

Inclusive Business in Agrifood Markets: Evidence and Action

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Linking market chain actors for effective policy

Conference Issues Paper 5

The past decade has seen the emergence of a worldwide policy debate on the modernization of agrifood markets and the implications for rural development, farming, food, public health, trade and environment. Few debates focus specifically on the developmental impact of changes in agrifood markets on small-scale producers and the rural labour force, or the means to secure broad-based, pro-poor and inclusive market development. The capacity for public policy to anticipate change remains limited. Innovation in chain-wide learning, engaging direct and indirect stakeholders, can help to understand the changes taking place at national levels and inform public policy and private sector action. Such approaches are greatly enhanced through evidence-based learning and cross-fertilization of experiences and practice between regions.

Key messages

- Multiple stakeholders interact directly and indirectly to shape the structure of modern agrifood markets
- Transactions in the value chain and the nature of public policies and business strategies can have unintended consequences for the future of small-scale producers and entrepreneurs active in modern agrifood market chains
- Public policies and strategies for rural development, farming, food, public health, trade and environment are often inconsistent, incomplete, or overlap since they relate to both traditional and modern markets
- New arrangements to enable dialogue among public policy, business and the farming community are required to secure fairness in trade, and sustainable and inclusive agribusiness
- Chain-wide learning approaches – working with many stakeholders – can open up the space for dialogue, build understanding of agrifood market trends and drivers, develop future scenarios, and define entry points for action
- Building up evidence-based policy, including strengthening national centres of excellence, is a prerequisite for effective public sector change
- Sharing of innovation and good practice within and between regions at different levels of market concentration and between stakeholders can help in anticipating and managing agrifood market transformation.

Why the policy dialogue vacuum?

Developing and emerging market economies face particular challenges given the rapid transformation of agrifood markets. Many such economies depend on small-scale farming to supply their domestic food requirements in both modern and traditional markets. One of today's key challenges in national development is to secure procurement systems that are both acceptable to modern agribusiness and inclusive of small-scale producers, so that they may benefit from the modernization of the sector.

In most countries, there is a policy dialogue vacuum that limits national capacity to explore future trends and drivers of change in the agrifood sector, and the development of broad agreement on the implications and opportunities of modernization. The dynamics and implications of changes in market chains have been largely overlooked by public policy with unanticipated and/or unintended consequences to small-scale producers and their inclusion in markets. Relevant government departments with responsibilities for the direct aspects of the food chain, from production through wholesale to retail, are largely unconnected. They are also disconnected from agencies responsible for indirect aspects of markets such as infrastructure, trade and commerce, market regulation, financial intermediation, science and technology, and education and training.

Market liberalization has also distanced the public sector from its understanding of the agrifood sector. It has hampered the emergence of an essential public sector role in shaping agrifood market transformation for rural development.

Agribusiness is not, nor should it be, driven primarily by a development imperative. However, the retail and processing stages of modern agribusiness rarely see the reach of their actions at the level of production, including the implications for small-scale producers (see Issues Paper 2). The interaction of global retail with domestic retail, combined with the drive for global and regional sourcing, contribute to a globalization of systems of chain management. This potentially raises the barriers to market access for small-scale producers. In some instances, voluntary self-regulation of agribusiness, for example the Argentina Best Commercial Practices Code, can help to prevent conflict and solve disputes among suppliers, processors and supermarkets. Such initiatives tend to arise where the political pressure or call for change is greatest.

Small-scale producers and their organizations face a set of challenges brought about by the unprecedented changes in modern retail and agribusiness concentration (see Issues Paper 4). Their capacity to adapt is influenced by a complex set of interacting assets: human, social, organizational, physical and financial capital.

While market restructuring can be significant downstream, it is very uneven upstream. Market signals of price or volume and demands on food safety, quality and packaging, for example, may not be transmitted to producers. Over time, however, the capacity to respond to multiple and changing market demands, including deciding within which market to trade (i.e. modern or traditional), will be a key determinant of resilient rural development.



Small-scale producers worldwide face unprecedented change – rural stakeholders in Bangladesh debate the future challenges

Civil society organizations play a role in shaping the face of modern agrifood markets globally and locally. These include consumer groups, the media, farmers’ unions and trades unions.

The developmental aspects of changes in agrifood markets in developing and emerging market economies have been raised within the development and donor communities. The latest World Bank World Development Report 2008 has placed the topic squarely within their report *Agriculture for Development*. Donor agency members of the Global Donor Platform for Rural Development agreed in 2007 to place ‘supermarketization’ as one key theme for priority action.

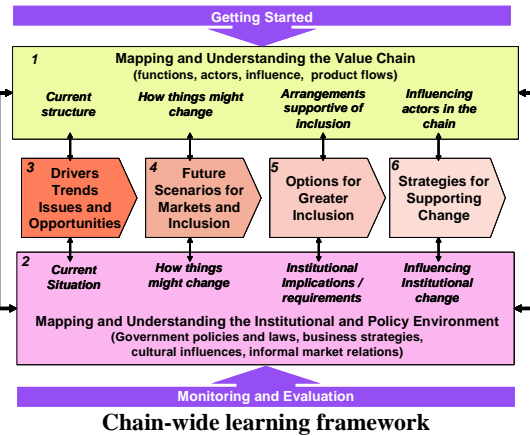
Chain-wide learning initiative

The Regoverning Markets programme has sought to contribute directly and indirectly to a wider vision of more secure and enhanced inclusion of small-scale producers and small- and medium-scale entrepreneurs within dynamic modern agrifood value chains. A key element of the programme was to develop and take forward innovation in multi-stakeholder chain-wide learning as an entry point for dialogue at country level. The overall objective was to open the space for dialogue on the key issues and opportunities for enhanced small-scale producer participation in modern agrifood markets. Chain-wide learning processes were supported in Bangladesh, Indonesia, Morocco, Pakistan, Philippines, South Africa, and Turkey. Working meetings were undertaken in partnership with national institutions. Full country reports are available at www.regoverningmarkets.org.

The chain-wide learning framework, its key activity domains, and the tools and methods available proved to be robust in the differing country contexts in exploring along the value chain the key policies and institutional arrangements that can support pro-poor procurement and small-scale producer participation. With this understanding, it is possible to devise and advocate for changes that would support appropriate

participation by small-scale producers in dynamic markets. Such changes may relate to government policies and programmes, the ways producers organize themselves, or to the procurement conditions set by modern retail. In most situations, multiple approaches are required.

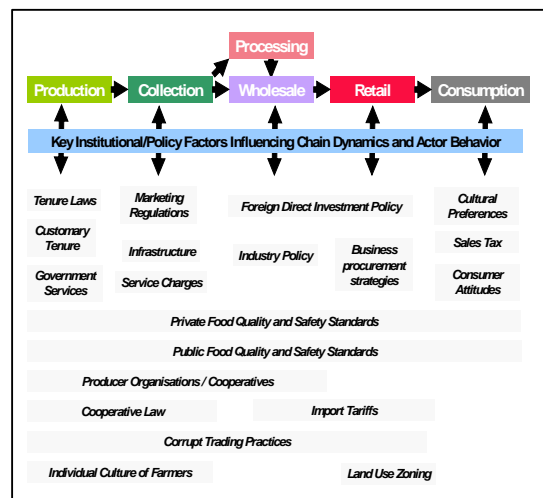
The processes themselves can be used to support the formulation of public strategy, resolve issues in a specific chain, develop specific business strategies and partnerships, or identify future investment or research priorities. Different countries opted to use different techniques and selected those best suited to the cultural context, the physical workshop environment and the experience of the moderation teams.



The six main activities

Activity 1: Map out the value chain and identify the main actors and the flows of products, money and information. It is important to understand where along the chain most value is created and the nature of the linkages between actors. Mapping the value chain is a key to visualization of the agrifood systems and provides a valuable entry point for debate.

Activity 2: Map key policies and institutions that influence the functioning of the value chain and the inclusion or exclusion of small-scale producers.



Examples of the impact of different institutions along a value chain

Activity 3: Establish the key drivers, trends and issues affecting the value chain and its actors. Drivers are the main external factors influencing change. Trends are the directions of change in the chain, such as types of producers, prices or marketing channels. The issues are the positive or negative implications of the trends for the different actors in the chain.

Trends:

- Raised consumer awareness of and demand for quality
- Food safety concerns of consumers
- Emergence and inclusion of modern retail in the market chain and increasing market opportunities
- Ease of access to imported goods including for modern markets - global competition
- Opening up of new market opportunities including export and agri-processing
- Good agricultural practice including traceability and integrated quality assurance

Drivers:

- Increased purchasing power
- Changes in consumer lifestyle and preference
- Health concerns that raise quality requirements and change patterns of demand (health foods)
- Influence of globalization, including trade agreements and opening-up of markets
- Modernization of the agrifood sector
- Growth in new national and external markets e.g. export

Drivers and trends: key emerging themes from country debates

Activity 4: Explore future scenarios in relation to uncertainties about drivers and trends and understanding the future implications for the value chain, its actors and the inclusion of small-scale producers. Working on future scenarios is often critical to open a wider dialogue space and move beyond some important issues of the day to broader challenges. It helps stakeholders see alternative futures and work back through the implications, thus fostering anticipatory policy.

Activity 5: Map options for better inclusion to identify specific options that could enhance the market opportunities for small-scale producers. This uses the analysis of Activities 1 to 4. Having explored key institutional factors, drivers, trends, issues for different stakeholders and scenarios, it is now possible to look at the key opportunities and key barriers to inclusion. By understanding the underlying factors or causes of these opportunities and barriers, potential interventions can be identified.

Activity 6: Develop strategies for supporting change of policies and institutions within the public, private and civil society sectors.

- Develop new models of partnership between farmers and modern markets
- Foster partnership development between farmers and modern retailers based on specific needs and requirements
- Build and develop the value chain infrastructure e.g. procurement centres in production regions, warehouses, packaging, and transport, including in remote areas
- Revitalise the role and functions of extension agents, including technical services geared to modern markets, production planning and good agricultural practice
- Foster the formation of farmers' groups and associations for better market access including relevant legal measures and capacity building (e.g., financial management)
- Develop financial credit mechanisms that support farmers and farmer groups and that support farmer groups' linkages to modern supply chains
- Strengthen support to production technology and research (including diversification and niche products) for new markets, including understanding quality and modernizing farming

Strategies for action: key emerging themes from country debates

In order to secure longer-term gains, chain-wide processes should ideally be embedded in existing national structures (such as commodity groups and national planning bodies) or be themselves a launchpad for new initiatives.

Practical outcomes resulting from the chain-wide learning events

Beyond raising awareness, strengthening formal and informal linkages, a range of specific and practical outcomes arose from the country chain-wide learning events.

South Africa: Alliance formed between the Consumer Goods Council in South Africa (CGCSA), Mpumalanga Economic Growth (MPEG) and national bodies to take forward the agenda of small-scale producer inclusion in modern agrifood markets.

Bangladesh: Proposal made to set up a private sector informal network to address the issues of rural procurement and intermediation.

Philippines: Outputs from workshop fed directly into national policy processes and acted as a stimulant to further evaluation and replication of a smallholder collective action model. Multi-stakeholder national agreement on improved and more efficient vegetable marketing including smallholder vegetable producers, drawing on the case study work and dialogue processes.

Turkey: A platform formed to address trends in market restructuring and food retailing.

Indonesia: Public sector interested in exploring the establishment of multi-stakeholder commodity commissions (c.f. Mexico models). In addition, Padjadjaran University and Carrefour Indonesia have signed a MoU to focus on manpower and technology development. Agribusiness degree

students will gain first-hand product experience ‘a live process is the learning process’. Modern intermediaries, traditional retailers and farmers will also access the training facility.

Morocco: National processes of review of agrifood market chains informed and workshop outputs fed into public policy process.

Pakistan: Contributed to the national debate on trade and trade policy and sought new approaches to collective action in the production zones of citrus.

**Examples of outcomes from country chain-wide learning
2006-2007**

Key lessons drawn from chain-wide events

Some generic lessons that have emerged from the meetings are worth highlighting:

- The public sector, including donors, is poor at anticipating change.
- There is a wide variation in farmers’ understanding of changing and dynamic markets. Many appreciate that change is taking place but feel that they can do little about it. As a result key issues addressed by farmer groups often drifted towards production and crop productivity issues - these being seen by the small-scale producers as problems they could tackle.
- Mapping of the agrifood market chain and policies and institutions that impact upon it illustrates that there are many uncoordinated interventions and a poor understanding of leverage points for effective intervention.
- Such mapping also aided a deeper understanding of the specific issues facing small-scale producers and entrepreneurs and helped to identify the entry points for leverage.
- The visualization of the value chain is useful as an entry point for dialogue and debate and a means to explore where the barriers for small-scale producers might exist and where entry points for change might be identified.
- National research teams and other professional groups can serve as champions of change and contribute to national and regional-level change processes.
- A power imbalance exists between the different stakeholders, which reinforces the importance of holding both single and multi-sector meetings. The use of chain-wide learning methods offers a safe space for dialogue on the multiple objectives in public sector policy and private sector strategy.
- The chain-wide learning process of bringing stakeholders together is as important as the specific findings. New partnerships were forged, ideas generated and initiatives launched.



Mapping the value chain in Turkey – a key entry point for dialogue

Other means of addressing policy processes are also effective

From the outset, the structure and mode of operation of the Regoverning Markets programme embedded a commitment to combine generation of evidence through empirical research and case study analysis with policy outreach and dialogue. This enabled national processes to have direct access to local expertise. Being locally accessible helped build up confidence of both the public and private sector actors to draw on academia and the evidence generated. The national teams themselves were able to link with the wider southern- and northern-based network for information and advice. Thus, country teams, largely located in centres of academic excellence, have been able to learn from one another and contribute directly to national policy processes – both public and private.

Based on the experience of the consortium members, it is evident that entry points for specific policy change and broad-based policy change are multiple and often unpredictable. Researchers and development practitioners in this field need to be available locally to respond to the prevailing demands at the national level and the calls for evidence that relate to specific issues of the day.

Consortium members at the national level have contributed to a number of policy processes including legislative change. Examples of such support include: the regulation of wholesale markets in Turkey; agricultural extension reform in China; review of competition policy in Pakistan; and, review of contract law in Indonesia. Examples of broad-based change include: support to the Kenya Vision 2030 task force which now includes support to small-scale producers in dynamic markets; and a contribution to the Common Agricultural Policy debate in Hungary and Poland, which has now placed small-scale producers’ needs more centrally within the agenda.

In the eight countries where the Regoverning Markets programme supported empirical research study into impacts of modern agrifood markets on small-scale producers (China, India, Indonesia, Mexico, Poland, Turkey, South Africa, and Zambia), each country established a multi-stakeholder ‘Reference Group’ at the start of the research. The role of these groups was to guide the research and act as a vehicle to enable debate on the findings.

As an illustration of the success of such an approach, the research team in Mexico saw the immediate utilization of the research outputs in the reformulation of the State Strawberry Sector Plan led by the Strawberry Council of Michoacán. Specifically, the evidence contributed to promoting the inclusion of small- and medium-scale farmers in restructured strawberry markets as a focus of the new State Sector Plan.

Challenges and Recommendations

Chain-wide learning for effective policy

Chain-wide learning processes to address the challenges of agrifood market change offer both a valid means to open dialogue between stakeholders within a policy vacuum and a set of useful tools and approaches to support and strengthen policy processes. Even at the most modest levels they have demonstrated that they can and do work. Support to policy structures and their underlying processes are a legitimate function of the state. A guide for practitioners interested in chain-wide dialogue has been published (www.regoverningmarkets.org).



A guide to support chain-wide learning for inclusive agrifood market development

Make anticipation work: share ideas and innovations locally and globally

All the chain-wide meetings highlighted demand for examples of what works in inclusive business models and public policies - examples rigorous in their evaluation and demonstrating potential for replication and/or transfer. Stakeholders at all levels called for better lesson learning between countries and regions and between stakeholder groups. The need to anticipate and prepare for change and to build resilience will be a prerequisite of successful agrifood systems. Lessons can be learnt both ways between developed and developing and emerging market economy countries and up and down the 'levels of concentration' of the agrifood sector.

Break down the sectoral silos in the public sector and donor agencies

The national and donor debate on agriculture and agrifood markets needs to broaden out to interact with groups addressing related areas, including the business environment, financial intermediation, and sustainability. The silos of agriculture, food, trade, business, financial intermediation and trade must be broken down and replaced with new and

innovative models and approaches to accompany the agrifood market transformation and its social, economic and environmental implications. Chain-wide dialogue can help to identify the extent of the challenge and entry points for action.

Reinforce national centres of excellence

Independent and respected policy and academic centres operating at national level are key to fostering learning and accompanying change, generating evidence within their own agrifood markets, and enabling lesson sharing and review of evidence from other countries and regions. Strengthening these centres, fostering their engagement with the policy process and enabling regional and international networking are key priorities for public investment by national governments and donors.

Support private sector as drivers of change

While public policy and donor action can do much to influence the shape of the agrifood sector, ultimately the day-to-day business of modern and traditional agrifood markets is in the hands of the private sector. Champions of change need to work with the private sector to understand how and where barriers to entry for small-scale producers can be addressed through public intervention and/or through support to new public-private sector partnerships. Governments should encourage business challenge programmes that support innovation in the agrifood market chain, in particular those seeking new and effective means of enabling sustainable fairness in trade and inclusive agrifood market development.

Enable producer organizations to be champions of change

Producer organizations have demonstrated their capacity to drive change and take responsibility for encouraging new models for linking farmers with the value chain. However, in many cases such organizations lack voice and organizational capacity, including access to information and ideas on how to secure access to dynamic markets. Strengthening the voice of producers and enabling them to be equal members in chain-wide debates on the future of national agrifood markets including farming is a priority.

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Regoverning Markets is a multi-partner collaborative research programme analyzing the growing concentration in the processing and retail sectors of national and regional agrifood systems and its impacts on rural livelihoods and communities in middle- and low-income countries. The aim of the programme is to provide strategic advice and guidance to the public sector, agrifood chain actors, civil society organizations and development agencies on approaches that can anticipate and manage the impacts of the dynamic changes in local and regional markets. The programme is funded by the UK Department for International Development (DFID), the International Development Research Centre (IDRC), the Canadian International Development Agency (CIDA), ICCO, Cordaid, and the US Agency for International Development (USAID). The Beijing conference was further supported by DFID, IDRC, CIDA, and the Dutch Ministry of Foreign Affairs/Development Cooperation (DGIS). The views expressed are not necessarily those of the funding agencies. For further information see www.regoverningmarkets.org or contact RegoverningMarkets@iied.org