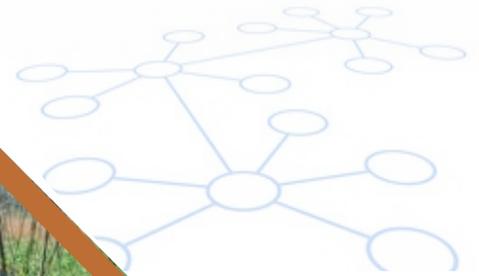


Building the Missing Middle

Telephone Farmers' Project



The Case for Supporting the Telephone Farmer



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Agriculture is the base of Kenya's economy contributing about 30% of the GDP and a further 27% coming from logistics, agro-processing and other economic activities that depend on agriculture.

This publication is the output of:





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Building the Missing Middle – The Case for Supporting the Telephone Farmer

Policy Brief

Agriculture is the base of Kenya's economy contributing about 30% of the GDP and a further 27% coming from logistics, agro-processing and other economic activities that depend on agriculture. A singular focus smallholder farming model which is the dormant mode of production is becoming increasingly untenable. Three factors are steering towards rethinking of this model of small-holder centric agriculture driven development: (i) unsustainable intensification, (ii) changing food markets and (iii) diets shifts and rises of supermarket.

I) Fragmentation of land: Rapidly growing rural population are putting pressure on the smallholder farming system. There is evidence that land is becoming an increasingly constraining factor of production for a sizeable and growing proportion of Kenya's rural population leading to intensification and also lower incomes (Jayne et al. 2016)¹. Lower incomes may impede smallholder's ability to invest in inputs leading to soil mining and subsequent soil degradation². Already many smallholder farmers are net food buyers³. For these sub-subsistence farmers, we should think of how to create off-farm job opportunities through upgrading value chains and rural transformation rather than increasing intensification (Wiggins et al 2010).

II) Changing Food markets: Urbanization has created demand for Ready-To-Eat (RTE) or processed foods. Processed food now holds a 39% share of all food expenditure in Eastern and Southern Africa region (Tschirley et. al. (2015). Meeting this demand requires a strong food processing sector which in turn requires production systems with low prices, consistent supply and quality and also right varieties. Smallholder farming with a subsistence orientation are hard pressed to meet these demands. Thus food processing sector remains small and thus much of the demand for processed food is met by imports.

III) Supermarkets Revolution: Urbanization and rising incomes created a demand for consistency in supply, quality and convenience when shopping for food and other consumer goods. This has seen a rise in supermarkets and this revolution is likely to gather pace⁴. However, participating in supermarket chains is a challenge for many smallholder farmers. Supermarket orders are huge (as they want to reduce transaction costs) and quality specifications (both health and visual) are also very high. Many small holders are challenged to meet these requirements. So many times larger commercial farmers tend to become the suppliers

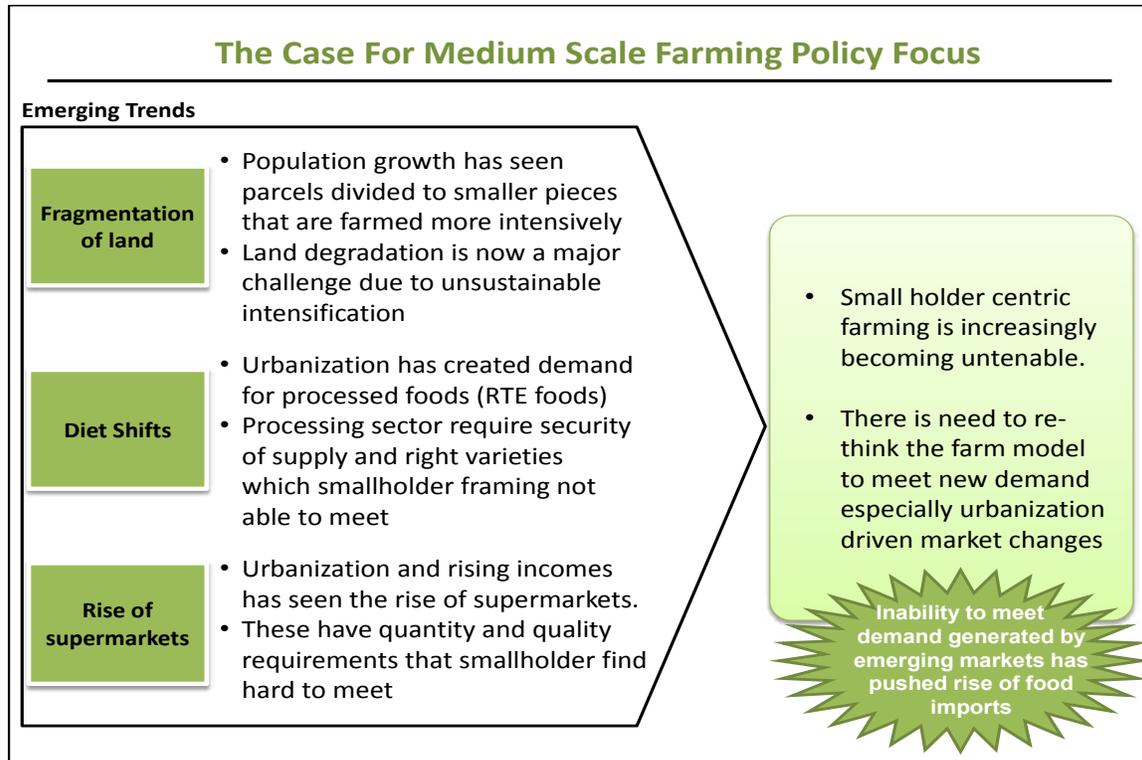
1. Note that piece of land can still be economically farmed if family decides to farm professional rather than each member owning a piece, however cultural practices tend to trump economic and land is subdivided to uneconomic units

2. Sustainable intensification is an area of active research and there are cost effective ways to achieve this

3. Short et. al. (2012) point that although almost all farmers grow maize, it is estimated that about 2 percent of farmers in the smallholder sector account for over 50 percent of the national marketed supply and about 57 percent of smallholder producers are maize deficit (buying more than they sell)

4. A study in China found that 1% rise in urbanization leads to a 5% rise in supermarket sales while \$1 increase in disposable income raises supermarket sales by \$0.27. (Hu et al 2004 cited in Trall 2006). South Africa with 65% of the food distributed through supermarkets may be an anomaly in Africa, but also more likely a pointer to the future of the food distribution landscape.

Figure1: Case for Medium Scale Farmers



The Case Medium Scale Farming

Medium scale farming can re-energize the agricultural landscape in a number of ways, since:

- They have the orientation to adapt new technologies e.g. seeds and thus can have higher productivity and crucially relieve the pressure on extension system to demonstrate the impact of new technologies (ACET 2015).
- Medium scale farmers have resources to invest in mechanization. They may not utilize the full capacity of the machines and this excess capacity can be leased to local farmers (Chapoto et. al. 2014).
- They can contract surrounding farmers to supplement their input. These farmers have the capacity to deal with emerging markets , especially food processing and supermarkets who need quantity and quality guarantees (ACET 2017).
- Presence of medium scale farmers can stimulate the entry of large scale traders (LSTs)

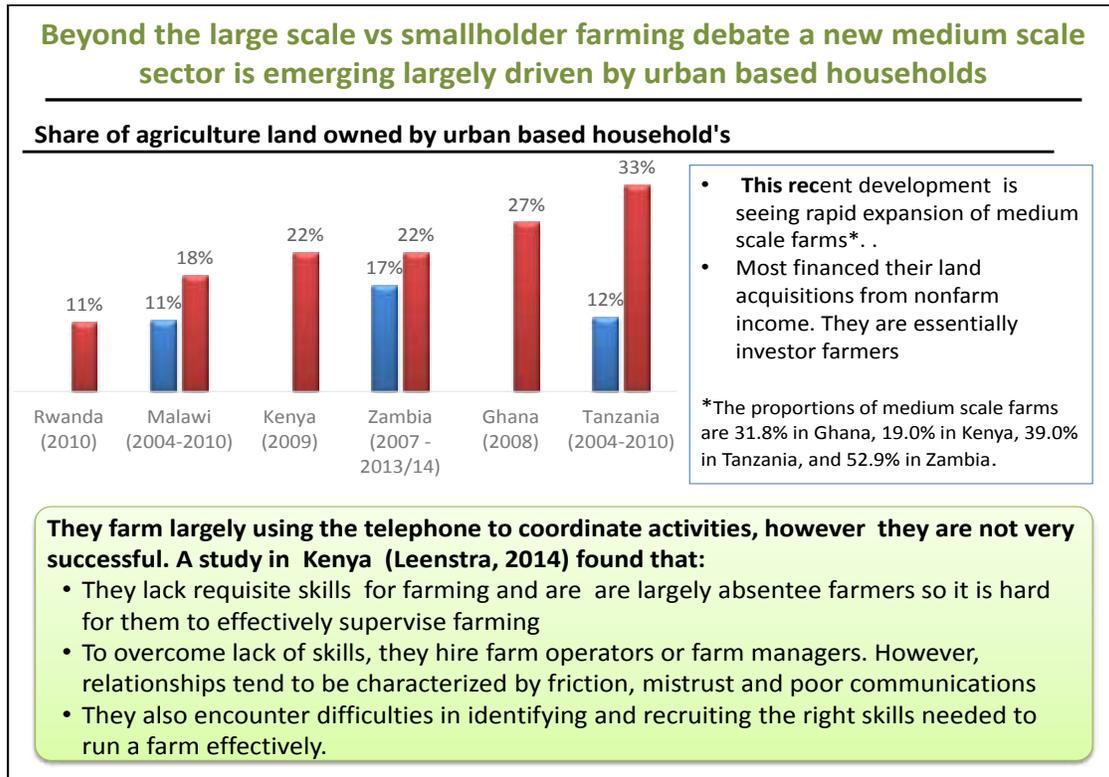
thus helping to upgrade the value chain (Stiko et. al. 2018). LST have resources to invest in logistics. This is key to attracting investment by processors. LST can also integrate forward to become processors.

- Medium scale farmers can integrate forward and establish cottage industries that can start the process of developing strong rural based agroprocessing sectors e.g. yoghurt thus creating non-farm rural employment.
- The presence of medium scale farmers is key to facilitating a transfer of technology from the frontier to the smallholder farmers. Large scale farmers have the capacity to search and adapt technology from the frontier. Medium scale farmers have the capacity to interface with large scale farmers and appropriate these technologies. And through contract farming or otherwise they can diffuse the technologies to small holder farmers. This process has been happening in dairy and horticultural sectors.

The Rise of The Telephone Farmer

Urban households are increasingly acquiring agricultural land. These acquisitions are largely driven by opportunities seen in agriculture by these investor farmers. Figure 2 shows observations of this phenomena across 6 countries.

Figure 2: Rise of Urban Based Investor Farmers



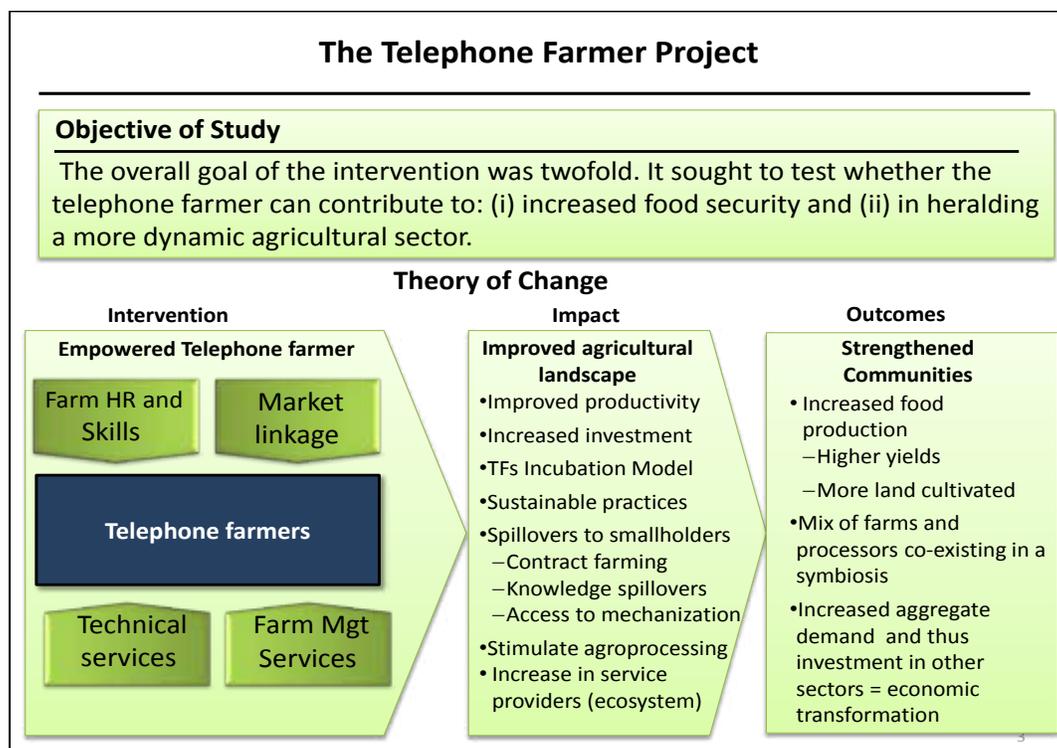
Many of these urban based farmers coordinate farming through a telephone thus they are colloquially called “Telephone Farmers” (TFs). They usually have much larger plots mainly on the range of medium scale farming (5-100 Ha). However, they have challenges. A study of Telephone Farmers in Kenya (Leenstra 2014) found that:

- They often lack business- and technical skills to properly manage these farms. This partially stems from the fact that they generally have other professional careers prior to engaging in agriculture. For many, it may be impossible to be as frequently present on their own farm to supervise activities.

- To overcome the lack of skills and time, many telephone farm owners hire farm operators or farm managers to guarantee that the farm activities will be undertaken properly. However, the relationships tend to be characterized by friction, mistrust and poor communications.
- Telephone Farmers also encounter difficulties in identifying and recruiting the right skills needed to run a farm effectively.

The rise of urban investor farmers otherwise called “telephone farmers” is thus an important trend that needs to be supported. The “Telephone Farmer” project sponsored by the Netherlands Embassy sought to provide this support. The overall goal of the intervention was twofold. It sought to test whether the telephone farmer can contribute to: (i) increased food security and (ii) in heralding a more dynamic agricultural sector.

Figure 3: Telephone Farmer Intervention



The Outcomes of the Telephone Farmers Project

The telephone farmer project created a better understanding of who the Telephone Farmer is, why it is important to support the growing sector and what it will take to make them successful. Below is a summary of insights gained from this study. The key outcomes of the project are:

I. A better understanding of who the Telephone Farmers are and therefore how to design an optimal support structure. The study identified three types of telephone farmers:

- **Telephone Farmer- Retirement Plan (TF-RP):** These telephone farmers want to acquire skills to manage farms and finally retire at the farm. They are willing to employ highly competent farm operators. Among this group, we identify younger, ambitious farm owners who committed to full-time (commercial) farming due to increased knowledge, awareness and skills (potentially from experiencing prior intensive service support).

- **Telephone Farmer-Serial Investor (TF-SI):** These telephone farmers' objective is to understand the farming business and finally acquire a portfolio of farm investments. The key requirement of these type of farm owners is a strong or highly competent farm manager and requisite farm management systems. They are willing to pay for very specific farm management services.

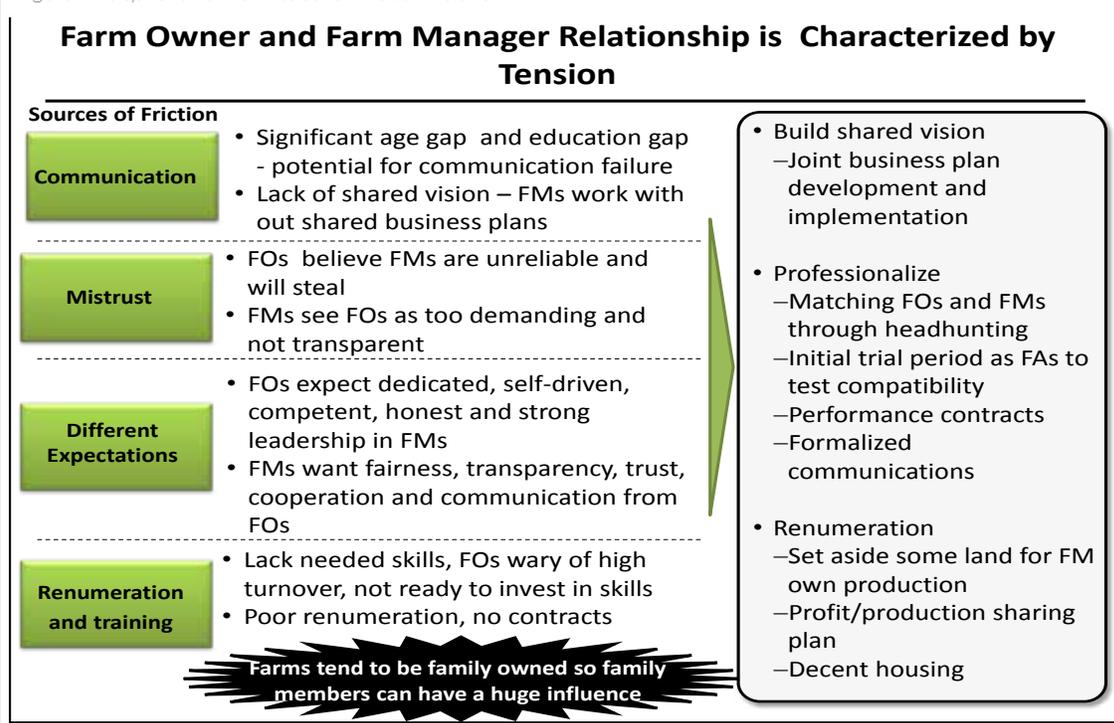
- **Telephone Farmer- Hands Free (TF-HF):** These are professionals who intend to continue in their professions but engage in farming as an extra income stream. These farmers are looking for a complete farm management package.

- **Telephone Farmer- Value Addition (TF-HF):** Telephone Farmer- Value Addition (TF-HF): These are Telephone Farmers who seeks to integrate forward to processing when they become successful at production. They usually start with on farm processing i.e. cottage industry such as making yogurts or cheese..

II. A better understanding the farm owner and farm manager relationship and interventions that can make the relationship more productive. Key to the success of the Telephone Farmer is having a good farm manager to overcome lack of farming knowledge and lack of presence. However, the relationship has tended to be characterized by tension due to mistrust and lack of shared vision. The project helped develop and recruit farmers managers for Telephone Farmers and gained important insights on

how to make the relationship work better. The includes developing a shared vision through (i) joint development and implementation of business plan; (ii) professionalizing the profession though better recruitment and matching through headhunting, initial trial period test compatibility, performance contracts and formal communication; (iii) Renumeration that goes beyond salary to include land for Farm Manager subsistence, sharing of profit or output and decent housing among others.

Figure 4: Telephone Farmer Incubation Model Evolution



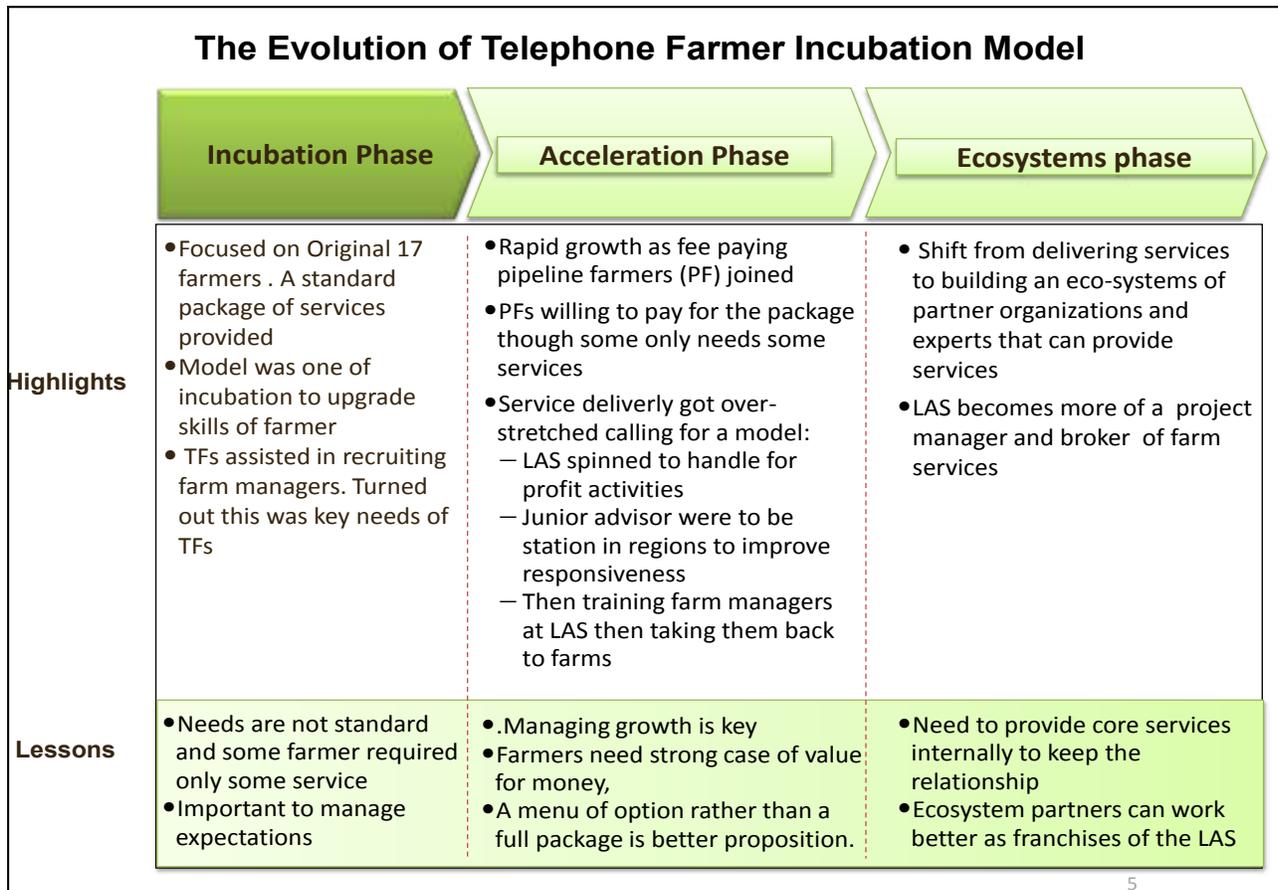
III. It demonstrated there is a demand for farm services and highly skilled farm managers and operators including the youth.

- The original 17 Telephone Farmers were joined by new fee-paying Telephone Farmers. This was mostly through referrals by the original farmers and also through walk in by pipeline customers who got to know about the program through media coverage.
- It created opportunities for young skilled TVET and university graduates by creating a market for farm operators and managers. Many of the farmers recruited sought Latia's help in recruiting skills once they professionalized the operations after going through apprenticeship program.

IV. A better understanding of how to service the telephone farmers. As the project evolved the service model evolved from one that sought to provide farmers all the service from one place to the development of eco-systems coordinated by a platform from which farmers can receive services from various strategic partners.



Figure 4: Telephone Farmer Incubation Model Evolution



V. Demonstrated that supporting the medium scale farming sector is a more efficient and sustainable way of dealing with food security and driving inclusive economic development. This is supported by the following observations:

- Professionalization of the farm activities led to more sustainable practices along the following dimension such as planet (water harvesting, crop rotation etc.), people (decent wages and training etc.) and profits (improved cash flow book keeping etc.). All of these sustainable practices improve the long-term food security.
- Some of the telephone farmers were contracting or planning to contract (and supporting) smallholder farmers to raise the productivity to supplement the Telephone Farmer output. Contract farming also allowed smallholder farmers become part of the Global Value Chains (GVCs) which they otherwise had no chance of being part of the value e.g. a mango Telephone Farmer exporting to the Middle East used surrounding small holders as contract farmers.
- Some of the Telephone Farmers were also processing, which is key to rural transformation and more crucially creating rural non-farm employment opportunities which is important to reducing poverty e.g. a Telephone Farmers was raising pigs as well as processing pork and sausages.

- While the original telephone farmers were mainly older (> 50 years), the managers and operators tended to be much younger (< 34 years). This professionalization of farming can thus attract young people into farming and offer them positive job prospects with motivating incentives.

VI. Put in place a nascent network of Medium Scale Farmers. The project put together a network of like-minded telephone farmers that proved to be a valuable platform for many farmers.

- Through a “*WhatsApp*” group that was formed, it enabled: (i) Farm owners to ask questions about operational problems such as pest and disease control; (ii) Share information on market prices; (iii) Explore potential for coming together as a group to buy in bulk or hire services.
- The bond between the telephone farmers has grown due to this tool and even inspired them to continue as a unit after the finalization of the project.



Towards An Eco-Systems For The Telephone Farmer

The Telephone Farmer project has identified a suite of support services which are needed to support Telephone farmers and efforts should be focused on building an eco-system of these services and a platform to coordinate them.

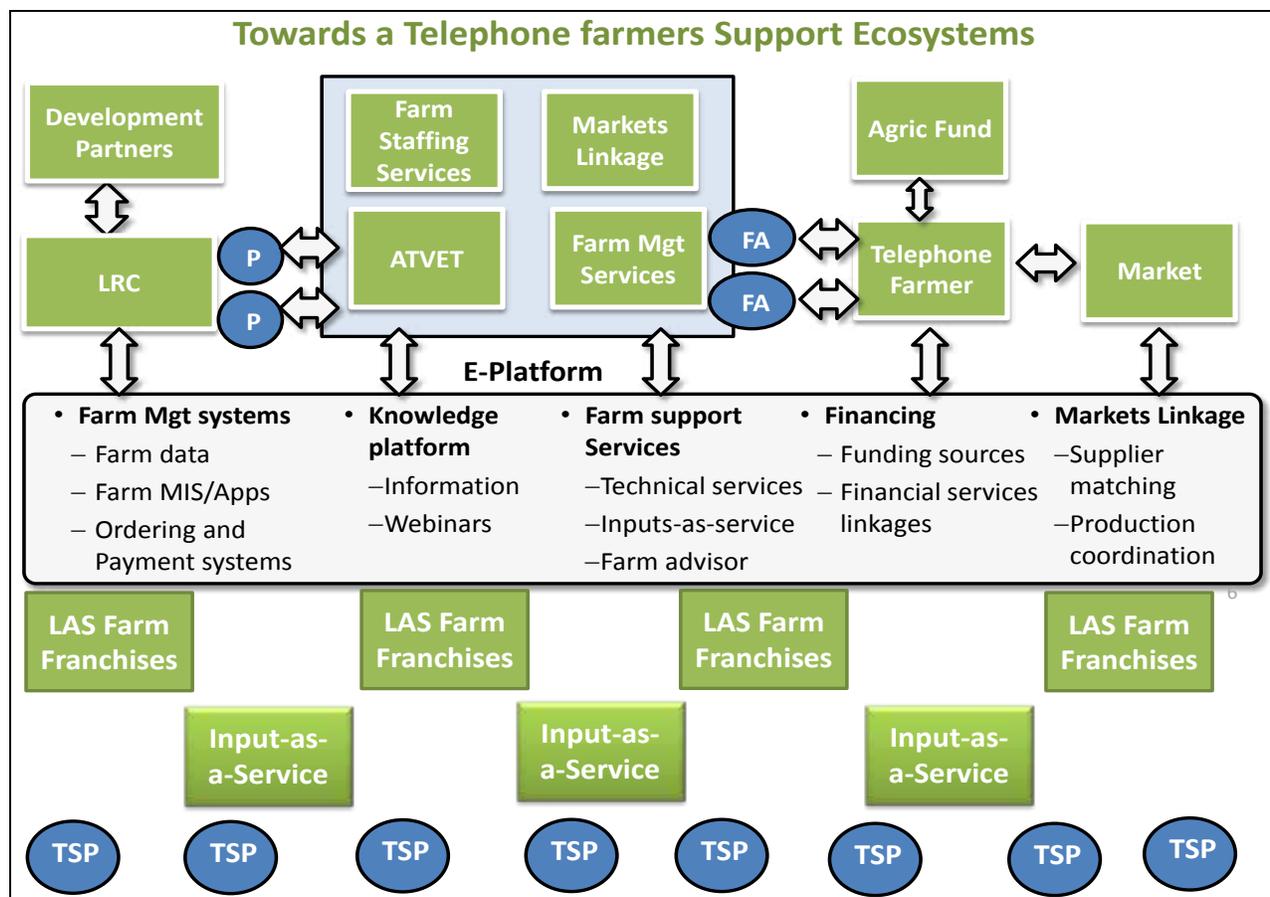
The core services to be provided by LAS will include:

- **Farm Management Services (Full Suite):** This will be largely targeted at Telephone Farmers- Hands Free (TF-HF) category. This will entail taking over farms and managing them for a fee and sharing the output/profit.
- **Farm Skills Development:** This will entail training all levels of farm experts from operators to supervisors to managers. Experts trained will form a pool of experts that LATIA can tap to deliver services as LATIA attached Farm Advisors (FA). Farm owners who want to learn about farming will also be incubated under this service. Ongoing training and coaching of farm owners, managers and other staff will be part of this service. Key innovation here will be creating franchises on other farms so that LATIA training can be delivered by selected farms that have been given a LATIA franchise.
- **Farm Staffing Services:** This will entail recruiting expertise for farms and on-boarding them. FAs who develop good relationship with farm owners can after a time be employed by farms as a farm manager if a right match occurs.
- **Farm Services Broker:** This will entail identifying and recruiting various experts needed in the farming and linking farmers to the various expertise. Key part of this will be quality control and assurance to ensure all service providers deliver as expected.
- **Market Linkage Services:** This is a key value proposition for LATIA as farmers want a stable market. Buyers also want a reliable supplier. LATIA can develop the needed relationships and use that to coordinate production among its clients.

This will be supported by an ecosystem of service providers including:

- i. **LRC Foundation;** LRC develops projects to support communities and explores how solutions can be converted to business ventures. For example, LRC can work with development partners to develop farming as a service model where youths can be organized to groups to deliver input services e.g. spraying.
- ii. **Medium Scale Farmers Revolving Fund:** Farmers are keen to access extra credit and finance. A revolving fund from which farmers can borrow is being created. Farms themselves can form a SACCO and raise seed money for the revolving fund. LATIA seeks to raise extra financing from Development Partners and private equity investors.
- iii. **LAS Franchises:** LAS is extending its reach through using a franchise model to deliver services. TVETs and medium sized farms can become LAS franchises upon getting the right training and putting the right facilities in place. They primary support farmers with implementation of the business plan.
- iv. **Markets:** This will include buyers e.g. Twiga foods recruited to source through the system. They post orders and the system organizes the farmers to fulfil the order.
- v. **Inputs-As-a-Service Providers:** These are groups of youth trained and capacitated to provide services e.g. spraying through a franchise model. This allows telephone farmers to reduce their overheads by cutting down on the number of employees.
- vi. **Technical Services Providers (TSP):** These are high level experts in various domains who can be called to solve specific problems e.g. a veterinary doctor.
- vii. **The Agri-business platform:** The center piece of this new organization will be an e-platform where all farmers, experts and service providers (ecosystem actors) are linked. The platform will also allow financial transactions. So if a farmer needs a service the platform can link the farmer to the needed service provider who is part of LATIA vetted service providers.

Figure 5: Telephone Farmer Support Business Model



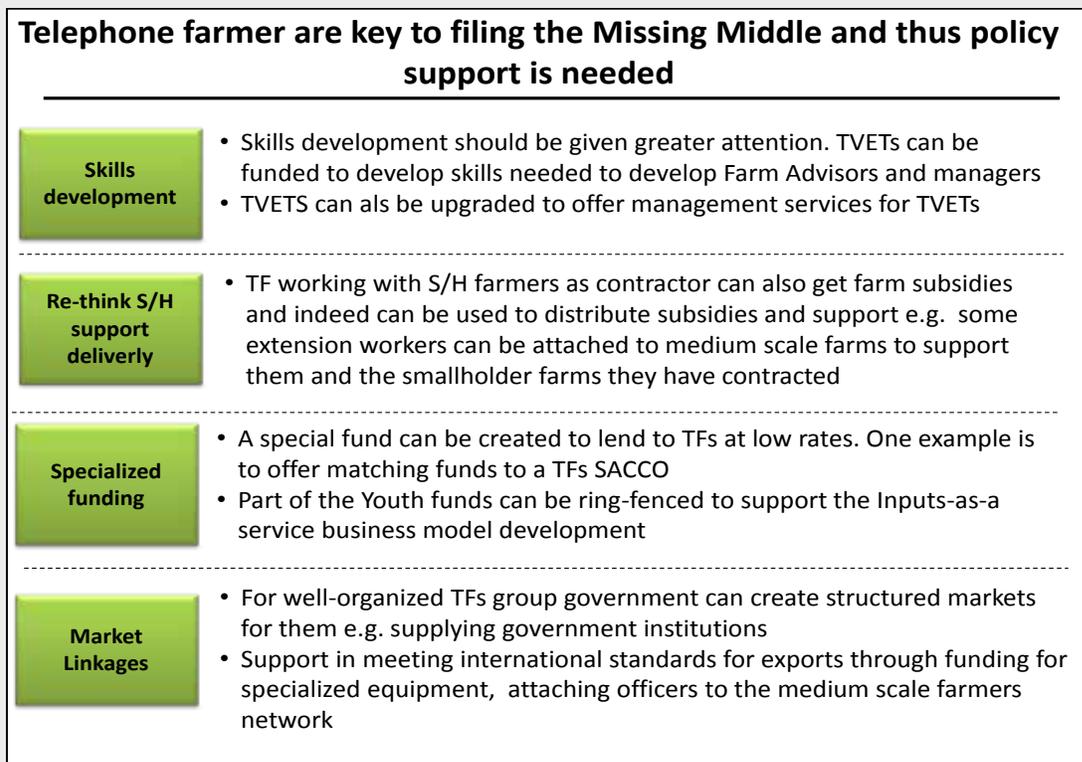
P: Projects; FA: Farm Advisor; TSP: Technical Services Providers

Policy Support for Telephone Farmers

The rise of urban investor farmers or “Telephone Farmers (TFs)” provides an opportunity for strengthening the agricultural sector in Kenya. This is based on the argument that the medium scale farming is the “missing middle” in the Kenyan farming landscape and the telephone farmers are the key to filling this missing middle. There is thus a case for policy support. Policy actions that can help strengthen Telephone Farming include:

- Skills development: Providing funding to develop more farm management services skills especially in TVETs
- Routing support including subsidies for smallholder farmer through TFs. Government can attach extension officers to TFs with the requirement that they contracts smallholder farmers
- Funding a special revolving fund at allow TFs to borrow cheaply
- Creating structured markets for well-organized telephone farmers e.g. supply to government institutions

Figure 6: Policy Support for Telephone Farmers



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