Linking Small-scale Producers to Markets: Old and New Challenges
A Workshop of the ARD Rural Infrastructure, Markets and Finance (RIMFI) Thematic Group
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Context
In recent times there has been a notable growth of demand for high-value agricultural products. This trend, together with concurrent major changes in the retail food sector, the tightening of food safety and quality requirements, and emergence of supply chain integration, forebodes potential exclusion of small-scale producers to the growing markets.

The Bank’s increasing portfolio of projects with components (albeit generally small) of market linkage, food safety and quality attests to the Bank’s recognition of the importance of linking small-scale producers to markets to the development agenda. However, the abovementioned trend requires greater, more specific action from the Bank and other donor agencies. Yet, identifying purposeful interventions is not easy. There is no blue print for what should be done, and there is no general good practice for interventions because of the large range of relevant variables and situations. Solutions have to fit particular product-market combinations. Understanding of the different patterns of supply-chain organization and involvement of small-scale producers therein, is crucial in designing successful interventions.

Building on previous seminars and workshops relating to market linkages and coordinated supply chains, the goal of the workshop was to provide TTLs in the Bank (plus a limited number of specialists from other agencies) with greater understanding of trends in markets and supply chain organization and lessons from projects focused on market linkages.

Opening
ARD Director Kevin Cleaver opened the workshop by emphasizing the increasing significance of the issue given the market trends and how these developments pose new challenges to the “old” issue of small-scale producers’ participation.

Introduction
Steven Jaffee (PRMTR, WB) described the structural changes in agro-food supply chains that arose from the modernization of food retail, rising proliferating standards, and changes in inventory management, among others. Farmers now faced new constraints that include knowledge of acceptable agricultural practices, capacity to comply with market and regulatory requirements, new issues of conformity assessment and traceability. There has been an increasing number of smallholder-market linkage interventions by the Bank but the lessons learned are not very clear; there is a need to draw operational lessons.

What are trends in markets – driving forces?

Evolution of food marketing systems: implications for producers in developing countries
John Lamb (Abt Associates) identified the numerous factors driving the structure of food marketing systems in developed countries. A major consequence is the emergence of value and supply chains in the fresh produce industry. This set-up poses challenges for developing country suppliers – demand for increased value added, rising competitiveness, compliance with standards. Smallholders need more help with better understanding of the market (identify value chains) and of the standards (both official and commercial). Development actions should include the promotion of favorable policy environment, a focus on competitiveness, productivity, and sustainability within value chains.

What drives supply-chain formation in Eastern Europe?
Jo Swinnen (Katholieke Universiteit Leuven, Belgium) referred to the liberation of trade and investment, international agreements, and economic and institutional reforms as the major factors that led to a high consumer demand for high quality/standard products. Processors, however, have
difficulty meeting this growing demand because of the lack of suppliers – there are major constraints in input and output supply. This rising demand for quality supplies has major impacts on the structure of the supply system. Technological investments to enhance quality and safety led to the vertical integration in the agricultural food supply chains. Agribusiness companies provided farm assistance in the form of input supplies, trade credit, extension service, bank loan guarantee programs, and investment assistance program. Contracting and vertical coordination overcame the obstacles that farms and processors face in producing high quality products. Nonetheless, contract enforcement and macroeconomic stability is essential for any model.

Discussion
Richard Burcroft (ARD, WB) opened the discussion by calling attention to the possible displacement of labor as a result of the commercialization of farms, to the inability of Governments to find gainful employment for these farmers. As institutions with an interest in development, projects must not ignore these people. It was pointed out that agribusiness is not a solution to the unbalance of labor supply.

On other issues, comparative advantage is important and is taken into account. For high-value products, competitive advantage matters. There is a risk of unequal power relationship that is largely determined by demand and supply. Suppliers gain more power the greater the demand for the product. The alternative, however, is not having access to markets. There is generally consolidation for farms that can comply. With regard to the enforcement of contract, public enforcement is generally not the case. In Eastern Europe, the lack of institutions does not allow for public enforcement. Processors invest heavily in contract farming to establish long-term relationship. In projects in South America, there was agreement among the players/companies not to tolerate spot-selling by suppliers, thus, there is blacklisting of such sellers or buyers. Generally, only marginalize players engage in spot-selling, not long-term players.

Do small-scale producers benefit from supply chain integration?
The case of high value agriculture in Asia
Nick Minot (IFPRI) looked at the impact of contract farming on small farmers using cases in India (dairy, poultry and vegetables); potato production in Punjab, India; apple and shallot production in Shandong, China; and Philippines. Contract farming is becoming more common in fruits and vegetables, commodities needed by processors, exporters or supermarket chains. In practice, however, price guarantees are generally not enforceable, schemes often fail with disputes over grading and pricing. The key is to find arrangements where both parties benefit. Contract farming only makes sense in specific situations – for perishable, quality-sensitive goods purchased by processors, exporters, or other large buyers. Contract farming generally benefits farmers, but participation by small farmers is mixed. Policy should support emergence of contract farming and facilitate participation by poor, but contract farming is not a general solution to rural development. Further research of contract farming needs to take into account all poor rural households, not just small farmers, pay attention to dynamic aspects and risk. There should be information on the prevalence of contract farming and other forms of vertical coordination.

The case of artisanal fishers on Lake Victoria
Spencer Henson (University of Guelph) was not able to attend. Please refer to his presentation included in the website.

Institutions
Producer organizations as a means for access to high-value market chains
According to the presentation by Thomas Reardon (Michigan State University), the transformation of the food industry sector – spread of supermarkets, changes in the procurement system, modernizing of processing – presents big opportunity for farmers that are capitalized and organized. However, the food industry firms do not like to buy directly from individual small farmers (too much transaction cost); hence, options are the brokers/wholesalers, contract farming.
and small farmers’ organizations (SFOs) or cooperatives. Yet, supermarkets would rather not deal with SFOs - they don’t deliver (start/stop), don’t invest (invest just one time and don’t keep up), and are a major hassle to work with.

A study by Julio Berdegue of 1,500 SFOs in Chile was cited. Many of these SFOs were in the high-value product markets and started with strong assistance. A decade later, 80% of the SFOs have failed due to lack of follow-up investments, coordination problems, free-rider problems, and poor management. Possible solutions would be to neutralize free riders and improve management and information.

Reardon related the experience of a multipartner alliance of Carrefour (retailer), Bimadiri (wholesaler), Syngento (input supplier) and the Government to underline the importance of getting SFOs right (forming companies within cooperatives) and getting partnerships right (help with investment capital and (savvy help with) market access). An emerging trend is to form partnerships with new specialized wholesalers dedicated to modern food industry. It may be easy to get market access but hard to keep it. Investment must be dynamic.

**Discussion**

Stephen Mink (EASRD, WB) brought up questions with regard to measuring the impact of market linkages to small-scale producers: how to measure, have actual measures been done, if so, what do they show, what are the kinds and degree of benefits. Suggestions for further research studies are to include spatial aspects, (displaced) labor, non-participants, a broader household survey and a long-term study.

Within the discussion, there was a recommendation to consider farm associations as business entities in the context of a project. There was an observation that seed producers (before) have the same problems as contract farmers. Examples of farm organizations in India that found innovative solutions were cited. There was agreement that the lack of legal enforcement of contracts is a constraint to long-term relationship; however, there are successful cases where buyers offer better prices than the market price.

**Approaches and Experiences**

*Linking small-scale producers to markets: What products, markets, producers?*

Kees van der Meer (ARD, WB) underscored the need for a differentiated approach because product markets are differentiated. In some cases, coordinated supply chains or contract farming (or linkage to supermarkets) will help but not for all cases. Establishing coordinated supply chains with small-scale producers is a serious option when there are moderate/high market requirements (delivery schedules, consistency, volume, safety, quality), and sensitive perishable products. Small-scale producers are serious alternative to large producers when there are suitable government policies, relatively low production costs, and when free producers’ organizations are allowed. The inclusion of small-scale producers is not advisable for markets with low requirements, for products with little price premium for quality, and where production presents dominant economies of scale, involves complex technology and has high capital requirements.

The possible public interventions include facilitating coordinated supply chain upgrade, innovations and optimization, process facilitation, improving investment climate, and reducing transaction costs and risks. Private investment in supply chain coordination can have returns when value added is greater than transaction cost.

**The UGANDA IDEA and APEP Experience**

William Kedrock (Chemonics International) and Clive Drew (APEP Director from Kampala, Uganda, on the phone) discussed the experiences and lessons learned from two Chemonics project in Uganda: IDEA (Investment in Developing Export Agriculture) and APEP (Agriculture Productivity Enhancement Program). The main objective of IDEA is to increase the production and sale of high and low value crops. APEP’s goal is to expand rural economic opportunities in agricultural sector by increasing food and cash crop productivity and marketing. The project involves sunflower and partnership with the largest processor Mukwano. Twenty thousand small-
scale producers are participating, yields are up significantly, and farmgate revenue is up. A unique feature of the project is it gives farmers three options to produce: traditional, improved low (providing improved seeds), and high input. It was learned that farmers adapt where benefits are visible and meaningful. Some recommendations are to bring private sector into the program early, and to work on a scale that is meaningful to the private sector.

**Discussion**

Ashok Gulati (IFPRI) noted that in the case of the Indian farmers, the adoption of information technology cut down significantly on transaction costs. The discussion likewise emphasized the importance of better, fast-working infrastructure. Farmers’ should be provided with assistance to have capacity to innovate and capacity to mitigate risk.

**Case Studies - facilitation**

*Development of coordinated supply chains in Bosnia-Herzegovina and Georgia*

Sabine Willems (consultant, WB) gave a presentation on the projects in Bosnia-Herzegovina and Georgia. The projects aim to facilitate supply chain organizations, to undertake detailed planning of and support to the development of profitable and feasible coordinated agricultural supply chains. The plan includes the development of a strategy to support small-scale producers to participate in these supply chains. Assistance includes the selection and recruitment of a supply chain coordinator within the pertinent sectors, improvement of product quality, control of diseases (for bees), organizing a supply chain course, creation of short-term action plan for the next 6 months, implementation of practical actions to involve the private sector, and linking and collaborating with other donor organizations and local NGOs.

*Rural partnerships between small farmers and private commercial sector: the case of Colombia*

Pierre Werbrouck (LCSES, WB) described the project in Colombia – the establishment of productive partnerships between organized small farmers and the private commercial sector supported by stakeholders (public entities and NGOs). Proposals of partnerships are submitted and selected. Each partnership receives technical assistance and will graduate once it has attained sustainability without support. Each partnership has an agreement that includes production targets, mechanisms to establish prices, business plan and conflict resolution. The government provides financial incentives to start up the partnerships – the contribution constitutes a revolving fund to guarantee the sustainability of the partnership. Another government role is to establish quality standards and certification systems for export markets. Important requirements for success include a consideration of the characteristics of production and marketing chain, proper management arrangements, conflict resolution, high quality feasibility studies and good monitoring system. Findings, however, show slight impact on farmers’ income (early stages?), and little or no impact on employment.

**Discussion**

David Gibson (Chemonics International) stressed the need to learn from these projects, specifically, the prescribed role of government, and the importance of choosing commodities, not partners. The discussion clarified to let the farmers choose products. The role of the private sector in supply chains was emphasized – that the sector drives the supply chain and should decide how to do things. There was a discussion on the appropriate Ministry Office to oversee project – there were opinions that these projects ought to be under the Agriculture Ministry for sustainability and given the fact that the projects are carried out in the rural sector, and there was an opinion that the projects should be outside the Government and under the private sector.

**Case Studies – Interventions**

*Linking small-scale producers to markets: Senegal horticulture*

Malick Daniel Antoine (AFS4, WB) shared field experiences from their sector’s operation in Senegal. A current project is the PPEA (Projet de Promotion des Exportations Agricoles, or Agricultural Export Promotion Project); an upcoming project is the PDMAS (Programme de Développement des Marchés Agricoles du Sénégal, or Agricultural Markets and Agribusiness
Development Project. The objective of the PPEA is to increase Senegal’s export of fruit and vegetables by export promotion and diversification, support to producers/exporters associations, and upgrading of export facilities (developing cold chain infrastructure). As a result, 10,000 jobs were created and income went up. It was learned that fruit and vegetables export chains have positive impact on rural poor; that these chains encourage the professionalism of SMEs; that investment in infrastructure is critical; that quality management system for SMEs is important.

Smallholders and Market Linkages: the Ongoing Saga of Malawi Tobacco

Antonio Nucifora (AFTP, WB) and Steven Jaffe started by tracing the history of Malawi tobacco industry structure. In 2000, the tobacco industry remains a main pillar of economy and is critical for poverty reduction. Still, there are inefficiency and rents in the marketing arrangements – the upper end of the market is very concentrated and the domestic chain is rife with oligopolistic rents. Farmers cope through illegal marketing – contract farming is illegal but increasing, especially for small estates; farmers receive higher price selling across the border, and intermediate buyers continue illegally.

There was a joint study held in consultation with all industry stakeholders to discuss rents and inefficiency. Recommendations include to overhaul the sector’s institutional structure; to implement measures to reduce marketing costs (allow contract farming, establish local commodity exchanges – where buyers compete for the crop brought in by area’s producers); and reduce fees imposed by marketing institutions. Resulting reforms were the over 50% reduction in domestic levies, legalization of contract farming, ongoing financial audits of institutions, and increased representation of smallholders. In conclusion, improved market access can have large impact on smallholder incomes. For mainstream commodities, linking farmers to markets require both policy and institutional reforms in addition to micro and technical interventions.

Discussion

Dina Umali-Deininger (SASAR, WB) emphasized the importance of initial conditions. It is important to determine what is there that we can build on. Also important is to take into account the political economy of reforms – how to prevent political capture, to make sure money is spent well. The discussion focused on the difficulty of diversification, shifting from commodity to niche markets.

Plenary Discussion

The discussion focused on the role of the Bank. The Bank could support portfolio of investments and trade capacity buildings. It could work to facilitate trade agreements (FTAs, WTO, bilateral), to get countries to participate, or work on creating enabling environment for small firms. It could provide assistance on the supply response – provision of industry expertise; development of business services, thereby reducing development gap and time gap; provision of management, technology, and industry know-how.

Conclusions and Recommendations

In the area of high-value products, it would be wise to consider

- farmers’ organizations as business endeavors
- what is relevant in the area, that is, an investment in seaports may have impact on certain areas but not on others
- what kind of assistance to business development
- if the public system can facilitate the adoption of technology, then that would constitute an argument for spillover, justifying co-funding of cost
- under what circumstances would it be useful to “pick winners” and what are the selection criteria

On further research, in addition to the issues on supply chain mentioned in earlier discussions, there should be clarification of commonly used terms – value chain, supply chain, cluster management. Misunderstanding of these concepts may lead to misapplication.