

Enhancing the competitiveness of rural agroenterprises through better integration of supply chains and delivery of effective business support services.

Purpose and objectives (what)

Goal: (PhAction overarching level): To contribute to the improved livelihoods, food security and sustainable development in developing countries through the execution of post-harvest interventions that equitably link small-holder farmers (and other rural actors) to growth markets

Purpose (this theme area): To integrate small holder farmers and rural agroenterprises, in an equitable and sustainable manner, into value-adding supply chains serving growth markets.

Objective 1: to identify and evaluate options for organizational structures and relationships between actors, that enhance local innovation and result in greater and more equitably distributed benefits through the supply chain.

Objective 2: to identify and evaluate options for sustainable delivery of business development services to small rural agroenterprises.

Background and justification (why)

During the last 40 years, two distinct models of rural development have been promoted, and found wanting. Firstly (1960s-1970s), there was a reliance on industrialization and import substitution, often state directed, with benefits expected to trickle down to the rural poor. Secondly (1980s - 1990s) a free market, private sector lead model was promoted. This also incorporated a series of macro-economic policy changes (structural adjustment) that saw a reduced role for the state. Despite these efforts, the socio-economic gap between developed and developing countries, and between rich and poor within developing countries, has grown over time.

More recently (since 1990s), a third model has been distinguished, that sees a valid role for both the free market/private enterprise and the state, and also recognises the importance of civil society in ensuring that development objectives are reached. In this model, the market is still seen as the best force to drive development, but market failures are recognised, and a critical role for both state (at national and local levels) and civil society is found in correcting these failures. Increasingly, the state is seen as acting at policy and regulatory level, while civil society groups (community and non-governmental organizations) and the private sector are responsible for implementation and delivery.

This model fits well with current trends in the agrifood sector in the developing world. Globally, market forces are forcing agrifood sector supply chains towards ever greater concentration and vertical integration. Under this scenario, small-scale producers and processors in developing countries will become more uncompetitive and marginalised, especially in those supply chains where scale economies and efficiency of production are most critical. This presents numerous challenges to rural smallholder farmers and small enterprises, as they face new types of competition, in markets that are more geographically integrated and volatile.

Often small farmers and value-adding rural enterprises are trapped into producing poor quality products for slow-growing local markets, with low profit margins. The prevailing socio-economic trends present them with opportunities for entering new, more dynamic (non-local) markets, but not without also increasing the level of risk. However, in the current climate, standing still also entails risk, as competition from non-local enterprises increases in previously isolated rural markets. If they are to survive, small rural enterprises need to re-orient themselves to take advantage of these new opportunities. But they face many constraints to achieving this. Overcoming these constraints can be tackled in two ways: (i) farmers and small enterprises working together, and (ii) through the delivery of a range of support services. Market failures occur in both these areas. For example, collective action among farmers and between similar enterprises in the same area and community, which could strengthen their competitive position, is often very weak. Left to the market (as is now often the case) services are poorly provided in rural areas, with patchy coverage, deficient quality and with a supply rather than a demand orientation.

This theme area was prioritised because prospects exist to develop a better balance between private and public sectors and civil society organizations in the agrifood sector. This has the potential to result in supply chains that are both:

- More competitive and effective in contributing to economic growth, including rural employment generation and
- More equitable in the distribution of benefits between the different actors in the chain.

Opportunities exist for the small-scale sector to link to growth sub-sector production/consumption or value chains, but they need to collaborate and organize to ensure that supply continuity and product quality criteria of these markets are met. Organization will also help to ensure that these linkages can deliver equitable benefits to the rural communities involved.

Evidence exists that geographical concentrations (or clusters) of similar small enterprises can organise to meet the challenges of linking to these growth markets, if market-based incentives exist, and if local social capital facilitates collective action. Research based on case studies, that feeds into action

research to validate organizational options and incentives, is needed to identify and evaluate the policies, institutional processes and micro-level factors that can lead the establishment and long-term success of equitable linkages.

Services are vitally important to small enterprises. These include market information and contacts, technical assistance and training, business skills and legal/accounting services. Market failures are notorious in the provision of such services to rural enterprises. The cost of their provision has traditionally been met by the public sector, or not at all. Coverage was thus limited by budgets, not demand. A reduced role for the state in many countries has resulted in a further reduction in such services. Organizational options for long-term delivery of key services for which there is a clear demand are needed. Mechanisms for financing such services need to be explored. No single “best practice” solution can be expected, since different policy regimes, cultures and demands exist. However, a systematic analysis of a range of cases can provide some key lessons learned and factors that lead to success (or otherwise). Services that involve rural farmers and enterprises in mutual support and joint learning will be stressed, as a mechanism to build capacity and social capital, as well as provide affordable local services

This project builds on the work of other agencies, especially in the small enterprise development field. Schmitz, Humphries and others (IDS) have studied the way in which geographically concentrated groups, or clusters, of similar small and medium enterprises can organize to improve performance, and innovation (collective efficiency), although the emphasis has been on urban enterprises in non-agricultural sub-sectors.. In the area of services to small businesses, the ILO has taken a lead in the studying mechanisms for developing demand-driven and sustainable services, although again this has an urban small enterprise focus. Other organizations (GTZ, World Bank) are also supporting individual projects on supply chain organization and business development services, which can provide useful information in this theme area.

A further element that PhAction can add to the contributions of the above institutions is that of environmental sustainability, something rarely highlighted in the small enterprise field, but which is very relevant to agrifood supply chains. Indeed, market forces can play a major role in determining the sustainability, or otherwise, of the crop or livestock production systems employed by small farmers in developing countries. Mechanisms assisting the development of agrifood supply chains that are both equitable and promote sustainable production of raw materials (use of soil conservation practices, better land use management etc) are badly needed, and members of PhAction, with experience in agricultural production as well as postharvest and marketing components of supply chains, are well placed to help deliver this.

Clients and partners (whom)

A key role for PhAction is to provide a bridge between the development community, which supports and implements project in the areas of supply chain organization and business development services, and academic research institutions, many of them in the developed world, whose strength is in the development of conceptual models and analytical frameworks.

In this scenario, PhAction members can usefully:

- Share innovative examples of supply chain organization and business development services
- Produce inventories and descriptions of initiatives in this area
- Review, synthesise and disseminate learning and good practices
- Facilitate experiences and new learning
- Lobby for policy support

To accomplish this, PhAction can work with a range of partners and clients at three levels: Macro, meso and micro:

- Micro-level: individual farmers, processors, traders etc
- Meso-level: groups of farmers/processors, support institutions (development agencies, local NGOs and public agencies) and specific supply chains of interest (private sector)
- Macro level: policy makers, regulatory bodies, academic institutions.

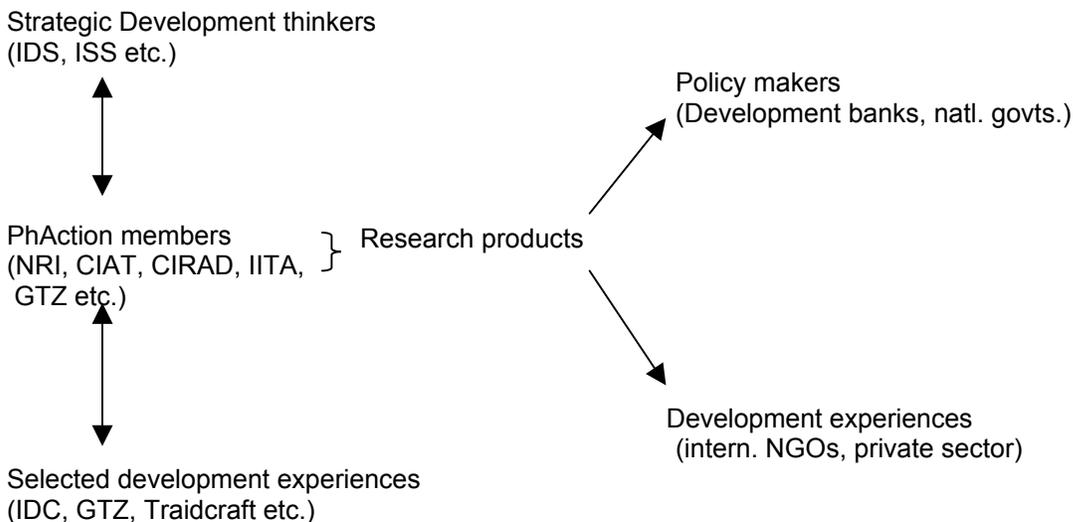


Figure 1. PhAction as a bridge between development action and strategic thinking

The actors (or stakeholders) involved at these different levels are diverse, with an equal diversity of interests and objectives. This necessitates establishing some criteria for the formation of partnerships in specific project sites, e.g.:

- The potential for improvement in income, livelihoods and well being of the rural poor
- The number of people involved
- The long-term sustainability of the initiatives (after the project is completed), including the degree of local commitment and the potential for cost-recovery.
- The extent of private sector involvement and commitment
- The degree of innovation involved in the approach

Project objectives

The project has two major objectives.

1. Improved and more equitable organization of supply chains for agrifood products in growth markets.

The concept of value chains is important: value must be added as the raw materials/products move towards the market, and it is vital that a fair proportion of that added value is equitably distributed along the chain (i.e. remains in rural areas where it can have an impact on social objectives). Special emphasis could be given to:

- a) Rural enterprise clusters (groups of locally concentrated small enterprises in one sub-sector and market) where potential for collective action to develop such supply chains is most likely to exist.
- b) Equitable and efficient mechanisms for supply chain linkages between small- and large-scale agrifood enterprises.
- c) Mainstreaming organic and ethical (alternative) trade markets.

2. Organization, content and sustainable delivery of Business Development Services.

The full range of business development (i.e. non-financial) services for small, rural agroenterprises will be considered, although information services (for markets and technologies) have been identified as especially critical. Special attention will be paid to:

- Identifying effective demand for services
- Mechanisms for developing markets for services in rural areas
- Definition of roles for private sector, NGO and community organizations and the public sector in service delivery and finance (and possible subsidy), depending on context.

- Schemes for organizing services at local level in rural areas.

In this, it is important to include current “informal sector” services that are offered commercially (but are often ignored), and to distinguish between those services offered locally and those that depend on external providers. Vertical integration can also result in some services being provided through the supply chain (e.g. agricultural inputs supplied by traders or processors, with the cost discounted from final payment after harvest). The advantages and disadvantages of these arrangements need to be clear to all parties.

Project stages

This proposal attempts to integrate approaches from the small enterprise development field with those of the rural agrifood development area. The following stages are proposed:

A. Defining needs and prioritizing R&D products.

- An initial learning process (involving study visits and workshops as necessary), in which PhAction members, partners and clients, and relevant agencies from the small enterprise field, can develop a common analytical framework. The research products should also be defined at this stage, based on client needs.

B. Developing R&D products

- The specific project components outlined above are then be developed in an integrated fashion in specific locations where PhAction members and their partners are working (or planning to work). These case study sites will be where PhAction members can work with partners in each location to contribute to developmental goals through improving the organization of supply chains, small enterprise clusters (specific location and sub-sector), and the organization, content and sustainable delivery of support services to them.
- The research products that result from will be tested and validated in other areas.
- A cross-site component to the project will be ensure the overall coordination of activities, the development of the common analytical framework, and undertaking the subsequent analysis of the experiences.

C. Scaling-out and dissemination of results to achieve development impact

- For this initiative is to be successful, the research products that are developed during this process will need to be widely used in rural development situations, to achieve the objectives of all partners and client

organizations. This requires a strategy for the dissemination and application of the research products. The strategy is based on an initial identification of client demand (see A above), in the expectation that research products that meet these demands will be most useful. Clients will include development agencies, the public and the private sector involved in agrifood supply chains in developing countries. Different strategies for ensuring uptake and use of the research products may be necessary for each client group, and will need to be designed with those groups during the formulation of each project within this theme area. Possible strategies are:

- Learning alliances with development oriented NGOs
 - Policy seminars with government agencies
 - Training events (with all groups)
 - Information exchange (with all groups)
- Once the dissemination strategy is implemented, it should be monitored and evaluated to ensure that the research products are being used. Feedback will be important for the development of new products. Finally, impact can be assessed.

Outputs

Developmental outputs, assuming projects on this theme are implemented.

- Supply chains established or with improved competitiveness
- Enterprise clusters linked to growth markets, with faster innovation
- Support service systems developed and established at local level that are sustainable
- Cadres of national personnel trained in the application of the methods and tools developed

International Public Goods

- Framework for analysis of rural agroenterprise clusters and services, building on existing studies of PhAction members and those of others (IDS, ILO etc)
- Identified success factors/lessons learned for sustainable support service delivery to small agrifood based enterprises in rural areas, building on the ILO experience in developing markets for such services.
- Options for organization of linkages between small rural agroenterprise clusters and supply chains based on growth markets
- Tools and methods for development of demand driven market and technology information services specifically designed for small-scale rural agrifood sector enterprises.
- Manuals for business skill development in small rural agroenterprises.

Areas of innovation

- Application of industrial organization theory and practice (especially the work of IDS on enterprise clusters and collective efficiency) to the small-scale agricultural sector in developing countries.
- Global study of rural small-scale agroenterprise cluster and service organization, taking cases across continents, cultures, agrifood sub-sectors, markets and policy environments, to identify good practice and success factors. The analytical framework this requires will be built on an integration of previous work by PhAction members and other groups (e.g. IDS and ILO)
- Development of an analytical framework that integrates the local (micro-regional, territorial) grounding of the small-scale agrifood sector enterprise clusters with non-local, even global, markets. This expands on current localised work of CIRAD, CIAT and others.

Key Partners

While all PhAction members have expressed interest in contributing to this project, the key institutions involved are : CIAT, CIRAD, GTZ and NRI. It is proposed that these three institutions take the lead in the cross -site component of the project, while other PhAction members are involved at site level, as appropriate to their mandates and interest. Other agencies from the small enterprise development field (IDS, ILO, ISS etc) can also be involved, according to their level of interest in collaboration with the agrifood sector.

During the Montpellier meeting, interest from the NGO sector was identified, specifically:

- Traidcraft: possible case study project in Malawi, linked to fairtrade supply chain
- Intermediate Technology Consultants (ITC) with a possible case study in Vietnam.

Current GTZ projects in Sri Lanka and Cambodia can also provide case studies. In addition, IITA is associated with another possible case study in Uganda, and CIAT with others in Honduras and Colombia.

Key sites

The project will be implemented where PhAction members already have relevant activities in place (or planned) and where an organizational support infrastructure exists. Some proposed sites are (these can be reduced or added to according to interest, funds available etc.):

- Vietnam, Sri Lanka
- Uganda, Malawi
- Honduras and/or Colombia

Sub-sectors which could be the focus on attention in these sites are:

- Fruits and vegetables
- Root crops -added value products
- Dairy products
- Non-timber forest products

As stated previously, attention will be given to alternative trade and organic products/markets, since these offer scope for equitable benefit distribution and a strong association with sustainable production, processing and marketing practices.

Relevant on-going activities

This project proposes to build on previous work, and in particular to focus on small, rural enterprises in the agrifood sector. PhAction members are currently engaged in a number of discrete initiatives that fall within the objectives outlined above. For example:

- NRI is involved in business development support, especially to the export horticulture sector in a number of developing countries, and also has experience of participatory and systems approaches to supply chain management and enterprise organization, with a strong training capability.
- CIRAD and CIAT are collaborating in the development of concepts and methodologies pertaining to 'local agrifood systems' that support the development of dynamic local agroenterprises. These systems build on local know-how, and the advantages afforded by locality and specific agroecological conditions. Means by which the local capacity for social and technological innovation can be enhanced are being studied in the particular case of dairy products in Cajamarca, Peru.
- CIAT, with IDRC support, is facilitating the link between small holders in developing countries and growth markets, through the creation or strengthening of equitable and environmentally sound rural agro-processing enterprises, supply chains and the design and delivery of support services in two reference sites: Cauca (Colombia) and Yoro (Honduras).
- The SIUPA initiative of the CGIAR (for urban and peri-urban agriculture) is shortly to start a study of the cluster of household livelihood systems in peri-urban Hanoi, Vietnam based around root crop processing, vegetable production and pig raising.
- IITA and Foodnet in East Africa are actively developing a number of value-added supply chains for root crops and other commodities.

- GTZ is working with local actors in a number of countries e.g. qualification of producer groups to enter EU markets in Sri Lanka. GTZ has interests in both supply chain organization, and business services in rural areas.

Added value from this proposal

This proposal adds a global context to the current scattered efforts of individual institutions, or groups of collaborators in different countries/regions. This should:

- Enhance the prospects for development of a common conceptual framework
- Ensure that location specific activities include a range of locations, sub-sectors, organisational arrangements, markets and policy environments
- Facilitate cross-project analysis and the development of international public goods mentioned previously and a strategy for the dissemination of results.

Resources committed by partners and requested from donors

These will be agreed for each specific proposal developed under this theme area. However, it is expected that, in general, the partners in each project will contribute:

- Local costs for the major pilot or reference sites under study (especially if these are already linked to commercial supply chains) and
- Pilot site staff costs

While external funds will be required for:

- Workshops, study visits
- Additional case studies (over and above the main action research pilot sites)
- Some research, monitoring and evaluation activities at pilot sites additional to commercial or development actions already in progress
- Elaboration of manuals, guides and other didactic materials
- Training and other dissemination activities.
- Staff costs associated with the above.

Following the development of this theme area in Montpellier, ideas for specific project proposals were discussed, and one concrete proposal is currently in the design stage.