Regoverning Markets:
Small-scale producers in modern national and regional agrifood markets

Introduction

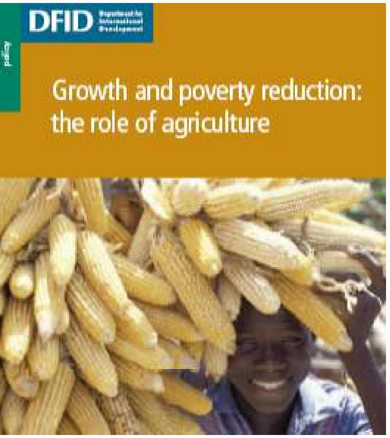
Bill Vorley (IIED)

DFID,17 November 2006

Structure of seminar

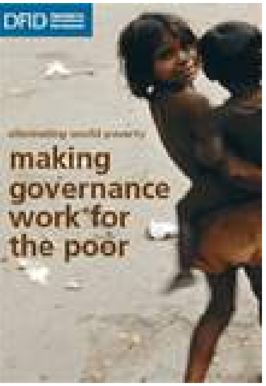
10:30-12:00	Open session:
10:30-10.45	Introduction (background, objectives, methodology, alliance/structure) – Bill Vorley
10.45-10.55	Measuring inclusion and exclusion in dynamic agrifood markets – Bill Vorley
10.55-11.10	Capturing best practice in connecting small scale producers with dynamic markets – Lucian Peppelenbos (KIT)
11.10-11.25	Policy linkages -- mapping and influencing public and private sector policy – Felicity Proctor (NRI)
11:25-11:30	Drawing together and next steps to early 2008 – Bill Vorley
11.30-12.00	Open discussion – Synergies, value addition, fit with current programmes
12:00-13:00	Closed session with DFID CRD, if required

Policy Paper *Growth and poverty reduction: The role of agriculture*, December 2005



33. “Poor farmers are also finding it harder to sell their produce as food processing, distribution and retailing becomes increasingly globalised. The appearance of large, international supermarket chains in many developing countries is leading to new demands on quality, quantity and delivery schedules. Supermarkets already dominate the retail food markets in most developed countries, and they are increasingly penetrating markets in developing countries.”

New UK Development **White Paper**, July 2006



Making markets work for poor people.

"The UK will encourage developing country governments, the private sector and civil society.. to work together to promote growth and employment."

The private sector as partner in the UK development project

Markets working for the poor?










Re-structuring, Re-governance..

1. **Marketing strategies built around..**
   - **Trust**
   - **Defence of quality, consistency and assurance to consumers**
   - **Reliability and continuity of supply**
   - **Lower prices**

   Through
   - **Narrowing of supply base**
   - **Own brands**
   - **Traceability systems**
   - **Private standards**
   - **Economies of scale**
   - **Logistics: national and cross-border systems to coordinate procurement and distribution**
   - **Shaping regulatory envi**
2. **Deregulation**
3. **Liberalization**
4. **Market concentration**

- Buyer-driven production
- Barriers to entry – capital, technology, organisation, scale, finance
- Collaborative business models

- **Consumer as 'regulator'**
- **Imports set price and quality**
- **Buyer power**

Retail strategy as practice..
Cash and Carry investor in S Asia

- **Setting up 2 stores in 2006, 5 more in 2007. Each store $30-40m**
- **30% fresh produce, 80% delivered to collection centres**
- **Suppliers must have tax number, fax machine etc..**
- **Lobby government on tax, to be competitive with grey market**
- **Success of C&C depends on *in*efficiency of wholesale. Eg tomatoes.. Rp 20 at farm, and Rp 140 in city 5 days later, with up to 5 people involved along chain. Broker (*arthi*) provide very little service other than pre-financing. 40-45% losses -- packing, logistics, grading. C&C can buy for Rp40, sell for Rp60 and still get enough margin.**
- ***"Arthi* will have to change or will lose the market. Clever ones will see that have to work with farmers, provide logistical services etc"**
- **"Smallholders? For marketing, important to be able to guarantee source of product (bird flu..)"**
- **"Co-ops? Almost never use them – less flexible, less responsive to instructions (eg packaging, labelling..)"**

Logistics

Formal economy

Regulatory envi

Upgrading

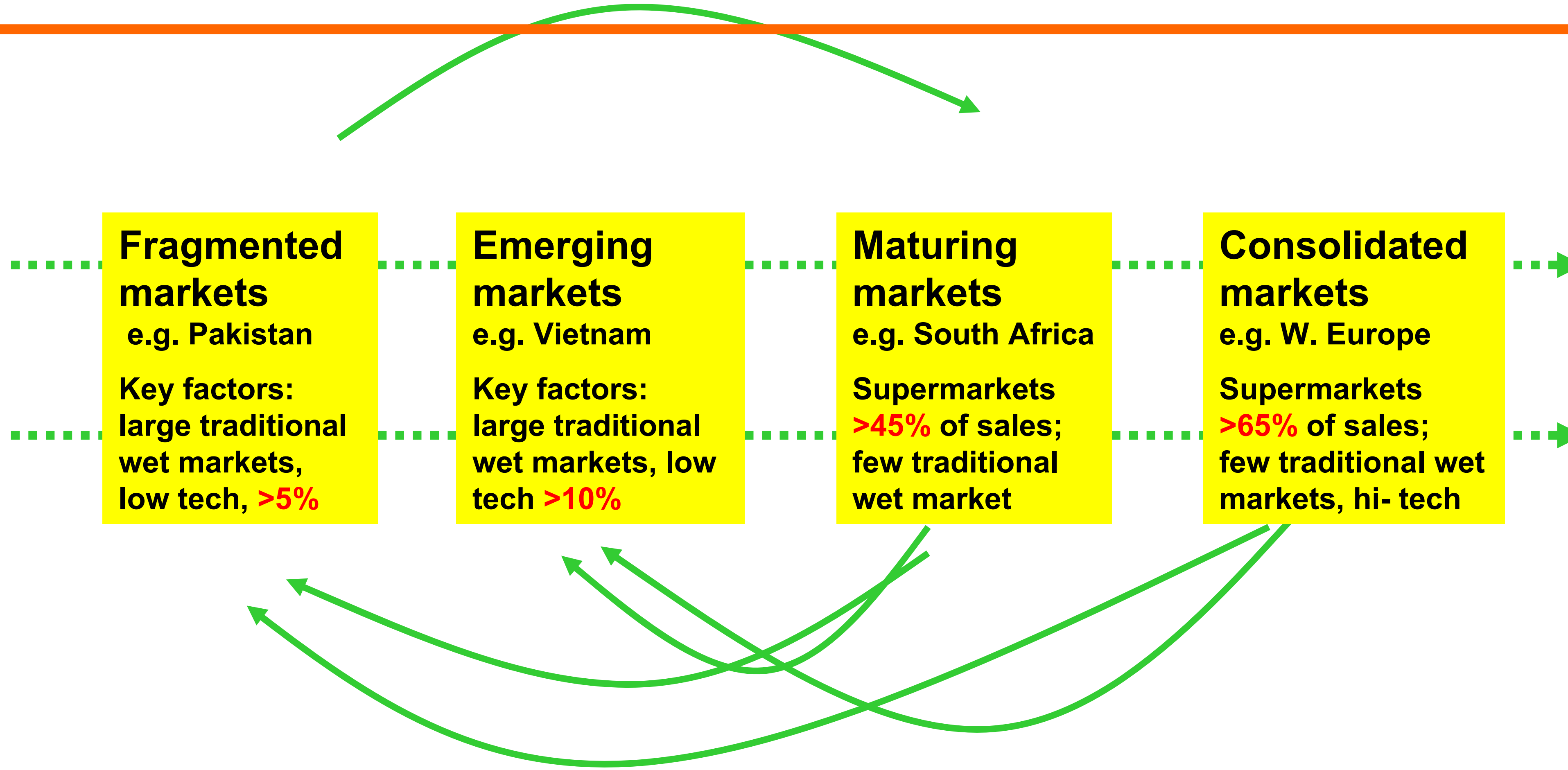
'Pro-poor'?

Producer organisations

Regoverning Markets programme in short..

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

Anticipatory policy



- *“Policy agencies are floundering”*
- *“If we understand the process, we can design policies to shape the way in develops”*

Reminders

- **More than supermarkets..**
  - Supermarkets are just one accelerator of structural change
  - Wider agrifood restructuring, including processing
  - Will advocate strengthening of traditional and wholesale markets, where appropriate
- **Understanding the ‘vanguard’** is crucial for anticipatory policy
  - As well as understanding the mass market
  - Even though not all agrifood structural innovations will become the norm
- We understand that sectors differ in **speed of restructuring**
  - FFV slower than dairy and meat
- The term **‘small farmers’** has limitations
  - We are more interested in differentiation between asset-rich and asset-poor

Conceptual framework

Factors driving dynamic market change

- Consumer 'pull'
- Policy 'push'
- Urbanisation
- Commercial opportunity
- Food standards
- Foreign Investment
- Local investment

Creates changes in supply chains….

- Technology
- Management
- Organization
- Industry structure, concentration
- Procurement
- Standards
- Finance

Leading to small-scale producer and SME..

INCLUSION

EXCLUSION

..in dynamic markets

Skills and assets of producers and SMEs

Entry Points

Policies | Institutions | Business Models | Collective Action | Support Systems | Research and Development

Component 1

Factors driving dynamic market change

- Consumer 'pull'
- Policy 'push'
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Leading to small-scale producer and SME..

INCLUSION

EXCLUSION

..in dynamic markets

Skills and assets of producers and SMEs

Policies

Institutions

Business Models

E

C

A

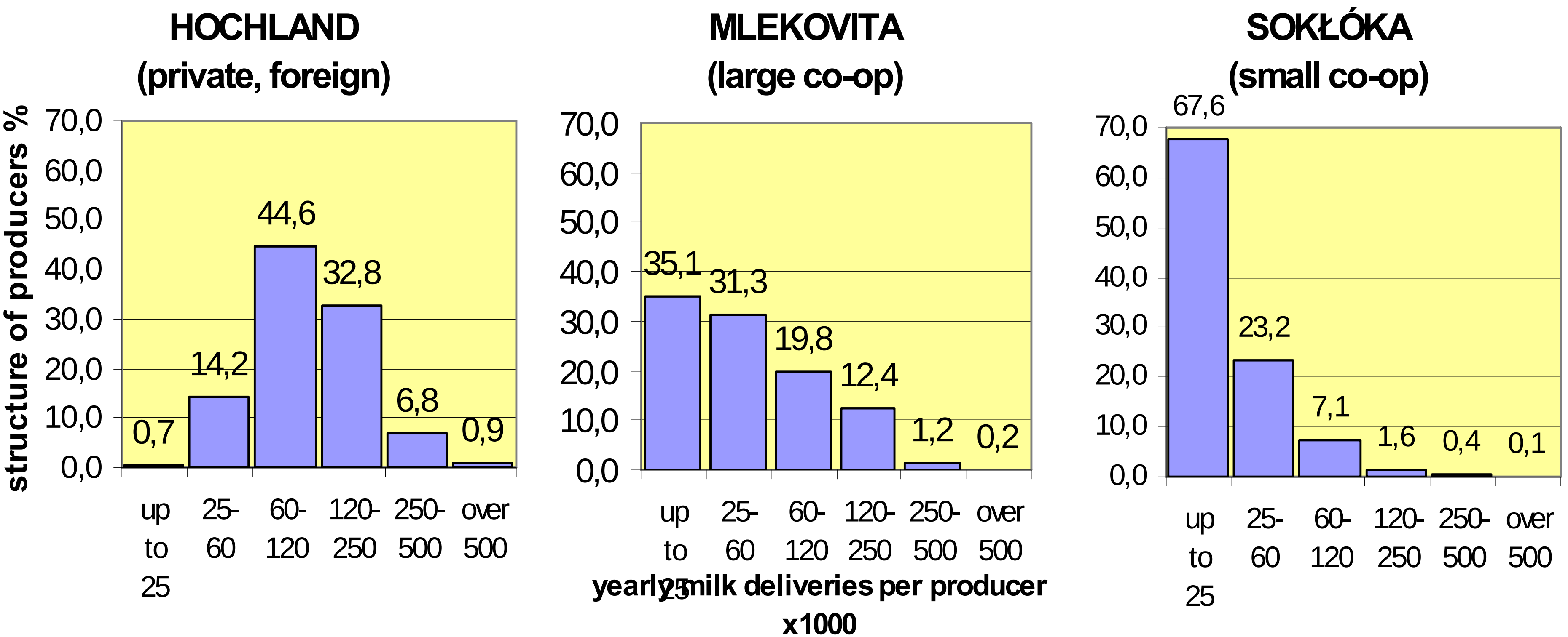
Big challenge:

Change is messy and takes time to influence upstream

Village-level survey, Shandong

Photo: CCAP

Size of producers related to size and structure of processing – Poland (2005)



Source: Poland team, "Survey on dairy sector in Poland: Introduction"

Component 2

Factors driving dynamic market change

- Consumer ‘pull’
- Policy ‘push’
- Urbanisation
- Commercial opportunity
- Food standards
- Foreign Investment
- Local investment

Creates changes in supply chains….

- Technology
- Management
- Organization
- Industry structure, concentration
- Procurement
- Standards
- Finance

Leading to small-scale producer and SME..

INCLUSION

..in dynamic markets

Skills and assets of

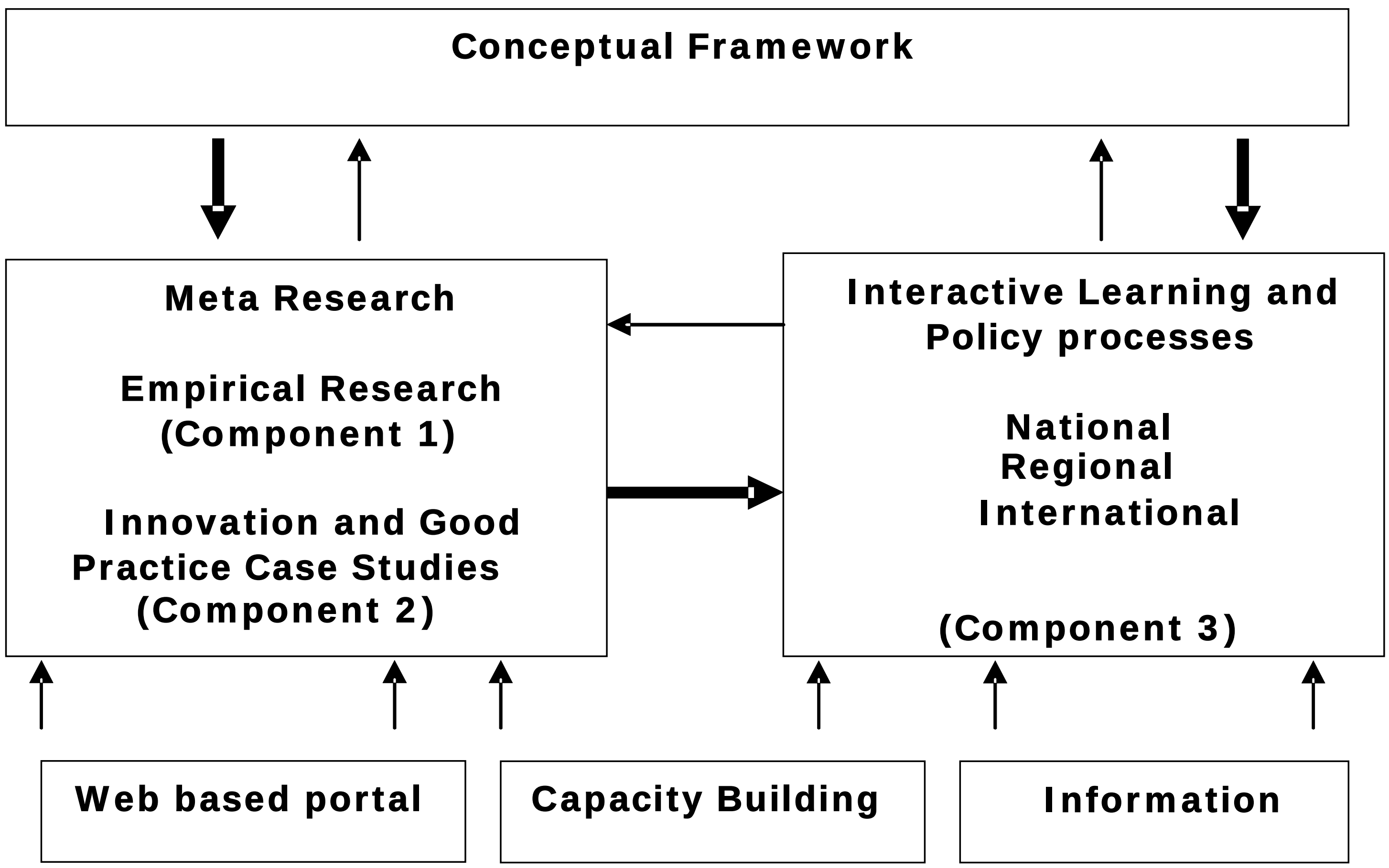
Big challenge:

‘Best practice’ can be highly case-specific

Entry Points

Policies | Institutions | Business Models | Collective Action | Support Systems | Research and Development

Regoverning Markets 2005-2007



Consortium

Regional Coordinators

China Centre for Chinese Agricultural Policy (CCAP), China. Jikun Huang
Central and Eastern Europe Corvinus University of Budapest, Hungary. Csaba Csáki
East Mediterranean and Middle East Economic Research Centre on Mediterranean Countries, Turkey. Yavuz Tekelioglu and Ali Koç
North and West Africa Association Interdisciplinaire pour le Développement et l'Environnement (TARGA), Morocco. Aziz Sbai
South East Asia University of the Philippines in Mindanao, The Philippines. Larry Digal
Latin America RIMISP Latin American Centre for Rural Development, Chile. Julio Berdegué
South Asia Sustainable Development Policy Institute (SDPI), Pakistan. Abid Suleri –
East Africa Tegemeo Institute of Egerton University, Kenya. James Nyoro
Southern Africa University of Pretoria, South Africa. Andre Louw

Component Leaders

Component 1 Empirical Research to Inform Policy
Centre for Chinese Agricultural Policy (CCAP), China. Jikun Huang
Michigan State University (MSU), USA, Tom Reardon
With
UMR MOISA, France. Jean-Marie Codron
Component 2 Building on Innovation and Guiding Practice
RIMISP Latin American Centre for Rural Development. Julio Berdegué
Royal Tropical Institute (KIT), Netherlands. Lucian Peppelenbos
With
Centre de Coopération Internationale en Recherche Agronomique pour le Développement (CIRAD), France. Estelle Biénabe
Component 3 Learning and Policy Dialogue
Natural Resources Institute (NRI), UK. Felicity Proctor
University of the Philippines in Mindanao, The Philippines. Larry Digal
With
Wageningen International, Netherlands. Jim Woodhill

Programme Team Leader
Bill Vorley, International Institute for Environment and Development (IIED)

Decentralised structure

Component Leadership

- Component 1
- Component 2
- Component 3

Regional Coordination

- L America
- CEE
- EMME
- E Africa
- So Africa
- N&W Africa
- S Asia
- SE Asia
- China

Programme Coordination

IIED

Research Teams

Component 1

Component 2

Donor-Partners

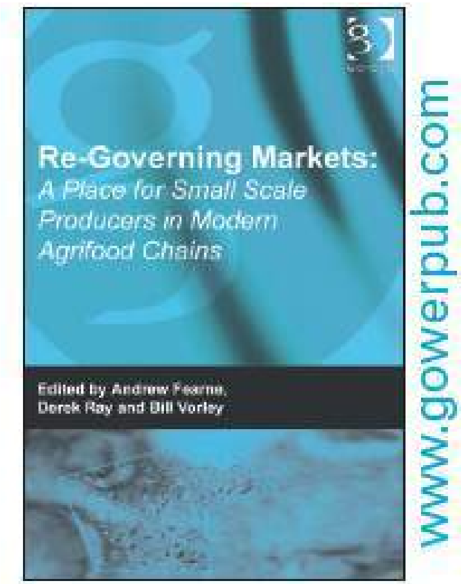
Advisory Group

Local reference groups

What have we achieved so far?

- Network fully in place
  - Decentralised leadership of nine **Regions** and three **Components**
- Donor backing
  - £2m budget. Partnerships with DFID, IDRC, Cida, ICCO, Cordaid, plus supplementary grant from USAID.
- Advisory Group in place
  - Representing food chain, academia, producer organisations, international organisations
- Methodology in place
  - Methodology of 3 components developed.
  - *Plus*: Policy and institutional mapping tools.
- Research underway
  - Two modules of Component 1
  - First round of 15 Component 2 case studies
  - Policy mapping (2 pilots) and processes
- Communications
  - Launch of upgraded website. Heavy investment in technology to allow decentralised site development

Phase 1 Book



FORTHCOMING

GOWER

Re-Governing Markets

A Place for Small Scale Producers in Modern Agrifood Chains

Edited by Bill Vorley, Andrew Fearne and Derek Ray

This is the first in a series of books exploring the theme of sustainable food chains, from food safety and corporate social responsibility to supermarket loyalty cards and supply chain partnerships. The Sustainable Food Chain series is edited by Andrew Fearne.

Contents:

Launched Nov 2007..

Address http://www.regoverningmarkets.org/

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small-scale producers in modern agrifood markets

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- Poll: Can small farmers and supermarkets be long-term business partners?

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- Policy Makers
- Producers
- Researchers
- Support Agencies
- C&E Europe
- China
- E Africa
- E Med & Middle East
- Latin America
- N&W Africa
- S Africa
- S Asia
- SE Asia

This collaborative research project is analysing growing concentration in the processing and retail sectors of national and regional agri-food systems and its impacts and implications for rural livelihoods and communities in middle and low income countries.

Headline Article

New article: Policies to Address Emerging Tensions among Supermarkets, Suppliers, and Traditional Retailers

Supermarkets (short for all modern retail) are spreading quickly in developing countries. The "take-off" occurred as recently as the early/mid 1990s, driven by an avalanche of foreign direct investment (FDI) sparked by retail FDI liberalization. A decade on, the power and dominance of supermarkets is already felt in the food markets of many developing countries, and tensions between supermarkets and traditional retailers, and supermarkets and their suppliers, are emerging as key policy and political debates. The paper analyzes those tensions. Then it reviews the US and Western European history and current experience in designing policies (regulations and support programs) to address those tensions. It ends with an analysis of emerging policy approaches to the supermarket sector and the tensions its growth is creating in developing countries, and recommendations.

read more...

Quick Links

- RegoverningMarkets Homepage
- Newsletters
- Polls
- Global Articles
- Global News

Project Team (restricted access)

- Project Team

Poll

Sample Poll: Can small farmers and supermark be long-term business partners?:

- Yes, if producers ge organised
- Yes, if supermarkets change their policies
- Never, without supp

Regoverning Markets 2005-2007

Conceptual Framework

Interactive Learning and Policy processes

National
Regional
International

(Component 3)

Big challenges:

Inter-country anticipatory learning

Finding the ‘sweet spots’ of policy leverage

Involving policy community (incl. private sector) in the process

The challenges

- **Openness and Relevance**
  - For policy
  - For the private sector
  - For producers and their organisations
  - Written in ‘non-foreign’ language
- **Impartiality**: Not selectively supporting preconceived ideas
- **Quality control**
- **Innovation**
- **Integration**
  - Components that talk to each other
- **‘Anticipatory’ element means what it says**
  - International learning
- **Impact** properly measured
  - Monitoring influence as well as outputs

Measuring inclusion and exclusion in dynamic agrifood markets (Component 1)

Component 1: Studies of market restructuring

Research Questions

1) **HOW** is the demand side (food industry/markets) restructuring?
2) **WHO** (on supply side) is participating in restructured markets?

   … Do the poor (in land, in capital) participate?
3) **WHAT** are the effects (technology, income) of participation?
4) **WHAT** are the policy/institution/organizational determinants of 1-3?
5) **WHAT are the implications?**

Modules

1) Module 1: **national-meso** (retail, wholesale, processing restructuring and government policy and CS context)
2) Module 2: **local-meso** (food industry segments at local level plus supply side and local policy, institutional, and organizational context)
3) Module 3: **local-micro** (supply side study at farm and processor level)

Research questions	Survey/data and module
What is observed market restructuring? What are determinants?	M1: macro/industry survey M1: trader survey
What are observed marketing choices of farmers? What are determinants?	M2: Village + PRA M3: Household survey
What are impacts of market restructuring on farmers?	M3: Household survey
What are implications?	C1 → C3

Component 1: Studies of market restructuring

1. Horticulture Markets in China
2. Dairy Markets in India
3. Horticulture Markets in Indonesia
4. Strawberry Markets in Mexico
5. Dairy Markets in Poland
6. Horticulture Markets in South Africa
7. Tomato Markets in Turkey
8. Beef and Chicken Markets in Zambia

- Centre for Chinese Agricultural Policy
- Centre for Management in Agriculture (CMA), Indian Institute of Management
- Centre for Agricultural Policy and Agribusiness Studies (CAPAS) of Padjadjaran University
- Secretariat of Agricultural Development, State of Michoacán (SEDAGRO), with RIMISP
- Warsaw University Department of Economics
- University of Pretoria
- Economic Research Centre on Mediterranean Countries with collaboration of MOISA Montpellier
- Farming Systems Association of Zambia

Research underway




Three major sets of hypotheses formulated from Meso study and theoretical expectations

1) **Little penetration into farm level from observed significant changes in *downstream*.**

   ***Less penetration may be due to*:**

   - Small land holdings with relatively equal size;
   - Production largely distributed across space;
   - Almost no farmer cooperatives;
   - Cheaper labor cost (small trader);
   - Food safety demand is still in very initial stage

2) **Farmer market choices are significantly affected by:**

   - Incentive
   - Risk
   - Farm Size
   - Other Assets
   - Policy shifters
   - Other shifters
   - MOthers (IVs-M)

Three major sets of hypotheses formulated from Meso study and theoretical expectations

3) **Where there is penetration of market restructuring into farm level, the changes in *downstream* will significantly affect farmers' marketing channels and the outcome**

- **e.g., Income**
- **Employment**
- **Technology**
- **Others**

Example: Component 1 in Mexico: Partners

- Government of the State of Michoacán, Secretariat for Agricultural Development
- Union of Strawberry Producers of Michoacán
- Michoacán State Council of the Strawberry Industry
- Inter-American Institute for Cooperation on Agriculture
- International Center for Tropical Agriculture
- Michigan State University
- Rimisp-Latin American Center for Rural Development

Types of producers in Michoacán, Mexico

1996

1. Traditional system

2. Traditional system with higher input use

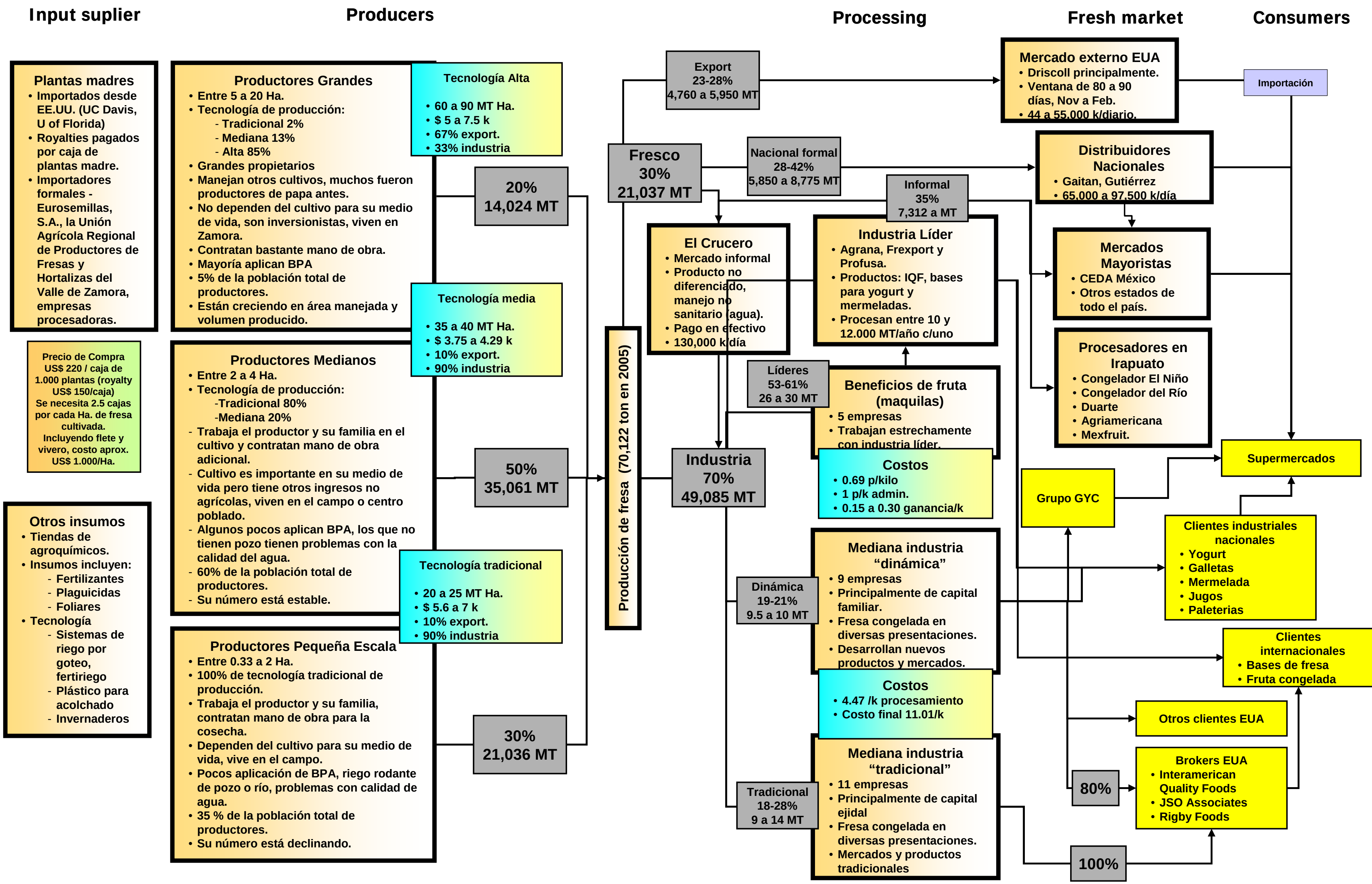
2006

1. Traditional system
   – Cost = $7,500/ha
   – 80% of farmers / 25% production
2. Medium tech system
   – Cost = $20,000/ha
   – 15% of farmers / 40% of production
3. High tech system
   – Cost = $45,000/ha
   – 5% of farmers / 35% of production

Market channels of Michoacán growers

1. El Crucero – traditional local market
2. Wholesalers in Michoacán
3. Wholesalers in Mexico City (CEDA DF)
4. Agri-processors in Michoacán
   - Semi-processors
   - Frozen strawberries
5. Supermarkets
   - less than 10 farmers
6. Driscoll’s (USA-based multinational berry marketing corporation)

Strawberry value chain in the Zamora Valley, Michoacán



	Low tech	Medium tech	High tech
Traditional			
Wholesalers			
Agriprocessors			
Supermarkets			
Driscoll's			

Supermarkets

- 1970s-80s
  - Producers would supply individual stores even within the same chain
- 1980s-90s
  - Sourcing from wholesale market
  - Establishment of more stable relations with some wholesalers
- 2000s
  - Four wholesalers supply most of the strawberry in supermarkets: 3 from CEDA-DF and 1 from CEDA-Guadalajara
  - Some early examples of direct procurement from producers
  - Wal-mart sources from Driscoll’s

Regoverning Markets Component 2

Julio Berdegue, RIMISP
Estelle Bienabe, CIRAD
Lucian Peppelenbos, KIT

Research focus

Case study research on innovative practices in connecting small farmers to dynamic markets:

- Private business
- Collective action
- Support agencies
- Public policies

To understand:

- The keys to inclusion of small farmers
- The costs & benefits of inclusion
- Lessons to guide policy & practice

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First round cases (1/2)

39 proposals from 23 countries; 15 were selected

6 business models:

- Carrefour, China, FFV, retail
- MAs Foods, Sri Lanka, spices, processing
- Haleeb Food, Pakistan, dairy, processing
- Thandi, South Africa, FFV/wines, processing
- Hortifruti, Honduras, FFV, wholesale
- SPAR, South Africa, FFV, retail

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First round cases (2/2)

7 collective action:

- Ruoheng coop, China, watermelon brand
- NorminVeggies, Philippines, FFV
- BSUs, Kenya, indigenous vegetables
- Morakert, Hungary, FFV
- Avium, Hungary, chicken processing
- Aj Ticonel, Guatemala, FFV
- COPAG, Morrocco, dairy processing

Potato Thailand is difficult to classify; Suguo China is being translated from Chinese

Key insight 1

In business model:

- Less or no participation of farmers in chain governance
- Less or no capacity building beyond production

But...

- Low costs of collective action
- No evidence of less economic benefits

And:

- Capacities acquired by farmers can allow them to go independent
- A stable relationship with a market channel is not the end of history for all farmers

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Key insight 2

In collective action model:

- Farmers play a larger role in chain governance
- Indirect benefits are larger

But...

- Collective action has costs
- No evidence of greater net economic benefits

And:

- A leadership nucleus with contacts, experience, and information is present in successful cases
- Not necessarily in marketing of products

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Key insight 3

In collective action model:

- Dilemma: sustain the inclusion of the organization or that of the members?
- Process of farmer exclusion and differentiation

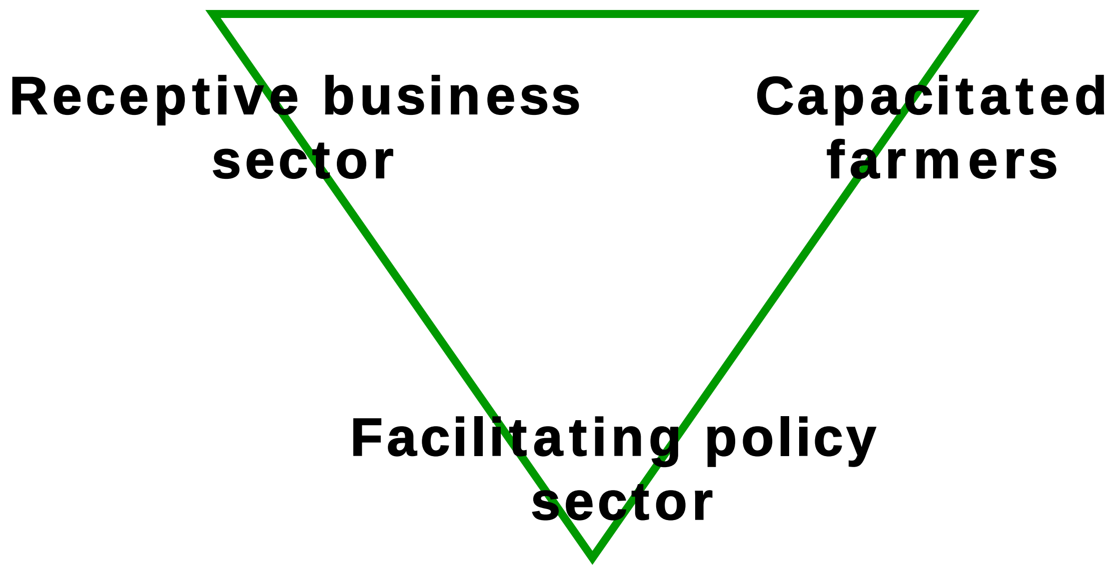
Practical solutions:

- Quasi-membership (learning and screening)
- Clustering with larger farmers (incentives for the latter are volume and subsidies)

Key insight 4

In business model & collective action:

- Always mixture with external support and public policies
- Hence always an externalization of some costs of the relationship



Policy lessons

1. Potential of private sector in promoting rural development is underutilized. Need for public support to:

- Reduce costs in pre-investment phase
- Enhance capacity building

2. Promote farmer alliances across social strata

3. Public support remains a prerequisite (just like in OECD countries)

Program management

Lessons first round:

- Slim down research framework, define core insights
- Improve coaching of the research teams
- Harmonize contractual agreements
- More emphasis on synthesis & editing

Second round:

- Open competitive call
- More involvement of partners
- 12 empirical case studies & 18 desk studies
- Focus on knowledge issues
- Closure 26 November; Selection by 18 December; Research from Jan to June 2007

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Focus 2nd round

1. Public & private policies for enabling environment
2. Private initiatives without public subsidies; with well-organized farmers; with a partnership perspective
3. Collective action with successful management of exclusion; with control over chain governance; without public subsidies
4. Costs/benefits of exclusion and inclusion
5. Differences between male and female farmers

REGOVERNING MARKETS

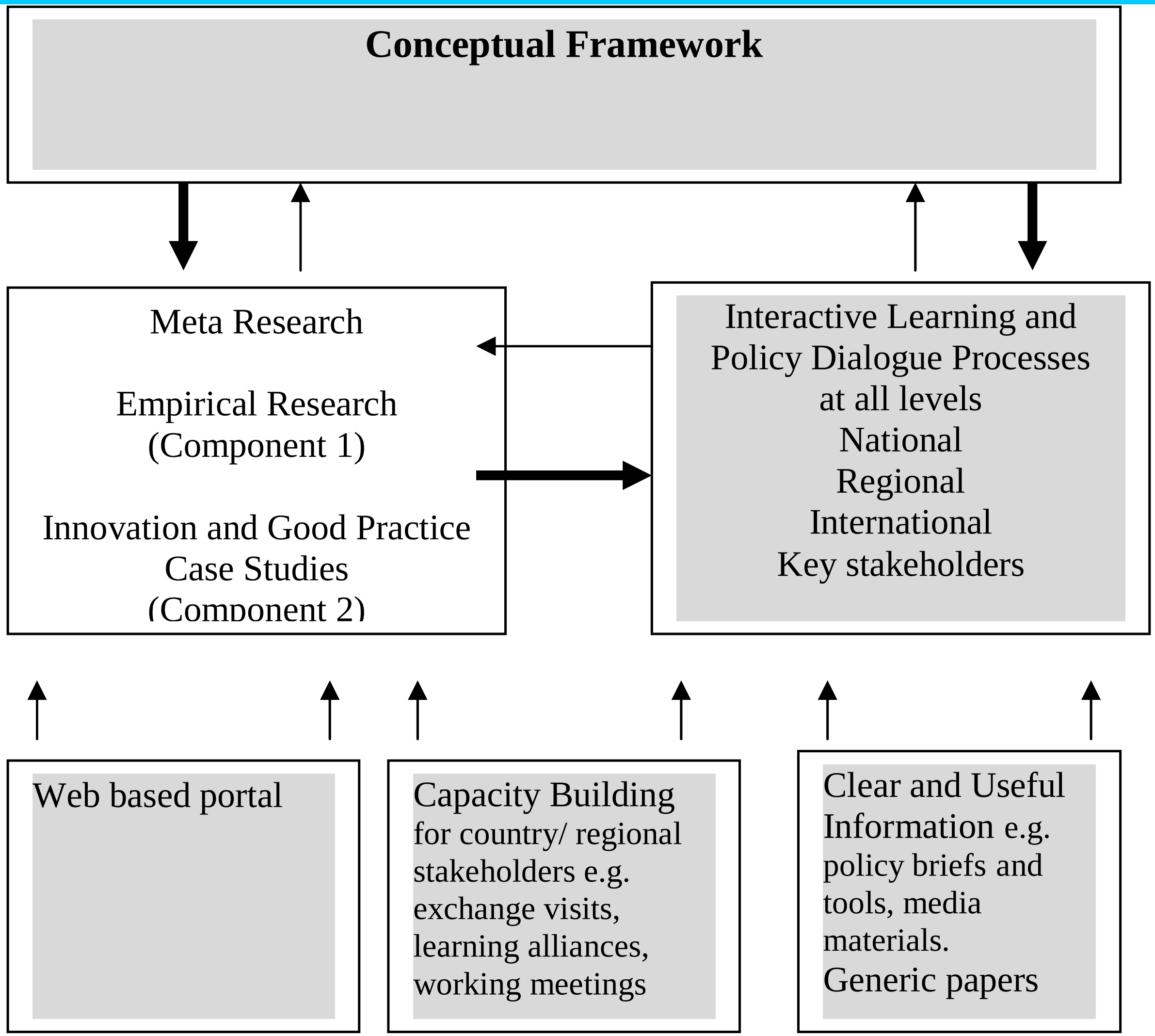
Policy linkages – mapping and influencing public and private sector policy

Felicity Proctor
f.j.proctor@gre.ac.uk
November 17, 2006

Policy processes at the Centre: Outputs for Regoverning Markets

- Structures and processes for **policy dialogue** between the public sector, private sector and civil society strengthened and supported at national, regional and international levels
- Guidelines for **pre-emptive and anticipatory policy** and for corrective policy generated and capacity built
- **Capacity** of direct and indirect stakeholders in the supply chain strengthened and reflecting a willingness to include small-scale supplier

The Regoverning Markets Framework – Links between Components



Footnote:

- Component 3

Country level: Some Highlights

- Multi-stakeholder Country Reference Groups (eight countries) in place – iterate with the evidence generation processes and involve stakeholders in the process from the outset. Membership of the RG in India:
  - Managing Director Haryan Dairy Cooperative
  - Managing Director Gujarat Cooperative Milk Marketing Federation
  - Animal Husbandry Commissioner Gov of India
  - President Indian Dairy Association
  - Nestle India
  - Indian Institute of Management – Ahmedabad (ReGov Consortium member)
- Component 1 macro-meso outputs and the emerging hypothesis for micro studies are important early products for national policy dialogue

Country/regional level: Some Highlights

- Wide range of specific policy focussed actions at regional and country levels
  - Multi stakeholder learning groups/fora supported in non C1 countries e.g. Philippines, Pakistan, and Hungary in response to demand. South Asia interest network formed
  - Seminars held in C1 and C2 countries to share findings
  - Linkages formed for joint learning with other donor programmes and projects e.g. World Bank- SE Asia, MMWP (ADB, DFID) – Vietnam www.market4poor.org
  - Regional Initiative for outreach in East Africa – proposed (SIDA)
- Three country scoping papers – Morocco, Egypt, and Jordan – more planned e.g. Russia, Tanzania
- Piloting of the *Institutions and Mapping Initiative*

International level: Some Highlights

Donor, private sector and civil society alliances strengthened and linkages made e.g.

- OECD, SIDA, USAID, IFAD
- Early meetings held with HQs of private sector - international retail chains
- International Federation of Agricultural Producers (IFAP),

New partnerships launched e.g.

- Global Learning Network – south based network of farmers organisations (ICCO funded)
- Links with new ECART-IFAD-IFAP programme *Farmers Empowerment in the Market*

Institutional and Policy Mapping Initiative

Objectives:

- To develop a framework for understanding the institutional and policy dimensions of enabling small-scale producers to secure and enhance better their access to dynamic local and regional markets.

- To provide an approach and set of supportive tools that enables this understanding to be developed and utilised in an interactive way with the key stakeholders in particular identifying entry points for action.

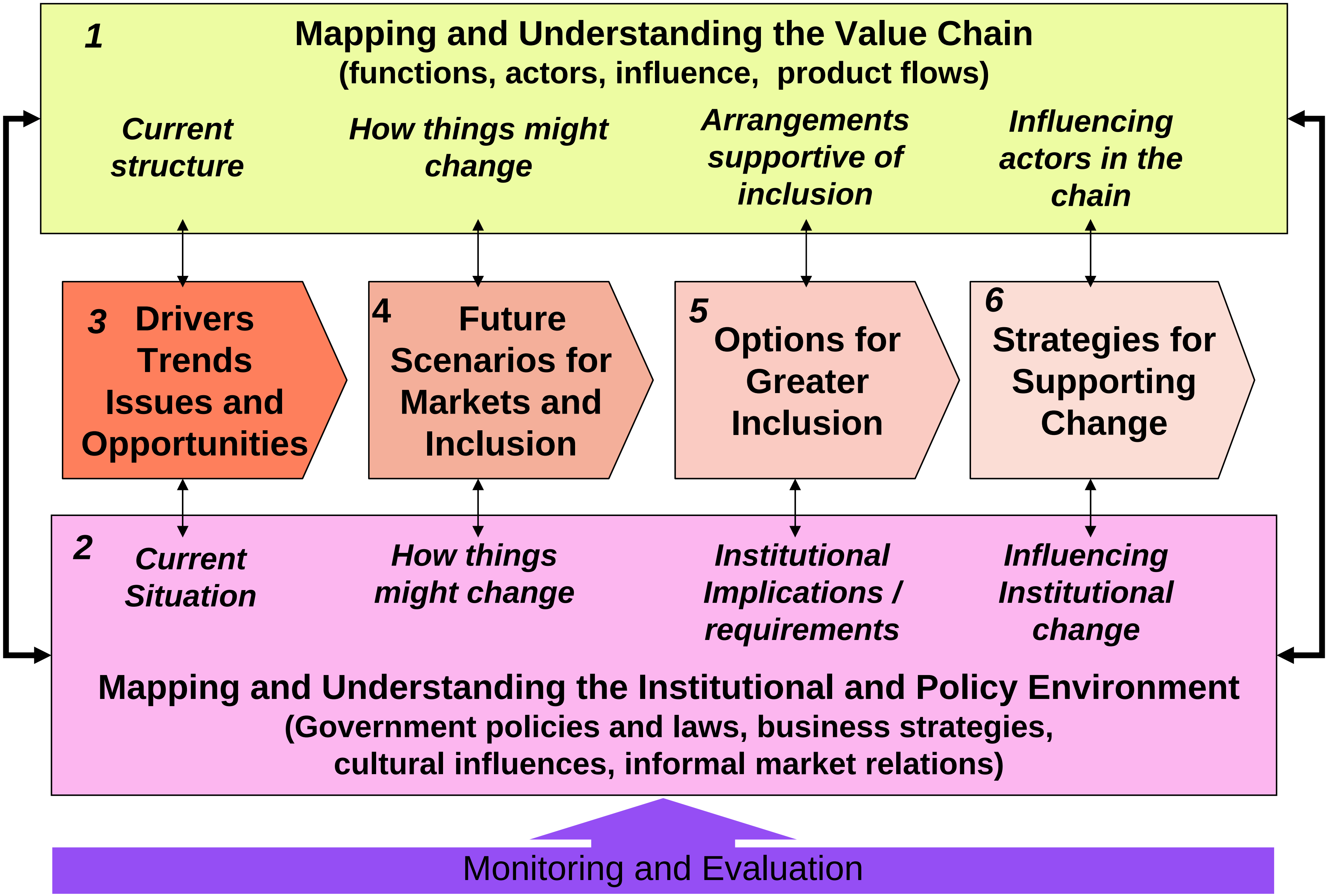
Guiding Principles

- Captures and maps dynamics between actors, institutions and markets (value chains)
- Enables active engagement with key stakeholders
- Recognises the role of both private sector strategy and public policy
- Simple, practical and cost effective
- Builds upon work of C1 – in C1 countries yet able to be undertaken in non C1 countries
- Looks at multiple scenarios and options (recognises uncertainty)
- Identifies ‘Hot spots’ for detailed analysis
- Enables monitoring and evaluation of process and impacts
- Realistic about policy influencing

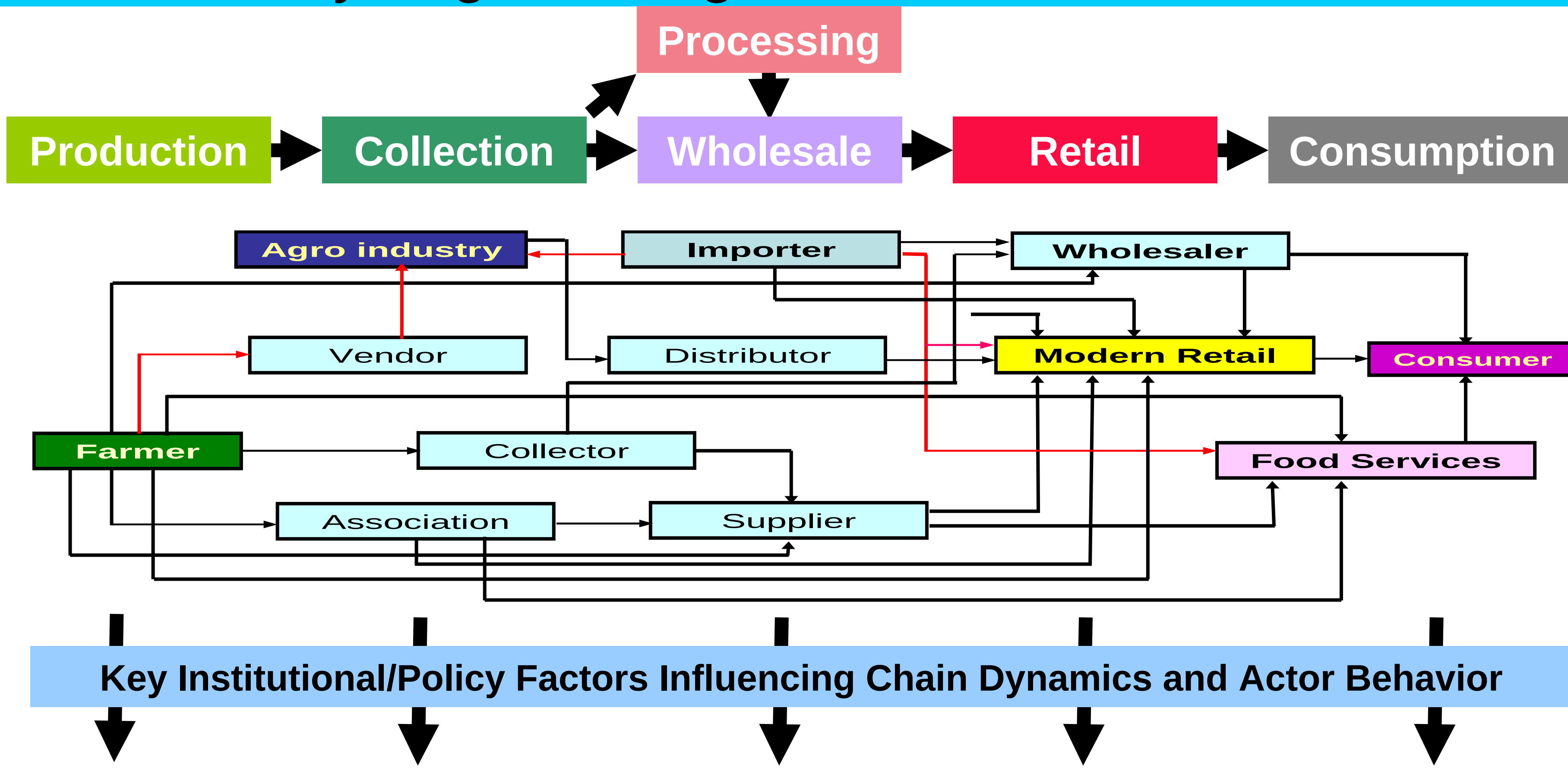
Institutions and Policy Mapping Initiative - Key actions

- Incremental funding secured – USAID and DFID
- Process development working meeting – IIED, NRI, IFPRI, WUR – draft of tool kit (May 2006)
- Pilot roll-out Turkey, Indonesia, South Africa (July-October 2006) with international and national teams and multiple stakeholder groups
- Revision of tool kit (November – December 2006)
- Application in four further countries (SE Asia, Mexico, Morocco and Poland (January – March 2007)
- Training of use of tool kit - its instruments and processes (South Africa and SE Asia – by March 2007)

Methodology Overview



Steps 1 and 2 – Value Chain and Institutional Factors and how they might change



Tenure

Services

Private Standards

Cooperative law

Marketing regulations

Public Standards

Tariffs

Foreign Investment Policy

Cultural Preferences

Consultations in dynamic market environments - Turkey and Indonesia

Monitoring and Evaluation

At the Midterm Review

- Working paper on M and E shared
- Reviewed Logframe Objectives and Goal
- Reconfirmed necessary indicators and measures
- Discussed means to ensure M and E is fully place
- Identified gaps
- Reaffirmed the value of M and E as a programme management and process change tool

At Objective level: many useful and valid indicators and measures (quantitative and qualitative) are embedded within the activity and outcome – the Regov team will capture these and better use the information

At Goal level: the Regov team will secure new indicators and baselines to measure the sought-after public and private sector changes as the programme moves to its next stage of implementation

Drawing together and next steps to early 2008

Bill Vorley

Major Milestones

- 7 March 2007 Narrative and Financial report, including workplan
- September 2007: **Synthesis Workshop**
  - 4 days synthesis between and between modules
  - 1+ days high level policy event
- January 2008: **International conference**
  - (1 day) + high level policy event (1 day)
- 7 March 2008 Final report

Requests from Advisory Group

- Strategy and plans for **cross-programme analysis, synthesis and integration** (including moving policy lessons between countries)
- **Communications strategy**, including involving the ‘customers’ of the research and ensuring that outputs are usable by business, producer organisations, policy makers
- Strategy for **impact post December-07**
- Decisions on **focus** of **activities**, focus of **policy messages**, and **quality assurance**
- Additional member of Advisory Group, from **food processing** sector

Links between projects

- Regoverning Markets (CRD)
- Smallholders, supermarket standards and horticulture exports from Africa (Policy Division)
- Others: Synergies, value addition, fit

Links between DFID and the Food Industry

- Tesco and Asda-Wal Mart as global players
- Partners for Sustainable Development?
  - ".. a cultural divide seems to exist between DFID and the private sector.."
  - "opportunity costs associated with participation in policy consultation.. [are] perceived by the private sector as a barrier to their engagement with DFID."

(International Development Committee)