



## **JULY 2011**

# **OVERVIEW**

# IIED Sustainable Markets Group

Project name:

Regoverning Markets

## Project leader:

Bill Vorley

#### Time frame:

2003-2008

#### Cost:

Approximately £3 million

#### Objective:

To support policies and practices on agrifood market modernisation that are inclusive of small-scale producers, by generating evidence and facilitating policy dialogues.

#### **PROJECT SUMMARY**

Domestic food markets are undergoing rapid but uneven modernisation, with supermarket chains and branded manufacturers growing alongside the informal market. The Regoverning Markets programme, led by IIED and a global consortium, asked what this means for small-scale farmers worldwide through empirical research, case studies and policy consultations. The restructuring of food markets has left many small farms relatively untouched, but increasing demands for quality and safety put them under new pressure. Public and private actors can use policy and innovative business models to ensure modernisation includes smallholders.

#### THEORY OF CHANGE

Getting the evidence right is key in designing policies to support small-scale farmers. We set out to answer three central questions:

- What's happening? Is it true that the poor are excluded as food systems modernise and restructure?
- What are best practices for businesses, producers and policymakers to develop inclusive markets?
- $\bullet \ How \ should \ public \ policy \ and \ private$

# Small farms and market modernisation

As the 'supermarket revolution' sweeps global food markets, are poor producers being left behind?

'Waves of change' has become a buzz-phrase among experts on global food and farming systems, and many worry these transformative waves are sweeping aside the world's rural poor. Huge, quality-conscious grocery retailers, food manufacturers and food service companies are spreading fast into emerging economies. Particular attention is drawn to China and India, where 40–60 per cent of the workforce — more than 640 million people — engage in agriculture. And now Walmart is on the brink of entering sub-Saharan Africa.

The widespread assumption is that small developing world farms will be pushed to the margins as big companies demand year-round supplies, in pristine condition, that also comply with expensive integrity standards. Those who cannot keep up for lack of capital, scale and organisation will lose their markets and livelihoods.

Is it true, though, that the modernisation of food markets is leaving smallholder farmers behind? To formulate pro-poor food policy, decision makers need a much better evidence base. IIED and a consortium of partners took on this challenge in the five-year Regoverning Markets programme, involving surveys of farmers in Africa, Asia, Latin America and Eastern Europe, policy consultations in eight countries, and more than 40 case studies using common research questions and methodology.

## No farmer left behind?

The results show that in many places, while waves of change are certainly breaking over retail markets, small farms are by no means always excluded. In countries such as South Africa and Zambia, where low-income farms exist alongside agribusiness giants, smallholders are indeed bypassed by large food buyers, but they continue to trade in thriving, competitive street markets.

Such informal markets predominate in poorer African countries, where the 'supermarket revolution' has yet to make much impact. But some past research has underrated the informal sector because it resists tidy surveys.

In other examples such as Turkey, government regulation has affected inclusion more than private-sector restructuring has. Yet another pattern appears in China, where smallholders dominate the food supply in a growing economy. China had one supermarket in 1990; now it has more than 53,000. Some 240 million farming households, most on less than half a hectare of land, contribute to this development — but have not had to swiftly update their practices. Instead, a robust and flexible network of wholesale markets, including huge numbers of small-scale traders, mediates between small farms and modern retailers.

But even these farmers cannot remain untouched forever. Outcry arose in 2008 over Chinese milk powder tainted with business models reflect this?

Using this policy-relevant research we sought to inform and change attitudes to agrifood modernisation and small-scale producers. We used case studies to validate innovative models and interventions that support participation of small farmers in modern markets; and we completed the picture with policy dialogues where representatives of the public sector, private sector and civil society, at national and international levels, discussed how to implement solutions.

# **KEY LESSONS LEARNT** & INNOVATIONS

- Small-scale farmers are often unaffected by modernisation of food markets, because flexible wholesalers mediate the changes. But this shield cannot necessarily be maintained as food safety and traceability become top priorities.
- Integrating small producers requires organised farmers and conducive public and private policies. Companies with inclusive business models are keystones for pro-poor development — as are 'bridging partners' who act to match farm produce with customer demands.
- Governments should support diverse market options and not just focus on modern retail chains.

## **PARTNERS' VIEW**

In the end, Regoverning Markets was different from where we started, though we did achieve our goal. It was about learning... we focused on supermarkets to start with, but we found many other things that were more important. By looking beyond retail modernisation, we learnt much more.

Jikun Huang Director of the Center for Chinese Agricultural Policy

# IIED SUSTAINABLE MARKETS GROUP

The Sustainable Markets Group drives IIED's efforts to ensure that markets contribute to positive social, environmental and economic outcomes. The group brings together IIED's work on market governance, business models, market failure, consumption, investment and the economics of climate change.



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melamine, and as markets increasingly demand rigorous food safety — including products traceable to the original farm — it will be hard to maintain systems where a chain of middlemen shield producers from change.

That dynamic was measured in some countries and products — tomatoes in Indonesia and dairy in Poland — where the modern food sector is favouring farmers with quality-preserving assets such as cooling tanks for milk, despite agriculture remaining predominantly small-scale.

# Guiding the food economy

To ensure that evolving economies can integrate small-scale farming into the future, there are several key factors. Our study highlighted organised and empowered farmers, policies creating a supporting business environment, and receptive food companies. Most important are actors in the supply chain who bridge the world of small farms and that of modernising markets. We found many examples of innovations that cross these worlds: producers' groups such as Normin Veggies in the Philippines, who set up a marketing company to deal with fussy fast-food buyers; proactive middlemen like Indonesia's Bimandiri, who organise, train and equip producers while also servicing customers down the chain; and retailers such as Hariyali in India, who set up hubs in the countryside to upgrade small-scale agriculture and provide a market for their harvests.

These observations in turn fed policy consultations in Bangladesh, Indonesia, Morocco, Pakistan, the Philippines, South Africa, Turkey and Vietnam. Policymakers, farmers, companies and NGOs mapped out trends in the food system and looked at solutions. At least

four of these consultations led to the establishment of alliances, platforms or task groups to address trends in restructuring. In collaboration with Wageningen International, we've also released a guide for local groups to run such dialogues on their own. Discussions will be fuelled by the project's 50 published papers and two books — the second due out in November 2011 together with a stream of reports from partner organisations building on this work. One important takeaway so far: it's important that governments encourage flexibility and competition by supporting a diverse array of supermarkets, street markets and wholesale markets, but not all action needs to happen in the public sector. Companies experimenting with new, inclusive business models have an essential role to play.

Here, our farm-to-market project intersects with IIED's work on another part of the food chain - land. Just as we highlight retailers whose business models can be inclusive of poor producers, separate IIED research has touted investors in foreign farmland who prosper not by creating vast plantations, but by doing business with smallholders. Analogous approaches extend to forestry, energy and even climate change mitigation. Our foodmarket research has thus seeded a new IIED learning group on innovative business models — which are starting to look like keystones for development in a changing world.

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