

Regoverning Markets

Small-scale producers in modern agrifood markets

Policy Brief 1

december 2007

Inclusive agrifood markets

Emerging findings from a programme of research and policy development

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The World Development Report 2008 calls for action in response to the modernization of procurement systems in integrated, modern supply chains, whereby small-scale farmers can share in these growth opportunities. The work of the Regoverning Markets programme responds directly to this challenge. In the first of a series, this Policy Brief describes the design of an international research and policy development programme, which aims to identify the keys to inclusion of small-scale producers in modern and dynamic domestic and regional markets. It also presents the emerging findings and their implications.

Agrifood markets and supply chain structures are changing in dynamic and unprecedented ways. Market liberalization, changes in consumer preferences and purchasing power and the modernization of food processing and retailing – including the rise of supermarkets – are primary drivers of change. It can take developing and transition economies as little as ten years to reach the levels of agrifood market restructuring that took five or more decades in Western Europe or North America. Small-scale agriculture and traditional market chains, which support the livelihoods of the majority of the poor in the world, are ill-prepared for these changes, which can bring opportunities but can also bypass domestic businesses and impose high barriers to entry for small-scale producers.

This panorama is generating intense policy debate worldwide including: private sector organizations assessing their “realm of responsibility” in the supply chain; producer organizations debating appropriate responses and strategies; governments devising new forms of market governance to promote private sector investments while ensuring social inclusion; public and private sector organizations joining forces in novel alliances; and donors revisiting their support to agriculture in the context of the Millennium Development Goals. The World Development Report 2008 calls for action in response to the modernization of procurement systems in integrated supply chains and supermarkets, whereby small-scale farmers can share in these growth opportunities.

Three key questions dominate the debate:

- Can small-scale producers and their organizations be partners in new business?
- Can the new agrifood business drivers be partners in development?
- Can anticipatory public policy make any difference?

key messages

- The Regoverning Markets programme comprises a global consortium of researchers and development practitioners from 16 organizations
- Evidence from empirical research, case studies and multi-stakeholder dialogues are drawn together to guide a call for action
- Agrifood market restructuring is occurring rapidly in most countries. Substantial restructuring at the retail and food industry level is not always matched by farm-level restructuring
- The chain “intermediaries” need to be better understood, as bridges between small farmers and modern markets
- There are territorial as well as farm-specific dimensions to market inclusion and exclusion
- Food safety and traceability create specific challenges for inclusive modern market development
- Private sector attention to pro-poor and inclusive business models is emerging

The Regoverning Markets programme (2005 – 2008) set out to address these questions through empirical study, case studies and practical experience in policy dialogue and outreach. Outputs from this work were reviewed by the international team in a workshop held in Morelia, Mexico, in September 2007. This Policy Brief describes the work of the programme and the emerging findings.



Anticipating and managing changes in local and regional agrifood markets for small-scale farmer inclusion

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Village-level market analysis in Shandong, China

Empirical studies

Country-based research studies undertaken by national institutions addressed the following questions:

1. What restructuring is occurring? What distinct market channels do farmers face and how do they differ; how have they changed over time?
2. What determines the participation of farmers in the different channels (farm size, non-land assets, policies, etc)?
3. What are the impacts on technology and incomes of their participation?
4. What are the policy implications?

This work, using rigorous survey approaches, has been undertaken in the following markets: horticulture in China, Indonesia, Mexico, South Africa and Turkey; dairy in India and Poland; and beef and broiler chicken in Zambia.

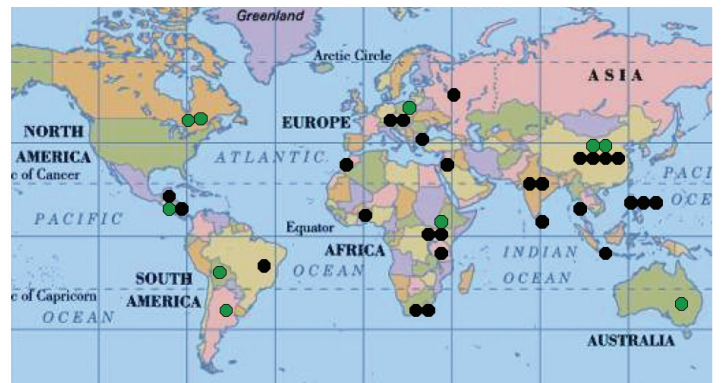
Innovation and good practice

Over forty case examples with a global coverage (see map) have been documented on connecting small-scale producers with modern markets.

Thirty of these case studies, conducted by national institutions partly through a competitive grants programme, focused on innovations by chain actors that support greater small-scale producers' inclusion at domestic or regional levels. "Innovation" refers to the actions and policies of private companies, public institutions, farmer organizations or non-governmental organizations that resulted in enhanced market participation of small-scale producers.

Each case study sought to generate the following insights:

1. The drivers of inclusion: What factors explain that the small-scale producers in the case study are included in dynamic markets, and others not?
2. The elements of inclusion: What technical, organizational, managerial and financial changes did the small-scale producers have to implement to be included in dynamic markets?
3. The costs and benefits of inclusion: What financial and non-financial costs and benefits do the small-scale producers obtain from their inclusion in dynamic markets?
4. The sustainability of inclusion: What type and level of direct/indirect subsidies have contributed to the innovation? What implications does this have on the sustainability?
5. Up-scaling and replication: What public and private policies contribute to the up-scaling of the innovation? What lessons



● Market innovations

● Policy innovations



Case studies of initiatives and policy innovations

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A multi-stakeholder chain mapping exercise in Turkey

products that cater for the needs of SMEs including producer organizations in value chain development.

An enabling public policy

- Success is built on foundations of supportive public policies, organized producers, and a receptive business sector, combined with a facilitation “space”. This may not be in the form of four different organizations – any of the actors could champion a process and work in any configuration
- Governments have significant room for introducing pro-poor policies including interventions and investments, even within an overall framework of free trade and liberalized markets. This room is underutilized

A responsive private sector

- Private sector attention to pro-poor and inclusive business models is at an early stage
- The potential of the private sector in promoting economic growth in rural areas is significant. Agribusiness can be effective in linking small-scale producers to dynamic markets. However, this potential of the private sector as a “partner in development” is largely underutilized.

Policy processes for chain-wide learning

- National multi-stakeholder task groups can build understanding between stakeholders, help shape the structure of the domestic market and support change. Such structures benefit from being embedded in a governance and legislative framework and thus working together for the medium and long term.

The role of external support

- Developing small-scale farmers’ resilience to change in all

markets, including both modern and traditional, matters. Farmers with similar assets operate in different and often multiple markets

- The case studies on innovative small-scale farmer linkage with a restructured market did not find examples of small-scale farmers’ inclusion in the absence of some form of subsidized external support. Market forces alone generally do not lead to inclusion
- Sustainability of change is most likely to happen however when external actors do not engage directly in market activities and transactions
- NGOs and donor agencies often place great value in seeking to build value chains that are owned by farmer organizations (vertical integration). A few success cases have been documented by the Regoverning Markets Programme, though their level of financial sustainability is uncertain.

Implications

Many of the drivers of the restructuring of agrifood systems are to a greater or lesser extent inevitable. It is possible for governments, development agencies, and farmers’ organizations and their allies, to prepare themselves and be pro-active. However, the adaptations and responses documented in the Regoverning Markets case studies were often initiated after the changes were well advanced and when there was little time and room to create better conditions to take advantage of the new opportunities and to minimize potentially negative social and economic costs.

The more successful examples of small-scale producer inclusion in dynamic markets, share one characteristic: the actors of these initiatives got all the elements right.

The challenge of connecting small-scale producers to dynamic markets is still a new field with few proven and replicable models and methodologies. The research and policy outreach of the Regoverning Markets programme shows the need for public and private sectors, including producers and their organizations, to understand better how they can complement each other, learn from experiences from other regions and work together to develop new and innovative means to better secure small-scale producers’ market inclusion.

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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), Cordaid, ICCO, and the US Agency for International Development (USAID). The views expressed are not necessarily those of the funding agencies.

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