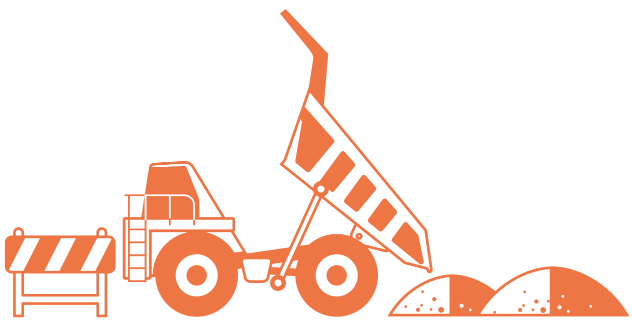
3 – Handling substandard produce

There needs to be agreement on how to address the likely eventuality of smallholders delivering sub-standard produce:

- The agribusiness should strive to take responsibility for this crop, providing full certainty for the smallholders that they will receive an income for their efforts;
- Sub-standard produce offtake needs to be temporary to incentivise smallholders to achieve the standards set, allowing time for the partners to iron out any issues during the implementation.

4 – Awareness of livelihood strategies

Agribusinesses need to be aware of the livelihood strategies followed by the smallholders. These often consist of: 1) diversified income streams, and 2) farming partially for self-consumption. Such strategies form a safety net that otherwise is absent for most small-scale farmers. Offtakers need to encourage the smallholders to not become overdependent on them. They also need to anticipate non-compliance and smallholders exiting the partnership. Only when the business partners have established a settled relationship can the scale of production be increased.



3.1.2. Roles and responsibilities

Agribusiness/offtaker:

- Drawing up the contract – must take into consideration risk mitigation to smallholders, local assessment;
- Provision or organisation of financial and technical support;
- Selection of smallholders and external partners for implementation.

Smallholders:

- Have to adhere to the contract they have signed;
- Have to voice their issues, concerns and questions timeously;
- Build a positive relationship with the offtaker and understand the wider business context in which they operate.

External partners:

- Local implementation partner: Assist in relationship building represent the voice of smallholders to the offtaker, assist in training, supporting, monitoring and mentoring smallholders;
- Financial service provider: loans, insurance;
- All external partners: formulate an exit strategy.

3.2 Mentorship: Developing Skills and Networks

Mentorships can overcome the lack of knowledge and skills relating to agronomic, business, governance and financing practices, within the community of smallholders. Overall it is important in a mentorship programme to:

- Determine the objectives, needs and scope of the mentorship, together with the smallholders;
- Agree on the budget, remuneration model and funding;
- Assess the availability of necessary infrastructure and equipment;
- Have clear communication channels to the smallholder (especially if a third party and commercial offtaker are involved);
- Develop a train-the-trainer or mentor programme if a project is ready to scale;
- Formulate an exit strategy.

3.2.1 Roles and responsibilities

Mentor:

- Must have practical agricultural and business knowledge and experience;
- Needs on-the-ground presence and sufficient time to execute the task; and
- Needs to be trusted by smallholders and commercial partner to promote credibility among stakeholders.

Smallholder:

- Show respect and trust towards the mentor;
- Demonstrate commitment and a willingness to learn; and
- Engage in the mentoring relationship with a critical attitude that ensures that the mentor contributes to their individual development.

Programme partners:

- Decide on the scope and the budget;
- Identify and manage the mentors.

3.3. Collective organisations: Bolstering voice and efficiency with challenges

Farmer cooperatives are able to overcome barriers to market faced by an individual smallholder, bundle members' voices, and provide a platform for dissemination of information and innovation. The agribusiness benefits from the reduction of transaction costs and can expect a greater certainty of supplied volumes. In practice, farmer organisations are shown to be prone to failure due to internal conflicts, poor governance and lack of financial means.

A distinction is made between marketing, production, or supply cooperatives. These types of cooperatives engage in the collective sales of crops, production activities, and purchasing of inputs respectively. Many cooperatives provide both supply and marketing support to their members, supplemented with credit provision and technical support. The scope of the collective organisation must align with the partnership's objectives and in particular with the activities and needs of the agribusiness partner. Programme partners looking for immediate integration of smallholders in their supplier network should work with collective organisations that are well-established and financially self-sustainable. Older cooperatives tend to be more successful and may be able to generate higher financial benefits.

Agribusiness:

- Provide commercialisation services, arrange access to wider commercial networks, share agronomic knowledge, and assist with use of assets.

Collective organisation:

- Coordinate and manage the agricultural activities of its members;
- Implement good governance practices;
- Ensure financial sustainability, determine investment needs and residual income distribution from its activities;
- Foster active participation by its members.

Programme partners:

- Limited to financing of training, both in agricultural practises and collective governance, but not extend to operational costs or assets.

Individual members:

- Pay membership fees timeously;
- Trade through the collective as agreed by the members collectively; and
- Participate in the decision-making processes within the cooperative.

3.4 Equity: Enhanced ownership in the value chain

Inclusive businesses can form an avenue for smallholders to increase their ownership levels throughout the value chain through shared equity of assets with commercial agribusinesses, or as a collective body of smallholders. Related to an increase in ownership is extension of their impact on decision-making throughout the value chain, and additional income streams for the smallholders. In theory, shared equity aligns the interests of both equity partners, who are both incentivised to increase the performance and value of the shared asset, and thus applies particularly to situations characterised by reciprocal interdependence. An independent business entity with shared ownership allows more freedom to engage in higher-risk, innovate practices compared to well-established corporate structures, but also requires more resources and closer collaboration between smallholder and agribusiness.

There are a number of considerations for smallholders related to the responsibilities that are linked to equity:

1. The equity share of the smallholders needs to be funded.
2. Smallholders as shareholders need to invest in the asset for it to grow, and to maintain it.
3. Smallholder equity is often organised through a collective organisation which creates additional challenges and costs.

Considering the many obstacles observed in business models with shared equity between smallholders and agribusinesses, this tool is recommended only for medium-term implementation. This allows for a number of critical elements to be met: a relationship of trust between the equity partners, empowerment of the smallholders related to capacitation and representation, and establishment of a well-managed collective body with clear membership requirements and democratically elected leadership.

3.5. Lease or management arrangements

Lease and management contracts transfer control over smallholders' assets, in particular land, to a commercial operator. This allows smallholders to gain an income from their land ownership without having to actively participate in the execution or management of the farming operation. However, the level of value chain inclusion of such a set-up is minimal. The lease or management instrument mainly serves as an additional tool to increase land under production in geographical areas where a commercial partner already works with active smallholders.

4. Value chain elements: Adapting the model to the context

Different characteristics of the crop and the value chain foster a context that is more or less conducive to the implementation of a certain instrument in an inclusive business model, or that requires a certain instrument to be implemented in different ways. These characteristics are:

- Capital outlay: crops that require high capital investment or have delayed returns are a high-risk option for smallholder farmers.
- Quality standards: crops that need to be grown and handled according to strict standards, or where the product itself needs to meet strict quality standards, require close vertical coordination between producer and offtaker. Risks for smallholders are high when growing such crops.
- Perishability: Crops with a high perishability need to be processed within a short time after harvest. Similarly, there are crops where the time of harvesting is critical. For these types of crops coordination across the value chain, both horizontally and vertically, is essential.
- Local demand: Agribusiness' control over crops that are easy to sell locally on a spot-market basis is very low.

Table 1: Adaptation of instrument by value chain element

Value chain element	Importance	Supply Contract	Mentorship	Collective Organisation	Equity	Lease / Management
Value / capital outlay (including delayed returns crops)	High	Include interest-free loan with delayed repayment plan; Add solution for non-standard produce to recover costs; Include instant return/ staple crops in farmer production plan; Long-term contract to reduce market risk	Intense on-the-ground support to ensure capital investments are earned back; Can be linked to local commercial farmer or commodity organisation	Platform for credit, innovation and knowledge dissemination; Lower investment costs through scale;	Premium prices for shareholder farmers; Positive impact on commercial branding	Only suitable in case of high tenure security; Contract duration at least until investment has been earned back; Understanding on ownership of delayed return assets (e.g. trees) at contract end; Allows for non-active landowners to participate in high-value crop production; Profit-share plus fixed rental increases certainty for, and support of landowners
	Low	Include limited input provision loan; Simple, non-binding contracts	No business case to cover mentorship costs	Allows for lower input costs for smallholders; Loose organisation with low overhead costs; Revolving grant option.	No business case, dependent on other value chain elements	Fixed rental reduces uncertainty for lessor and lessee
Quality standards	High	Guarantee for return on mentorship costs; Solution for non-standard produce to reduce risks	Intense on-the-ground support essential	Training platform; Collective certification and quality control; Opportunistic behaviour	Equity to serve as access to market information and capacity building	Corporate control over production activities; Profit-share plus fixed rental increases certainty for, and support by landowners
	Low	Simple contract to minimise contracting and monitoring costs	Low intensity; For business skills and network creation	Bundling of produce can result in improved market access.	Processing facilities for low-quality crops (e.g. fruit juicing)	Fixed rental reduces uncertainty for lessor and lessee
Perishability	High	Supply contract specifying planting / harvesting instructions	Tight coordination of production activities	Collective organisation for ownership in processing facilities	On-farm / mobile processing facilities	Increase scale through lease of unused land close to processing facility, be aware of collective usage (this is not a good option for smallholder development)
	Low	Low viability due to little need for coordination	Low intensity support; Increases quality, yield, and network	Collective farmer-owned storage facilities to allow for longer sales period	Farmer-owned storage facilities to benefit from price developments	Small business case, dependent on other value chain elements; Needs lessor incentive to reduce theft
Local demand	High	Loose contract to allow for side-selling and reduce contract enforcement; Long-term contracts to build relationship	Centralised training and mentorship by commodity organisations / extension officers	Input bundling; Marketing transaction costs too low to off-set organisational costs	Farmer-owned packaging / processing; Shares in offtaker can reduce side-selling Higher local social capital	Crop-share agreement incentivises less-efficient farmers to lease to agribusiness (this is not a good option for smallholder development)
	Low	Allow diversification of crops to prevent high dependency on single offtaker	Dependent on quality standards	Transaction cost reduction through collective marketing	Social branding for commercial retailer; Market insight for farmers	Increase scale of commercial lessor; Guarantee offtake to allow successful smallholders to lease neighbouring plots

Table 2: Cross-tabulation of value chain elements

Value chain element		Quality standards		Perishability		Local demand	
	Level	High	Low	High	Low	High	Low
Value / capital outlay (including delayed returns crops)	High	Resource-providing contracts with intense on-the-ground extension; Agreed solution for sub-standard produce.	Interlinked supply contracts, collective training.	Resource-providing contracts with intense coordination; Integrate established collectives; Agreed solution for sub-standard produce.	Resource-providing contract with fixed price mechanism	Limited resource-providing contract with profit-sharing price mechanism; Allowance for side-selling	Resource-providing contract with industry-index price mechanism
	Low	Intense on-the-ground extension; Production-management contracts; Collective certification	Indirect agribusiness support through commodity organisation; Farmers can benefit from collective organisation; Spot-market transactions.	Market-specification contracts; Coordination through collective organisation	Collective organisation to improve market access	Indirect agribusiness support through commodity organisation; Spot-market transactions.	No business case for either agribusiness or smallholder.
Quality standards	High	N/A	N/A	Resource-providing contracts with intense coordination; Integrate established collectives; Agreed solution for sub-standard produce.	Resource-providing contract with extension; Agreed solution for sub-standard produce.	Limited resource-providing contract with premium price setting for quality produce; Guaranteed offtake for sub-standard produce; Opportunity for input providers.	Resource-providing contract with industry-index price mechanism; Collective organisation for certification
	Low	N/A	N/A			Indirect agribusiness support through commodity organisation; Spot-market transactions; Opportunity for input providers	No business case for either agribusiness or smallholder.
Perishability	High			N/A	N/A	Collective organisation for better market access	Market-specification contracts; Coordination through collective organisation.
	Low			N/A	N/A	Indirect agribusiness support through commodity organisation; Spot-market transactions; Opportunity for input providers	Limited business case for either agribusiness or smallholder; Collective organisation for better market access.

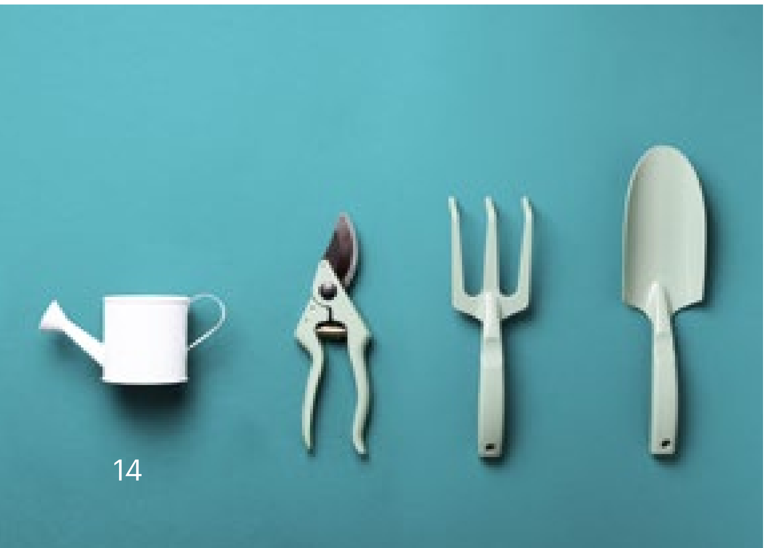
5. Local assessment

The on-the-ground assessment incorporates two elements: the local value chains and the smallholder context. This process is to map the current smallholder activities, the local infrastructure and resources and local value chain actors. It identifies the structural challenges experienced by these stakeholders. Understanding these local challenges, and subsequently addressing them, is crucial for the commercial value chain integration of smallholders to be successful. In this process a range of actors has to be engaged through methods such as group discussions and individual interviews. These actors include smallholders, commercial farmers, cooperative entities, service providers, traders and local politicians.

5.1. Conducting a value chain analysis: key questions

A value chain analysis maps the actors and activities involved from pre-production through to marketing of the crops. This activity provides insight into the structure and dynamics in which the smallholders operate. Questions that can be included in the value chain analysis:

- What do the existing value chains look like, both formally and informally?
- Do the farmers engage in any value chain activities in a collective manner?
- What other suppliers do the offtakers source from (i.e. who are the competitors of the smallholders)?
- What are the offtakers' risks and challenges?
- Who are the ultimate consumers and where are they located?



5.2. Conducting smallholder livelihoods analysis: key questions

In addition to an assessment of the relevant value chain, the project partners should also gain an understanding of the strategies applied by the smallholders to build their livelihoods. The following questions are relevant:

- How do the smallholders have access to land (permission-to-occupy, lease, title)?
- Do they grow crops year-round or only seasonal? Why?
- What irrigation systems are used? Do they pay for water use? And for electricity use?
- What part of their income is derived from agriculture?
- How do the smallholders access mechanisation?
- What are their needs, preferences, priorities when purchasing and cultivating agricultural products?
- Are they organised in a collective? Why, why not? (Also include stokvels, burial society, etc.)
- Do they receive support for their farming activities? From whom?
- What risks do these smallholders face?

5.3. Fine-tuning and adaptation of model and programme to the local context: key questions

Based on the on-the-ground assessment the programme partners have to decide which services are required. These can include organisational support, farmer training, certification, crop protection, input provision, financial support, crop diversification, mechanisation, and more socially-orientated services. The programme partners also have to decide if these services will be offered as a standard package or whether the participating smallholders can choose as if from a menu. Another important outcome from this phase is the identification of participating smallholders. Questions that need answering between field assessment and implementation cover aspects such as:

- Are investments by the inclusive business/ commercial partner/financial donor required for infrastructure?
- What are the main knowledge gaps among the smallholders and who is suited to fill those gaps?
- What price-setting is to be specified in the contract?
- What is the likelihood of side-selling, and what tools can be implemented to accommodate this?
- Is insurance to be included in the contract?
- How will sub-standard produce be dealt with?
- Are there collective organisations that the inclusive business can work with?
- What role will the provincial Department of Agriculture play?
- Is there any technology that can be used within the project (e.g. information via mobile phone, small-scale processing facilities)?
- What processes are required to formalize the business?

At the end of this phase, all project-related hardware should be in place, or at least in the pipeline. Contracts with all the local project partners should be signed and the first tranche of funding is available. A training programme, with training partners assigned, has been drawn up. All local stakeholders must be aware of their role. To get buy-in from the local community, it is important to engage a range of local actors, in particular those who already have relationships with the smallholders. Additional efforts in the wider community need to be assessed, such as supporting a life-skills programme.

6. Implementation of pilot programme

Once all the infrastructure is in place and the contracts are signed, can the project be implemented. The following elements are crucial in this pilot phase:

- Preparatory training must be conducted before operations start;
- On-the-ground presence is crucial.
- Unplanned incidences related to e.g. the weather, to machinery, to individuals within the project, should be anticipated;
- A flexible attitude that allows for learning by doing, and which is informed by a continuous on-the-ground monitoring;
- Smallholders should be engaged when solutions need to be found for unexpected happenings;
- The objectives set out in the business case must remain in focus and the processes and outcomes must be assessed on a regular basis.

7. Monitoring and evaluation

Monitoring takes place on a continuous basis and focuses mostly on what is happening. Some aspects are paper-based, such as a farmer field book in which the smallholder farmers record their activities from preparation to marketing, but also financial administration, challenges and solutions, and other elements of interest and relevance to the programme. Equally important is to observe developments on the ground. Visual observation combined with face-to-face feedback from the individual smallholders is a valuable source of information for the programme partners to identify challenges and opportunities. It is important that any concerns raised by the smallholders are addressed by the programme partners, and that feedback is provided to the farmers as to what is done to meet their concerns and why. Face-to-face contact and feedback loops develop relationships of trust.

More critically, such a participatory process ensures that the experiences of the smallholders themselves are integrated in the overall evolution of the programme that, after all, is intended for their benefit.

Evaluation is an activity that is conducted at a specific point in time and provides insight into the efficiency and effectiveness of the intervention. The objective of evaluation is to determine how progress is made towards pre-agreed targets as formulated in the MoU. Programme evaluation must be performed at least at the end of every growing season or financial/budget year.

At programme inception it should be agreed who will be responsible for the monitoring and evaluation activities. The implementing partner plays a crucial role in the monitoring process as this actor is active on the ground and has a close relationship with the smallholders. A programme manager is more suited for the evaluation and reporting, as this actor is often familiar with the reporting requirements of the different programme partners. Alternatively, the agri-business might be able to execute the evaluation as part of its wider corporate reporting activities. In this scenario the reporting team should have a sufficient understanding of the importance and interpretation of the developmental goals of the smallholder support programme.

8. Scaling: Growing reach and impact

Scaling is perceived as important in order to increase the potential impact of "islands of success" and become "accepted common practice". A distinction in scaling relevant to inclusive businesses differentiates between:

- Scaling in: increases the level of inclusiveness for the existing beneficiaries without changing the overall structure of the support programme;
- Scaling out: the number of beneficiaries is increased within an existing structure of a support programme;
- Scaling up: enhances the complexity of the support programme through the application of additional instruments and stakeholders.

Smallholder support programmes initially pay high learning costs. These relate to agricultural practices, but also to a mutual understanding between commercial partner and smallholders. Only after the pilot has been proven stable and successful can scaling be rolled out. Without a proven model and value proposition, the risks for smallholders will be too high, and they will not remain in the relationship. Similarly, commercial partners need to see the financial sustainability of working with smallholder farmers. These results cannot be expected in a short timeframe. A minimum of five years is a guideline for such partnerships to stabilise and bear fruit.

Alternative to scaling smallholder participation in commercial value chains, the partners can opt to end or exit the initiative. This reality already needs to be spelled out in an exit strategy in the MoU, providing clarity for all actors engaged. Even when certain partners exit the partnership, the smallholders and commercial agribusiness can continue their alliance, either with additional support to the farmers, or on an independent footing. If the project is successful, the smallholders are able to choose if, how, and with whom they want to work.

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