

## Support to the development of food processing enterprise in Africa - An entrepreneur based approach

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### Abstract

For many decades development efforts in agriculture in sub-Saharan Africa have been focused on the increase in food production by smallholder farmers. In spite of the large amounts invested through development assistance and considerable technical achievements, production has generally not been able to keep up with the growth in population. Recently, it is increasingly realized that a more market oriented development of the agricultural sector is needed. Market orientation and diversification in agriculture sector is needed. Market orientation and diversification in agriculture combined with processing, distribution and marketing can considerably contribute to reduction of food losses, improvement in nutrition and overall stimulation of agricultural production which remains the backbone of the economy of the majority of countries in sub-Saharan Africa.

### Introduction

In the development of food processing and marketing, micro-small-and medium scale enterprises deserve special attention as they can play a pioneering role in the development of new products and new markets based on the local agro-ecological conditions and cultural food patterns. Moreover, small scale operations employ relatively more people and often may have clear comparative advantages over larger scale industries in terms of access to raw materials and proximity to local markets.

Most countries in sub-Saharan Africa are large with a relatively population density and/or a limited transport and communication infrastructure. Consequently, the transaction and transport costs for both raw materials and final products are generally high. Especially outside the country which is generally the capital and a few major cities. In such a situation, the inability of small enterprises to realize "economies of scale" in the processing itself can be outweighed by the relatively low distribution and transaction costs to serve a local and emerging market.

### Problems faced by small scale food processing enterprises

So far development of micro-, small-and medium scale food processing and marketing enterprises in most African countries is still in its early stages. Enterprises at all levels face a large number of problems.

### Markets and Marketing.

Probably the major problem is that markets and marketing are underdeveloped and that there is a general lack of purchasing power among the majority of the population. In a country like Malawi,

with a population of 11 million (95 inhabitants per square km) the average household monthly income is about 25 US-Dollars which is mostly spent on (staple) food and basic necessities. Under such conditions, processing and selling of higher value-added products is very difficult and most of the small scale products i.e. primary processing of basic commodities and staple food.

In addition all processors face problems in procurement and storage of raw materials as well as distribution and marketing of finished products. The current liberalization of the trading and storage system which in most countries was monopolized by state-owned marketing organizations, presently aggravates these problems especially for the small entrepreneurs who have limited means to cope with fluctuation in price and irregular supplies. Development of a new structure of liberalized trade and

distribution of agricultural produce is only just getting started. In most countries, marketing of fresh food and processed products is limited to local markets and retail shops for basic products, with a few more sophisticated shops catering for the high income group. Obtaining reliable information on markets for both raw materials and finished products in terms of volumes, prices and locations is presently a problem for micro-and small entrepreneurs who have so far relied almost exclusively on informal channels (i.e. word of mouth).

### Financing

The second major problem area affecting the small scale food processors is access to finance for working capital and especially for investments. Many entrepreneurs exclusively rely on their family capital which is generally insufficient. While there is generally a



*Small-scale local production of weaning food (porridge mix) from maize and soya in Ekwendeni, Malawi. The mixture is processed through roasting and milling.*

multitude of credit programmes for small enterprise operated both by government and non-governmental organisations (NGO's), most of these are limited to short-term credit for working capital (mainly for trade activities) and avoid longer-term credit for investments in equipment. Yet access to processing technology and equipment is fundamental to the development of food processing.

#### Technology.

A third field of problems is lack of know-how and experience in food technology and lack of (access to) appropriate equipment. Most of smaller entrepreneurs do not know how to install and operate processing equipment and have little notion of quality and quality control. Often obsolete technologies are used leading to poor product quality. Equipment is difficult to get and to maintain, and imported equipment is often inappropriate in scale or degree of automatisisation. In most countries the capacities for research and adaptation are limited and the "technical infrastructure" for supply of spares and maintenance is poorly developed.

**Management skills and management information systems.** Typically for micro-and small enterprise is also the lack of management skills and experience. Basic notions regarding business economics and planning are often generally lacking and keeping and utilization of business records is poor. Introduction of simple management information systems would contribute much to the better functioning of small enterprises in the sector.

#### Macro economic environment.

Apart from these sector specific constraints, the macro-economic environment in many African countries has proven to frustrate micro-and small scale enterprise development. As a result of policy of liberalization and structural adjustment of most of the African countries during the 80's and 90's the macro-economic environment generally has improved. However, for micro- and small scale enterprise the effects are not always positive.

The effectiveness of liberalization and structural adjustment policies for micro-and small scale enterprise development is hampered by:

1. The weak institutional and organizational structure of the sector

leading to a very low level of countervailing and bargaining power of micro-and small scale enterprises towards other economic actors;

2. The weak legal structure with a lack of appropriate regulations and limited possibilities to enforce existing rules;

3. The poor infrastructure development of most African countries.

The unexpected, negative side-effects of liberalization and structural adjustments policies for micro-and small scale enterprise development include: increased competition from imported products and services; depreciation of the value of their products and services; declining purchasing power and increased export of capital to places outside Africa and increased competition due to the growing numbers of people dependent on the micro-and small scale enterprise sector.

The end result of these trends is rising costs and declining rewards for micro-and small scale enterprises in many African economies. While generally the number of people depending on this sector has increased, the savings, capital accumulation and investment capabilities of those involved have declined with the danger of this sector in Africa becoming more and more a "shared poverty system" rather than "an engine for economic growth".

#### The role of information and support services

Micro-small and medium enterprises are not able to cope with these problems without financial and technical support. In the past decennia a variety of programmes and organizations for assistance of micro-, small- and medium enterprise have been established in Africa. Initially, these were international donors, followed later on by programmes of NGOs. These initiatives offer a range of financial and non-financial services such as (micro-) credit, entrepreneurship and management training technology development and technical training.

While these programmes have certainly contributed to the development of micro-and small enterprise, their impact has been limited by a number of constraints. Firstly, there is often a multitude of services with different terms and conditions and much duplication of effort, which hampers the access of especially

micro-and small scale entrepreneurs to the services provided. Secondly, there is a high turnover of initiatives and programmes as they are often linked to the project cycle of government international donors or NGOs. Finally, many of the programmes limit themselves to rather general and theoretical training approaches (e.g. entrepreneurship training) while highly needed counselling with regard to the specific problems of individual entrepreneurs or groups is not available.

It is felt that these constraints are caused primarily by the fact that the existing programmes are mostly government and/or donor funded and tend to emphasize the strengthening of their own institutional and professional capacity, rather than orient themselves to the direct needs of their clients which have limited "voice" and funds to articulate their "demand". Even NGOs initiatives for enterprise development tend to emphasize 'social' objectives which may not always be in line with commercial entrepreneurship.

#### Towards a new approach for micro-and small scale enterprise support programmes

It is of crucial importance to develop new initiatives for sustainable support to micro-and small scale enterprises. To ensure that services will become better accessible and will be focused on the demand of the entrepreneurs, the key characteristics of such new approach should be:

- The core responsibility for the design and implementation of programs should be with micro-and small scale entrepreneurs themselves;
- Interventions should be link to and encourage organizational development of micro-and small scale entrepreneurs into business-oriented interest groups;
- Private as well as governmental providers of support services should focus on development of their professionalism in their main field of orientation;
- The government should focus on developing a "micro-and small scale enterprises friendly" macro-economic environment and limit itself to a co-ordinating and regulatory role.

Thus all "stakeholders" should be involved in the development of a new approach from the very start. However, as every country has its specific conditions, a general blue print cannot be given.

### Food processing in Malawi- a case study

The example of the food processing sector in Malawi present a case study of how a new approach can be developed by those involved. In Malawi a workshop was organized by a main organization of micro-and small scale entrepreneurs in collaboration with a major government support service organization. Representatives of all the players in the sector participated in the workshop. The workshop identified the following key issues to be addressed:

- Enhancement of the awareness among micro-and small entrepreneurs in agro/food processing of the existence of information and support services;
- Improvement of the access of the entrepreneurs to relevant information and appropriate financial services from the existing organization;
- Improvement of the demand orientation and quality of the existing financial- and non-financial services (e.g. development of new credit facilities for investment capital );
- Improvement of the institutional set-up to organize the production and dissemination of market information.

### Entrepreneur Membership Organizations.

In order to really address the "access" problems, it was felt that "entrepreneur membership organizations" (EMOs) should play the major role in "voicing" the "demand" of their membership. In recent years a number of new EMO's have sprung up which are specifically oriented at the development of small-and micro enterprise. These include the National Association of Business Women (NABW) and the National Association of Small and Medium Enterprises (NASME). Though relatively new and only weakly developed, these organizations are representing a large number of entrepreneurs. NABW and NASME have a membership of 15,000 and 16,000 respectively, among which there is a considerable numbers of agro/food processing enterprises. Both NABW and

NASME are affiliated to the Malawi Chamber of Commerce and Industries (MCCI), however unlike the MCCI, they have established a network of district membership committees throughout the country.

It was felt by the workshop participants that the role of these EMO's should be to analyze and diagnose the needs of their members and subsequently assist them from the existing (professional )

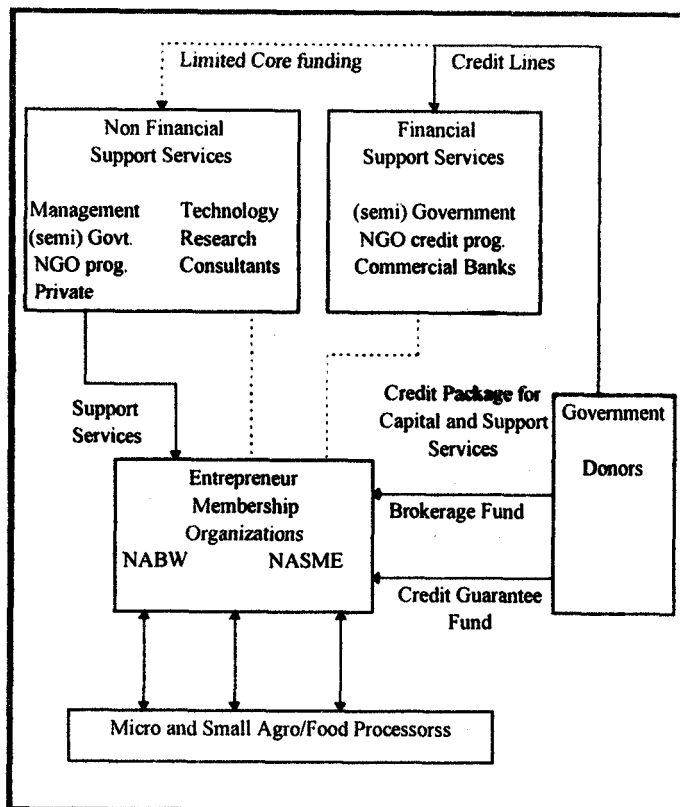
support service institutions and/or NGOs. The EMOs should however explicitly not strive to replace the existing information and support services by operating credit programmes, providing entrepreneur training or engage in technology development and transfer. The EMOs should thus be a "first port of call" for their members and perform a "brokerage" function between "demand" and "supply" of information and services.

As a follow-up to the workshop, a small working group developed a proposal for the creation of a 'brokerage service' under the name "Information Service Centre for Small Scale Agro-Processing Enterprise (ISCAPE)" to be owned and operated by NABW and NASME.

### Brokerage of information and support service.

The brokerage service by the EMOs would consist of identifying and diagnosing the situation and needs of their clients/members and subsequently jointly formulating a package of credit, technology, training and market information (e.g. market niches and possibilities for subcontracting ) to be obtained from the existing professional and specialized support service agencies. The package would result in a business plan/credit request, where the non-financial support would be financed from

Figure 1: Interaction of the various stakeholders and the flow of funds



the credit element of the package.

In order to be able to play this broker-age role in an effective way, the EMOs will need to develop the professional capacity for diagnosis and formulation of business plans/credit requests as well as an information network and database (=information system) on available support services and expertise both nationally. As information and support services are at least partially specific for each sector, the network and database must also be sector specific.

Naturally the provision of the brokerage service by the EMO's would add a cost element to the system of provision of services. To create a sustainable system, the cost of the brokerage assistance could be covered partly from fees paid by the benefiting entrepreneurs themselves and partly from the interest derived from an invested Brokerage Fund provided by government and/or donors. Furthermore, as the access to credit plays a dominant role, it will be even more important to ensure that the EMO's brokerage role will be accepted and supported by the government and donors and that the EMO's will be allowed to play a major role in the allocation of credits. This can be achieved through the creation of an invested Credit Guarantee Fund which will be linked to, or operated by the EMO's.

The interest obtained from this fund would be used to cover the issue of credit guarantees to the financing agencies of behalf of the client entrepreneurs.

Figure 1 show the proposed interaction of the various stakeholders under the proposed "demand driven" approach as well as the flow of funds.

When the EMO's would efficiently play their brokerage role, it is expected that the existing programmes and institutions providing financial and non-financial support to the small enterprises will benefit from an increased and better articulated demand for their services. This will allow these service providers to further specialize and professionalize their services. The "empowerment" of the

EMOs in identifying and selecting the most suitable support services on behalf of their members is also expected to enhance the quality through "demand driven" competition between the support services.

Most important is however that the brokerage role of the EMO's is accepted by all "stakeholders" (i.e. government, financing agencies and the technical and information services and programmes).

It is felt that the approach outlined above could contribute much to the structuring of the support environment for development of micro- and small scale food processing and would help to strengthen the position of the entrepreneurs in the "market" for

assistance, technology and credit. This in turn would have its positive effects on development of the agricultural sector and the much needed generation of employment and income.

#### Annotations

1)The approach described in this article was developed in the close collaboration with Domien Bruinsma of NEDWORC, The Netherlands and Shad Msangaambe of DEMAT, Malawi.

2)Definitions of micro-small-and medium scale enterprise vary from country to country. In this article, individual or family based income generating activities are considered as micro enterprise; small-scale enterprises are more formally registered business owned by a single entrepreneur or group and employing a limited number of paid workers (e.g. max.15 personal).

## THE IUFoST CODE OF PROFESSIONAL BEHAVIOUR

Having regard to

- a) evidence of public confusion on the safety, quality, wholesomeness and nutritional value of modern food supplies,
- b) public suspicion that the size and international character of many food systems may produce concentrations of economic and political power to the disadvantage of the consumer,
- c) the complex food problems of the developing countries and
- d) the need for authoritative and disinterested scientific information and advice where applicable to the consequent issues,

And recognising that as the international body for food science and technology the Union has a responsibility for establishing standards of professional practice for the guidance of its adhering bodies and

Also recognizing that these bodies operate within diverse legal systems, the International Union of Food Science and Technology offers the following statement of principles of professional conduct:-

In the practice of their professions, food scientists and technologists shall;

1. Act in accordance with the food-related legislation of their own countries, that of any trading partners and international legislation where this is relevant, including the provision of scientific input to the further development of such legislation in the public interest,
2. Honour contractual obligations to their employers whether written or inferred from the laws or customs of their own countries,
3. Respect the confidentiality of information gained in the course of professional activity,
4. Uphold the traditional values of science and the standing and dignity of the profession of food science and technology,
5. Assist in the maintenance of professional standards and the extension of their usefulness,
6. Ensure the integrity of their professional publications whether through the medium of the spoken, written or printed word, or by radio or television broadcasts or by any other means,

7. Avoid unethical exploitation of their professional status by endorsement of misleading or fraudulent advertising or product certification,

8. Protect the public interest in the wholesomeness and safety of any food or drink with which they are concerned,

9. Declare any conflict of interest while acting as consultants,

10. Maintain professional competence by continuing awareness of relevant new information and developments,

11. Respect the character and integrity of other members of the profession giving due recognition to the work of others without distortion or discrimination,

12. Attend to the proper guidance and training of subordinates,

13. Refuse any favours of gifts which might prejudice professional judgement nor offer such,

14. Pursue by every ethical and practical means the improvement of public knowledge of the basic facts of food safety and sound nutrition.