THEMATIC STUDY

RURAL DEVELOPMENT AND MARKET MECHANISMS
FOR THE RURAL POOR
IN
LATIN AMERICA, WESTERN and CENTRAL AFRICA

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IFAD International Fund for Agricultural Development

Origin of the study

Government of Italy, Ministry of Foreign Affairs

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1. Introduction

1.1. Origin and objective of the thematic study

IFAD – Government of Italy Partnership Agreements

In recent months, IFAD and the Government of Italy moved significant steps to strengthen the collaboration with the aim to fight rural poverty and hunger in the poor countries.

In November 2001, IFAD and the Government of Italy (Ministry of Foreign Affairs - General Directorate of Cooperation and Development - DGCS) signed a Partnership Agreement (PA) which main strategic objectives are to: (i) joint efforts to alleviate rural poverty and hunger; (ii) unleash the capacities of poor rural people; (iii) optimize development investment; (iv) rationalize costs; and (v) allow decentralized decision making. The main rationale of the partnership is the Government of Italy’s commitment to make available development aid funds to IFAD for the financing and co-financing of program/projects in countries, which Italy considers to have development priority.

A series of meetings between DGCS representatives and IFAD were organized to identify policies and strategies of both the Organizations involved in the Partnership Agreement and to propose methodological and operational elements to support the implementation phase of the IFAD - Italy PA.

The Millennium Development Goals, The Strategic Framework for IFAD 2002-2006, the Plan of Action with the Strategic Change Programme, and the main operational elements designed by the Regional Strategies constitute an integrated framework for IFAD. The Millennium Goal “Create an environment, at the national and global levels alike, which is conducive to development and elimination of poverty” is the IFAD’s overall strategic reference. Addressing gender inequalities and increasing capabilities is recognized by IFAD as preconditions for achieving the Millennium Development Goals. Under this overall context, IFAD will work towards enabling the poor to overcome their poverty – as perceived by the poor themselves – by fostering social development, gender equity, income generation, improved nutritional status, environmental sustainability, and good governance.

IFAD will concentrate its investments, research and knowledge management efforts, policy dialogue and advocacy on the attainment of three specific strategic objectives aiming at: (i) strengthening the capacity of the rural poor and their organizations; (ii) improving equitable access to productive natural resources and technology; and (iii) increasing access to financial services and markets.

The Fund will seek to maximize the direct impact of its programmes by focusing on critical poverty bottlenecks and broadening the catalytic effects of its activities. This will involve: (i) harnessing knowledge and disseminating it to a broad spectrum of national and international partners; (ii) supporting the development of national partnership among the poor, governments, the private sector and civil society; (iii) building regional and international coalitions; and (iv) helping to establish institutional and policy framework in support of the poor.

Under the main framework of the international objectives established by the United Nations Millennium Goals, Italy defines its ODA policy priorities under the Millennium Declaration framework. The overall approach is guided by the principles of: (i) Good Governance (human rights respect, establishment/strengthening of the Etat de Droit, transparency); (ii) coherence between the different policy instruments of the Italian Co-operation for Development: trade negotiations, debt sustainability, ODA, FDI; (iii) co-ordination between the different donors - bi and multilateral to improve efficiency in the financial resources allocation; (iv) integration and complementarity between the different programmatic development priorities (health assistance, education, human capital development, food security, small and medium

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1 Relazione previsionale sulle attivita’ di cooperazione allo sviluppo dell’anno 2002 (art 2, comma 2 della legge n. 49/87).
enterprises, environmental and cultural protection); and (v) collaboration within the system-country, especially with the NGOs, the local institutions (decentralized co-operation), the business sector (specially the small and medium enterprises), the universities and centers of research.

Operationally, this approach will be translated into eight specific programmatic windows that are: (i) poverty alleviation; (ii) Genoa Plan for Africa to support NEPAD (New Partnership for African Development) economic participation to global market, and promotion of FDI in Africa; (iii) global fund to combat AIDS, Malaria and Tuberculosis; (iv) debt reduction of the Developing countries; (v) Enabling-environment for FDI; and (vi) fostering developing countries’ access to international market.

The strategic implementation of the Partnership Agreement should be able to demonstrate to: (i) the Italian Government, and specifically to the DGCS (Direzione Generale Cooperazione allo Sviluppo), its added-value in relation to the Italian replenishment contribution by developing and implementing joint initiatives with IFAD directly related to Italian Co-operation’s development policies and geographical priorities; and to (ii) IFAD, the financial leverage of the Agreement by making available substantial additional financial resources to support the implementation of its Strategic Framework, regional and countries strategies.

Under this rationale, the following operational guidelines will be adopted in implementing the PA: (i) assure coherence and consistency at corporate level with the IFAD Strategic Framework, the Regional strategies, the Strategic Planning and Budgeting Process; (ii) facilitate a pro-active dialogue between IFAD and DGCS on strategic issues and operational priorities both at HQ and at country-level (recipient countries, local embassies and UTC, joint missions, etc.); and (iii) assure transparent and broad in-house and external (visibility) communication about the PA.

As result of this preliminary assessment of the strategic and operational elements of both the institutions, a provisional/indicative set of thematic areas, crosscutting issues and specific geographic priorities have been identified (e.g. micro-credit small enterprises in Bolivia, Peru’ and Equador and in Congo, Sierra Leone etc.). Crosscutting issues (e.g. institutional capacity building, gender and applied research) are intended to support a more efficient design and implementation of the joint IFAD-Italy program/project portfolio.

In addition, under the operational framework of the Partnership Agreement, innovative financial mechanisms have been established. As the PA is intended to build a coherent joint-programs/projects (investments/operations) pipeline, the support financial mechanisms should be targeted to an important extent to the development of this pipeline, in which IFAD is acting as: (i) Executing Agency of the Italian ODA funds; and (ii) co-donor in program/project funded by IFAD and Italy (parallel co-financing). (Partnership Agreement IFAD – Italy, Draft internal document (vers 04/06/2002).

In January 2002, the Government of Italy (Ministry of Foreign Affairs - General Directorate of Multilateral Economic and Financial Cooperation - DGCE) and the three Rome based UN Agencies IFAD, FAO and WFP signed the Roman Pole Protocol Partnership Agreement which main strategic objectives are to: (i) develop a closer cooperation among the three UN Agencies to eradicate poverty and hunger and to support food security and rural development in Developing Countries; (ii) strengthen the UN Rome based Institutions for Food and Agriculture establishing the Roman Pole; and (iii) collaborate with scientific, economic and social institutions operating in the agricultural and food sectors in Italy, bringing support to the programmes of the UN Agencies.

The main rationale of the Roman Pole Partnership is the Government of Italy support to the three Rome based UN Agencies initiatives through Italian bilateral, multilateral and multibilateral development aid programmes.

In order to define a plan to implement the Protocol Agreement, a meeting was held at the Ministry of Foreign Affairs on March 2002 to put in place an organizational set-up to oversee the implementation of a defined set of activities. The main outcomes of the meeting were: (i) to constitute a Joint Operational Committee of the main Parties to the Agreement comprising two representatives of each organization; (ii) for each participating entity (three UNOs, Ministry of Agricultural Policies and Ministry of Foreign Affairs) to organize, co-sponsor and host one seminar/conference each on any one of the following five major themes enshrined in the Protocol:
- Training and research in the agricultural and in the agroindustrial sector
- Sustainable rural development
- Improvement of agricultural, animal and fish productions
- Reducing hunger and food insecurity through providing food aid to enable development and to address emergencies
- Improvement of production, transformation and marketing technologies, including food and nutritional safety.

In the framework of the two Partnership Agreements mentioned above, IFAD has identified the *Rural Development and Market Mechanisms for the Rural Poor* as the thematic of priority interest. For IFAD, rural financial markets remain underdeveloped. Assistance needs to focus on developing professional and responsive rural finance institutions. Furthermore, integrated approaches along the full continuum of production, processing and marketing are needed to raise rural incomes and significantly contribute to economic growth and poverty reduction. On the other hand, the Italian ODA will play a substantial role, not only as autonomous element of development, but also as catalyzing factor to promote an enabling environment to foster Italian enterprises investments in developing countries, and to deliver Technical Assistance to the Developing countries for: (i) participating actively in the WTO commercial negotiation; (ii) enabling countries to exploit the commercial opportunities of the free-market trade; and (iii) integrating the free market opportunities into the national poverty alleviation policies/strategies.

In addition, in order to implement the *Roman Pole* Protocol of Agreement, the Ministry of Foreign Affairs will organize the first of the five workshops described above. On a tentative basis, IFAD agreed to convene a workshop on the theme *Rural Development and Market Mechanisms for the Rural Poor*, which is very much in line with Fund’s operational focus and cuts across the main elements of all the substantive themes under the Protocol. (Office Memorandum Note to the File on a Meeting of the Rome based UN Organizations and the Ministry of Foreign Affairs, Polo ONU Roma, March 2002).

**GFAR – IFAD and Italian Institutions collaboration**

The importance of the *Rural Development and Market Mechanisms for the Rural Poor* theme has also been highlighted in the regional priority setting process undertaken by GFAR, the Global Forum on Agricultural Research.

GFAR is in constant dialogue with the development community and in the areas of *rural development and innovation, market mechanisms and employment generation*, the Italian Ministry of Foreign Affairs (DGCS) has agreed to commit itself for 3 Millions Euro to support regional programmes (e.g. PISA), promoting the agricultural industry development, particularly in the Latin American and West African regions.

**PISA Programme (Programme on Innovation and Agroindustrial Development: Poverty reduction and Sustainable Development)** is an international, strategic partnership initiative, emerging from the consultative process among GFAR, Italian Institutions (IAO and ICEPS)\(^1\), and other international stakeholders. An outline of the origin of the PISA Programme and its characteristics are reported in Annex 1.

Further GFAR research for development activities on agribusiness are presented in Annexes: (i) the contribution of GFAR stakeholders (e.g. *Planeta Valle Foundation* in Colombia and *Interface Network* in Senegal) to PISA Programme in order to strengthen the Regional Partners; (ii) the Global Partnership Programme *Linking Farmers to Markets – the basis for a global post-harvest initiative*; and (iii) *GIPhT, Global Initiative Toward Post-harvest Technology*.

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\(^1\) IAO: Istituto Agronomico per l’Oltremare, the Ministry of Foreign Affairs, Italy; ICEPS: Istituto per la Cooperazione Economica Internazionale ed i Problemi dello Sviluppo
GFAR is an IFAD; FAO partnered initiative with the international development community that was established in 1996. IFAD supports GFAR and Chairs the GFAR Donor Support Group. GFAR promotes cost-effective partnerships and strategic alliances among the various institutional actors involved in agricultural research and development (R&D). The GFAR is made up of several stakeholder constituencies including the national agricultural research systems of developing countries (NARS), regional and sub-regional organizations, farmers organizations, the private sector and international agricultural research centers. The GFAR Secretariat is mandated to mobilize the various stakeholders that constitute the global agricultural research community in order to:

- facilitate the exchange of information and knowledge;
- foster cost effective collaborative research and development partnerships among the various stakeholders related to agricultural research and sustainable development;
- promote the integration of NARS (including NGOs, Universities and producer groups inter alia) and the enhancement of their capacity to generate and transfer technology that responds to the needs of end-users;
- facilitate the participation of all stakeholders in the priority setting process, in order to achieve a truly global framework for development oriented research; and
- enhance awareness among policy makers and donors of the need to secure long-term commitment and investment in agricultural research.

IFAD is supporting GFAR in the preparation of the PISA Programme proposal to be presented to the Italian authorities for financing consideration. IFAD holds a broad portfolio of projects and relevant experience in areas related to the PISA initiative. With cofinancing prospects from the Government of Italy, IFAD is considering to possibly providing an appropriate contribution, but only on a co-funding basis and to possibly administer the funds made available independently from the Italy/IFAD Trust Fund.

Since 1994, IFAD has received a total of about USD 8.9 million from the Government of Italy. The Italian Ministry of Foreign Affairs has progressively increased its contributions to programmes promoting collaboration with NGOs, as well as strengthening civil-society organizations in their initiatives regarding access to productive resources through the mechanism of Popular Coalition to eradicate Hunger and Poverty. (IFAD Annual Report 2000. Working with the Rural Poor. Pp. 153:96).

The IFAD support to the PISA Programme can be appraised as a visible strategic alliance between IFAD and the Italian Institutions implementing the recently launched Partnership Agreements.

Considering the foregoing scenario, and following the thematic and geographic indications provided by the Italian Institutions (IAO and ICEPS), IFAD decided to elaborate a thematic study. This has been carried out by collecting the relevant information on IFAD experience in Rural Development and Market Mechanisms for the Rural Poor in Latin America and West Africa (present consultancy report).

Objectives of the thematic study and methodological approach

The main objective of this thematic study is to present an overview of the achieved IFAD experience in financing projects and programmes for the Rural Development and Market Mechanisms for the Rural Poor. The specific objectives are to highlight: (i) IFAD strategy for increasing access to financial services and markets and partnerships with financial institutions; (ii) IFAD regional strategies for rural poverty reduction and lessons learned in Latin America and the Caribbean and in Western and Central Africa. These two areas are of geographical priority for the Italian Government investments in agribusiness for rural development. In these two regions, IFAD already finances projects and programmes; (iii) IFAD experience in financing market oriented programmes for rural development, through the selection of IFAD funded projects in the above mentioned regions. The projects and programmes selected for the study include rural innovation, filière approach and commodity chains components that characterize the PISA Programme of interest for the Italian Government investments; (iv) IFAD learning process through the selection of case studies on rural sustainable financing systems, including innovative mechanisms.

The document has been elaborated on the basis of a review and analysis of the available documentation at IFAD Document Center and Evaluation Department, including report of evaluation and IFAD Intranet and Internet information sources. Following an introduction chapter on IFAD – Italian Governments Partnership
Agreements, that are at the origin of the thematic study, the report presents a paragraph based on IFAD strategy for increasing access to financial services and markets and partnerships with financial institutions. The section on IFAD regional strategies for rural poverty reduction in Latin America and the Caribbean and in Western and Central Africa presents an overview of the Fund experience in the regions and the lessons learned for strategic planning and projects implementation. A detailed documentation review and analyses, including IFAD Intranet search, was carried out in order to identify a pertinent number of IFAD funded projects dealing with rural development and market mechanisms. The following are examples of key words used and crossed with the available information in the two regions: Post-harvest, Agro-industry, Agri-business, Off-farm employment, Off-farm income, Production to consumption, Rural Innovation, Filiere Approach, Commodity Chain. Out of forty-seven projects, nine emerged as appropriate examples of IFAD experience. Each selected project was classified according to their objectives, target group(s), innovative features and loan summary. An additional criteria used to identify examples of projects to complete the exercise was the IFAD/Italy co-financed programmes/projects in the two regions. No relevant information emerged as key-example to be exploited for the purpose of this study. Examples of IFAD case studies on rural sustainable financing systems are reported to evidence IFAD experience in managing projects and programmes based on rural co-funding strategies and innovative mechanisms. Also, they are of particular relevance in the context of the IFAD – GFAR and Italian Institutions collaboration on PISA programme and eventually IFAD contribution.

GFAR activities, aiming at capitalizing information on research for agricultural development and partnerships, are presented in Annexes.

The strategic and technical platform of information and experience of IFAD made available through this study can be exploited for the programme design. This study is expected to form the basis for developing new initiatives on market access for poverty alleviation in the framework of the IFAD - Italy Partnership Agreement.

2. Review and analyses of IFAD experience

2.1 IFAD strategy for increasing access to financial services and markets and partnerships with financial institutions.

IFAD's mission is to enable the rural poor to overcome poverty. Poverty reduction is not something that governments, development institutions or NGOs can do for the poor. They can forge partnerships and help promote the conditions in which the poor can use their own skills and talents to work their way out of poverty. (IFAD Rural Poverty Report 2001; Strategic Framework for IFAD 2002-2006.). As anticipated in chapter 1.1, in order to achieve its goal, IFAD will concentrate its investments, research and knowledge management efforts, policy dialogue and advocacy on the attainment of strategic objectives among which increasing access to financial services and markets are of major priority.

In their efforts to raise agricultural productivity or to diversify incomes, the poor often need investment and working capital. Yet rural financial markets remain underdeveloped. Because the amounts involved are small and the poor lack collateral, banks are usually not interested in lending to them. Assistance needs to focus on developing professional and responsive rural finance institutions, with a strong emphasis not just on providing credit but also on encouraging savings.

Efforts to increase agricultural productivity can only be effective if they are linked to an appreciation of market potential. Too many agricultural investments have failed because they only concentrated on increasing production while neglecting development of market links. Integrated approaches along the full continuum of production, processing and marketing are needed to raise rural incomes and significantly contribute to economic growth and poverty reduction. Transport infrastructure is also critical for developing links to the outside world. Diversify income sources, either by producing and marketing non-traditional crops or by exploiting off-farm opportunities more fully, is also necessary. Income diversification reduces the risks posed by rapidly changing market conditions and can help even out seasonal fluctuations in income and consumption. (Strategic Framework for IFAD 2002-2006. Enabling the rural poor to overcame their poverty. Pp. 11).

Examples of Equitable Market Linkages are reported in Eastern and Southern Africa. IFAD interventions in developing smallholder to market linkages in the region are still in their early days. If they succeeded as
hoped, they will become a pillar in the regional strategy for reducing rural poverty. IFAD’s operations have absorbed a great deal from the experience with non-governmental organizations (NGOs). They also reflect the operations of NORAD and the United States Agency for International development (USAID) in business development in rural areas (as well as in depth experience gained in French assistance to cash-cropping systems in West Africa). Cofinancing for programmes has already been mobilized from AfDB. Further development of partnerships in programme development and financing is a major objective for the future. (Assessment of Rural Poverty – Eastern and Southern Africa, 2002. pp. 122:57).

In this context, it is important to highlight IFAD experience of collaboration with the World Bank, the African Development Bank (AfDB), the Islamic Development Bank (IsDB), and the Organization of the Petroleum Exporting Countries (OPEC).

IFAD has a long and fruitful history of collaboration with the World Bank. This has involved Bank cofinancing and supervision of IFAD projects and collaboration in programmes such as the Regional Unit for Technical Assistance in Central America and the Popular Coalition to Eradicate Hunger and Poverty. Moreover, as a member of the Facilitation Committee (FC), the World Bank actively supports the Global Mechanism of the United Nations Convention to Combat Desertification (UNCCD), hosted by IFAD. IFAD operates in all countries or regions suggested as pilots for the partnership-for-development programme. Concerning IFAD collaboration with the AfDB, the partnership was strengthened through the establishment of an independent body, the African Observatory on Governance, which sets the following: (i) developing an implementation programme of action; (ii) assessing the state of governance in countries from the five regions of Africa; (iii) publishing, regular reports on the state of governance in Africa; (iv) providing guidance to African states on model regulations and moral codes on governance; and (v) assembling experts to provide technical assistance.

IFAD and the Islamic Development Bank signed a Cooperation Agreement (May 1979) in order to achieve their objectives in assisting countries of common memberships in their developmental activities. As such the agreement involves: (i) regular consultation on matters of mutual interest; (ii) exchange of information on potential projects related to their common objectives and provision of suggestions for participation in such projects; (iii) reciprocal representation to the organizations’ governing bodies; (iv) close cooperation in the identification, preparation and appraisal of development projects likely to be suitable for financial assistance from both organizations; and (v) exchange of information on specific development projects in countries of common membership for which financing from both organizations appears necessary or suitable. IFAD and IsDB have continued to expand their cooperation since the signature of the Agreement. Cooperation has benefited Member States in Africa, Asia, the Near East and North Africa, and more recently in the Commonwealth of Independent States (CIS). Regular meetings have taken place between representatives of the two institutions to discuss, inter alia, ways and means of strengthening collaboration, particularly through increased cofinancing of projects in sub-Saharan Africa and other countries.

Partnership between IFAD and the Organization of the Petroleum Exporting Countries (OPEC) Fund has been further developed with working visits have taken place for the purpose of identifying joint financing opportunities for the two institutions. (IFAD Partnership, Internet, June 2002).

2.2 IFAD Regional Strategy for Rural Poverty Reduction in Latin America and the Caribbean

Regional Overview

Agriculture and rural economic activities are major sources of employment in Latin America and the Caribbean. More than 30% of the labor force working in agriculture and are of critical importance in terms of eradicating poverty. The region is one of the main producers of primary commodities such as coffee, sugar, maize, bananas, etc.

The Latin America and the Caribbean region has six unique features that must be borne in mind when designing and implementing rural development strategies aimed at poverty eradication:

- Despite the economic progress that has been made to date, there is still a marked inequality in the distribution of wealth and income in the region. The poorest 20% of the population receive only 3% of all income; the wealthiest 20% receive 60%.
- Indigenous people constitute the largest group (about one third) of all rural poor people in countries of Latin America and the Caribbean. There are more than 200 indigenous ethnic populations in the region, including ethnic minorities of African descent.
- The region as a whole (particularly the rural areas) is highly vulnerable to exogenous factors, as illustrated by the effects of the downturn in the global economy and the devastating effects of recent natural disasters.

- There is a serious policy and institutional weakness throughout the region, especially in terms of providing rural people with (direct and indirect) access to assets and the services they require. This situation is exacerbated by the inability of governments to bring together the significant, but dispersed, efforts of the private (producer organizations and non-governmental organizations (NGOs)) and public sectors (at the national and local levels) in this regard.

- Access to and use of land constitutes a serious problem throughout the region. The majority of agricultural producers work small plots usually located in marginal, low-productivity areas, and this contributes to the deterioration of natural resources. As a result, off-farm activities, as well as remittances from workers who have migrated to other areas of their home countries or abroad, have become important sources of income for the rural poor.

- As a general rule, the Latin American and Caribbean countries have been receptive to innovation and novel approaches to rural development. Moreover, a variety of policies and development models have been experimented in the region, at both the macro and micro levels.

The vulnerability of the different economies of the region, coupled with natural disasters, fragile democracies and slow social and economic change, has meant that the level of rural poverty, including extreme rural poverty, has remained unchanged over recent decades (although trends vary considerably across countries).

Rural Poverty in the Region

Poverty, especially rural poverty, continues to be one of the major problems assailing the region, with approximately 44% of its entire population and 64% of the rural population, living below the poverty line. The rural poor are thus generally worse off than those in the urban areas. In these areas, poverty and extreme poverty represent multidimensional phenomena that are influenced by cultural, social and economic factors. Poverty is characterized by: social and economic exclusion and discrimination linked to ethnicity and gender; lack of, or limited access to, services that meet the basic needs of rural families (health, education, housing, etc.). Social values and poorly developed rural organizations make it difficult for the rural poor to gain equitable access to political and economic resources; and income levels that are below the minimum needed to obtain basic goods and services, including food, for the family.

There are two main types of poverty in the region: structural and transitory. Structural, or hard poverty, is found mainly among indigenous communities, rural women and ethnic minorities. People affected by this type of poverty generally have little or no schooling, few or no productive assets, limited knowledge about production, few work skills and lack of access to basic services. Transitory poverty applies to farming families and rural households that have little or no access to land, and are especially vulnerable to changes brought about by structural reform, cyclical economic change, and social and political instability. Any sudden changes in economic policies or the occurrence of crises affect farm and non-farm incomes, causing periodic drops in earnings and deteriorating living conditions.

In absolute terms, the largest group within the poor rural population of the region is made up of rural indigenous people that encompass indigenous groups in the Andean region, the numerous indigenous communities and ejidos of Mexico, the Mayan populations of Guatemala, and the Mapuche of southern Chile. The majority of families in this group lives in extreme poverty and constitutes the structural poor, or the hardcore segment of the region's poor population. An estimated 24 million people, one third of the rural poor of the region, fall into this category.

The second group is made up of small farmers, who account for 27% of the poor rural population in Latin America and the Caribbean and include roughly 4.6 million small livestock farmers, 8.5 million crop farmers and 11.3 million farmers producing both crops and livestock. The main distinguishing feature of this group is their ownership of small plots of land in arid or semi-arid regions, on hillsides or on the sides of irrigated valleys. Agricultural production takes place on ecologically fragile lands and is subject to the vagaries of the climate.

The third group consists of subsistence and landless farmers (numbering 19.3 million and 9.4 million, respectively). The former are smallholders, whereas the latter have only seasonal or yearly access to leased land. The families of both sets of farmers are among the poorest of the rural population, with incomes that
place them below the extreme poverty line owing to the severely limited agricultural production base and their dependence on seasonal demand on rural and urban labor markets.

More than 90% of the rural poor population in Latin America and the Caribbean is concentrated in four major ecological areas: (i) mountain slopes in subtropical zones and arid and semi-arid plateau; (ii) humid and semi-humid tropics; (iii) subtropical valleys; and (iv) coastal plains. Thirty-two per cent of the entire rural population of the region lives in arid and semi-arid subtropical areas, which account for more than 9 million km².

According to the United Nations Economic Commission for Latin America and the Caribbean (ECLAC), the number of poor in the region amounted to 211.4 million in 1999 (7.6 million more than in 1997), of which more than 89 million lived in conditions of extreme poverty. Poverty rates continue to be far higher in the rural areas of the region than in the towns and cities.

In 1999, there were more than 77 million poor people in the region's rural areas (out of a total rural population of 121 million), of which almost 47 million were living in extreme poverty. Comparison with figures for 1980 show that, overall, the proportion of rural poor increased from 59.9% in 1980 to 63.7% in 1999. In absolute terms, the number of people living in poverty in the rural areas rose from 73 million in 1980, and the number of rural people living in extreme poverty has increased from 39.9 million to 46.4 million over the last two decades. In this context, the poverty alleviation achievements of the 1990s were not sufficient to reverse the increasing poverty of the 1980s.

Some 8-10 million rural households are headed by women; 2-3 million women are employed in seasonal agriculture or agro-industry; and 30-40 million women with a male partner are partially or totally responsible for agricultural production and small rural enterprises. Rural women have become one of the poorest population groups as a result of internal conflicts, male migration both within and outside the country, natural disasters, and the consequences of structural adjustment.

Halving, by the year 2015, the proportion of people living in conditions of poverty and extreme poverty - one of the main objectives of the United Nations Millennium Declaration - calls for significant efforts on the part of most countries of Latin America and the Caribbean. Economic growth would play a key role in reaching this goal. ECLA has estimated that, during the 1990s, each percentage point of growth lowered the rate of extreme poverty by 1.21%. However, there was a wide dispersion around this mean value and the effect was much weaker in the rural areas. This is consistent with IFAD's firm belief regarding the need for explicit and pro-poor development policies, particularly in the rural areas.

The World Bank estimated poverty levels by using an income of less than USD 1.08 per day as a poverty threshold or universal poverty line. As estimated by the Bank, the total number of poor people in Latin America and the Caribbean in 1998 amounted to 78.2 million. The income figure was estimated on the basis of country income and consumption data derived from studies conducted in 1985-98. That methodology did not, however, take sufficient account of differences among regions or among countries in a given region. Furthermore, it did not take account of the fact that poverty is a relative concept, depending on the social and economic development of a country.

IFAD Experience in the Region

IFAD has an effective portfolio of 40 projects in 24 countries of the region, for a total value of USD 636 million in IFAD loans and USD 510 million financed by other donors, borrower governments and beneficiaries. Principal cofinancing partners in the region include the European Union, Inter-American Development Bank, OPEC Fund, the World Bank group, Central American Bank for Economic Integration and Caribbean Development Bank.

IFAD activities in the region include a network of regional and subregional programmes that currently involve 14 IFAD-financed technical assistance (TA) grants. Such grants play a critical role in IFAD's strategy in that they support projects, promote synergies and facilitate links with civil society. They also provide an innovative way of dealing with the development constraints facing the region, and serve as a tool to enable poor people to rise out of poverty.

The main constraints facing the region in terms of achieving rural development and eradicating rural poverty are: (i) adverse macroeconomic policies; global and regional financial crises and pervasive barriers to trade applied by developed countries; (ii) institutional weaknesses; (iii) lack of access to assets such as land, water and finance, etc.; (iv) limited investments in human and social capital, poor infrastructure and insufficiently developed support services; and (v) difficulties in dealing with issues related to heterogeneity, gender and ethnicity in rural areas.
Another obstacle to overcoming rural poverty in the region is the lack of investment in interpersonal and community relationships, which facilitate communication, knowledge and control of material assets. This lack of investment deepens rural poverty because it increases the transaction costs associated with gaining access to markets. Collective action is therefore essential in order to overcome the economic and social exclusion caused by the absence of social mechanisms that support the most vulnerable members of rural communities.

Yet another problem concerns the management of issues relating to heterogeneity, gender, and ethnicity in rural areas. The region is characterized by growing heterogeneity in the income-generating strategies of rural poor households. Currently, the vast majority of rural family’s practice mixed farming and earns additional income from non-farm activities. Economic viability does not depend only on agricultural activities but also on the managerial capacity of microenterprises, off-farm work and, ultimately, all activities in which rural families and their members of both sexes participate for the purpose of earning income.

One serious error made by international financial institutions (IFIs) during the 1970s was to believe that the rural poor consisted mainly of farmers with small plots of land and that the best way to reduce their poverty was to help them increase the productivity of that land. However, this approach failed to recognize that the rural poor also include people who have very little or no land, and that this was the segment of the population that was growing the most rapidly and suffering the most serious forms of poverty. One important implication here is that, for a large proportion of the rural poor, assistance should not be limited to development projects oriented towards land and farming. What is needed is a broader concept of rural development that takes account of these trends.

As an organization with a clear and well focused mandate, IFAD has long-standing experience of working with the rural poor and eradication of rural poverty. Another distinguishing feature of IFAD in its approach to the poverty problem is its strong emphasis on income-generating activities and focus on enabling the poor to overcome the constraints they face.

IFAD Strategy for Poverty Reduction

The aim of IFAD in Latin America and the Caribbean is to enable the rural poor to overcome their poverty. IFAD strategy derives from four fundamental sources: (i) the unique characteristics of rural poverty in the region; (ii) recent financial crises and emergency situations in several countries; (iii) IFAD’s strategic framework; and (iv) its experience in the region.

The rural poor in the region constitute a highly diverse and heterogeneous group. Some countries, including Bolivia, Dominican Republic, El Salvador, Guatemala, Haiti, Honduras and Nicaragua, fall squarely within IFAD's mandate in terms of the degree and extent of rural poverty that they face. Several middle-income countries (such as Brazil, Colombia, Mexico and Peru) have significant pockets of rural poverty. IFAD’s operations are targeted directly to such areas, promoting new initiatives to reduce poverty, analyzing the results of such initiatives and making the lessons thus learned available to other countries. In all cases, care is taken to adjust the Fund's strategy and projects to the specific circumstances of the country concerned. In this way, IFAD is expected to contribute indirectly to the alleviation of poverty in all regions through a continuous process of cross-fertilization. IFAD's work in the region aims at stabilizing and increasing the incomes of its target group. Projects concentrate on diversifying household income-generating activities and on creating links with high-value-added activities such as small-scale agroprocessing and markets outside the target group community. IFAD's strategy in the Latin America and the Caribbean region includes the following elements: (i) empowerment of the rural poor; (ii) partnerships with IFIs, donors, NGOs, the rural poor, civil society organizations and the private sector; (iii) taking advantage of market opportunities. Global markets have created both challenges and opportunities for the rural poor. To take advantage thereof, IFAD projects seek to strengthen links between target populations and the suppliers of innovative technologies, and to help small producers gain access to local, regional and international markets. Project ownership by beneficiaries is promoted through the implementation of demand-driven participatory methodologies; (iv) engaging in policy dialogue. IFAD has learned that project implementation is not

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3 One source for the present document (particularly the sections on Rural Poverty in the Region and IFAD Experience in the Region) is the regional poverty assessment prepared by the Latin America and the Caribbean Division, Hacia una Región sin Pobres Rurales, Santiago, Chile, November 2000. The task was led by Benjamin Quijandria, Anibal Monares and Raquel Peña-Montenegro. The analysis was updated and further developed by Raquel Peña-Montenegro, Director, and Raul Hopkins, Regional Economist, PL.
sufficient to overcome rural poverty if national policies work against the poor. The Latin America and Caribbean Division (PL) engages in policy discussions with Member States for the purpose of setting up a favorable macroeconomic and institutional environment that both stimulates the rural poor to mobilize their productive capacities and enables them to defend their own interests. It is also essential to explore, together with governments and other financial organizations, ways of reducing the burden of external debts through financial instruments, such as debt swaps and preferential trade agreements, that either free internal resources for reducing poverty or create new market opportunities; and (vi) Learning across regions and the development of new products. Interaction and comparisons within and across regions are key elements and guiding principles for the Fund. As a result of its work, PL expects both to contribute to the reduction of poverty in the region and to enhance (and benefit from) work in other regions of the world. It is also necessary that IFAD as a whole, and PL in particular, design 'new products' within projects and regional technical programmes to respond more effectively to the variety of poverty situations existing in Latin America and the Caribbean. Poverty reduction in the region also requires new non-project interventions such as those presently used in sectors other than agriculture. Two crosscutting themes in PL's work are the Gender issues and the Sustainable agricultural production and use of natural resources.

Flexibility in applying its strategy is one of the salient features of the Fund's experience in Latin America and the Caribbean, and care has been taken to adjust project design and implementation to the constantly changing macroeconomic and institutional situation in the countries involved. IFAD has demonstrated its ability to learn from past experiences and to incorporate lessons learned into the design and implementation of new projects.

TA grants play a critical role in IFAD's strategy in that they support projects, promote synergies and facilitate links with civil society.

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**Regional Technical Assistance Grant Programme**

**Regional Thematic Networks**
- Internet-based networking and knowledge management: FIDAMERICA
- Monitoring and evaluation/impact and learning: PREVAL
- Gender mainstreaming: PROGENDER
- Rural microenterprise development: PROMER

**Subregional Programmes and Networks**
- Training/technical assistance and institutional strengthening: RUTA, CIARA, PROCASUR and CARUTA
- Rural financial services: FINCA International and SERFIRURAL
- Indigenous populations: Regional Programme in Support of the Indigenous Peoples of the Amazon Basin
- Support to South American camelids: TAG Camelids
- Strengthening of local providers of TA: SETEDER/CATIE
- Policy dialogue: MERCOSUR

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In its lending and TA grant programme, the Fund focuses on the following strategic objectives in the region: (i) enhanced impact assessment and implementation support. IFAD accords priority to developing innovative tools for measuring the impact of its projects in terms of more sustainable poverty reduction, and to feeding the results back into the design and implementation of new and ongoing projects. Special attention is accorded to: greater beneficiary participation as a way of increasing project effectiveness and accountability and exploring innovative and cost-effective methods for monitoring and impact assessment; (ii) improved policy dialogue. In many countries where IFAD is active, there is an urgent need to develop a more proactive agricultural and rural development policy coordinated with macroeconomic policies. IFAD's experience in demand-driven approaches to rural development programmes, where the poor both identify and own the solutions, is shared with governments in the process of project design and implementation. This ensures better links between poverty reduction initiatives and rural development programmes; (iii) improved knowledge management and partnership. The process of learning and innovation is at the core of IFAD's activities in the Latin America and Caribbean region. Five thematic areas of knowledge management have been defined in 2001, taking account of the Fund's previous experience and comparative advantage in the region. These are: rural financial services; decentralization and empowerment; development of markets for services relevant to the rural poor; indigenous people; and access to dynamic regional and international markets.
Impact indicators of success

The foregoing strategy provides an overview of the main characteristics of poverty in the region, a synthesis of IFAD's experience and a set of guiding principles and tools to overcome the problem. Achievements will be measured on a periodic basis and updated and revised on the basis of lessons learned during implementation of the strategy. Such revision will concentrate on changes in the lives of the rural poor; to what extent, and how, IFAD's strategy contributes to enabling the poor to overcome poverty; and, more specifically, on assessing IFAD's contribution to achieving the Millennium development goals. Indicators to measure success in implementing this strategy include:

- Rural poor households increase and stabilize their incomes as a result of project activities. Members of poor households, particularly women, increase their access to productive assets and related required services.
- Small rural producers, grass-roots organizations, NGOs and institutions working with the poor in IFAD projects areas participate in designing, implementing and monitoring IFAD projects.
- The rural poor have greater access to local, regional and international markets.
- IFAD projects and TA grants influence government policies that benefit the poor, and create a favorable and enabling environment for overcoming poverty.
- Extensive and effective partnerships for poverty alleviation are developed among IFAD and other organizations working at the regional and national levels.
- Interaction and comparisons within and across regions lead to the development of new tools, methods and policies for poverty alleviation. The new methods strengthen women's position within their communities.
- New methods are developed to handle the management of natural resources in a cost-effective and sustainable manner.

Lessons learned

For almost an entire decade - while most IFIs reduced their involvement in, or withdrew from, the financing of agricultural and rural development - IFAD has continued to invest, together with the governments of the region, in projects clearly oriented towards rural development and poverty alleviation. Several lessons can be identified from the evaluation of projects financed by IFAD over the last 20 years. The reduction of rural poverty calls for policies and programmes clearly targeted in terms of both beneficiaries and geographic area. Efforts to improve incomes should focus both on increasing agricultural production and productivity and on developing small agricultural and non-agricultural industries. Services provided through rural development projects and programmes must be designed and implemented in such a way as to effectively respond to the target population's needs, based on the principles of demand-driven services and participatory monitoring and evaluation. Even when the rural poor are not properly organized, they know better than anyone else what their needs are, and they must therefore be involved in the design and planning of rural development and poverty alleviation programmes.

The development of small towns and medium-sized cities, and the promotion of economic corridors, create an environment that is conducive to the reduction of poverty by stimulating the demand for goods and services on local markets and creating job opportunities. Improving the well being of the rural population calls for the strengthening of local institutions, both private and public, so as to give the rural poor a greater voice in decisions that affect them. While substantial institutional capacity exists in many rural areas, it needs greater focus and support.

As a result of its work in Latin America and Caribbean, IFAD has identified an important set of opportunities to reduce rural poverty in the region, as follows:

(i) **Supporting native and minority ethnic communities.** As the majority of the 'structurally poor' in the rural areas live in indigenous communities, IFAD's main opportunities are in: (a) supporting indigenous groups to achieve legal recognition of the territories where they live and work; (b) provision of technical and financial support to enable these groups to participate in a fair way in existing markets; (c) supporting the mobilization of public investments to reduce shortages in education, health, housing and local physical infrastructure; and (d) strengthening indigenous organizations to enable them to effectively participate in managing natural resource protection programmes.
Eliminating gender inequalities in rural areas is a concern area for IFAD because women are particularly affected by poverty in rural communities and households. At least three key factors are needed to improve the living conditions of rural women: (a) land ownership; (b) access to formal financial and technical assistance services; and (c) a good level of education and training.

Developing and strengthening social capital. IFAD has learned that strengthening local social capital ensures the sustainability of rural development initiatives by reducing transaction costs in the factor and product markets. The development of social capital is particularly important for unemployed landless farmers and rural workers.

Competitiveness and globalization of markets. Globalization has led to the creation of new income-generation opportunities through increased exports and import substitution (particularly in the agri-industrial and food processing sectors). To take advantage of these new opportunities, small farmers and rural poor entrepreneurs will need to modernize and diversify their production systems, and to identify specific markets for non-traditional export crops, including organically grown products.

Development of technology for small farmers and small rural businesses. Such development contributes to reducing rural poverty in two ways: (a) it enhances the productivity of land and labor, increases household incomes and reduces the pressure on natural resources; and (b) it helps to generate non-farm employment for the rural poor.

Supplying effective technical assistance services. An important lesson drawn from IFAD projects relates to the importance of establishing a suitable institutional framework for providing sustainable non-financial support services in poor rural areas. The development of local markets for extension and technical assistance services should be considered a priority.

Innovative rural financial services. Lack of short-term liquidity and of access to capital for long-term investment are two of the greatest obstacles facing the rural poor. The sustainability of financial systems depends on whether the organizations involved have set up suitable credit policies and technology and on the application of sound economic criteria in financing project portfolios. IFAD's experience in rural finance shows that, by itself, microcredit is not enough to empower the poor to improve their own lives. Access to safe and flexible savings mechanisms and better control systems are also essential.

Development of microenterprises and regulation of rural labor markets. The non-agricultural sector plays a key role in generating employment and in the food security of rural households. The main constraints facing the rural poor are: lack of education, training and practical experience; insufficient physical and social infrastructure; and the need for a political commitment to provide small rural businesses with support that will enable them to benefit from the multiplier effects of agri-industrial development.

Access to land and property rights. If the production base of the rural poor in Latin America and the Caribbean is to be improved, problems concerning access to land will need to be solved. Although agrarian reform based on the expropriation of land is no longer viable, the establishment of markets for land leasing, new types of sharecropping arrangements and contractual agreements for the use of communal forests or indigenous territories provide new opportunities for gaining access to land.

2.3 IFAD Regional Strategy for Rural Poverty Reduction in Western and Central Africa

Regional Overview

Political and social change. Over the past decade, many countries have embarked upon democratization processes. While some countries appear to be on a sound path towards democracy and stability, others have been less successful. Tragically, conflict is a major factor aggravating poverty and vulnerability in the region. About one in five inhabitants lives in a country affected by warfare, and protracted warfare has had widespread negative social, psychological and economic consequences. In many rural areas, the capacity of rural people to ensure their livelihoods has been dramatically curtailed. Yet there are grounds for cautious optimism. Peace processes are underway in a number of these countries, with the hope that development activities can resume.

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4 The strategy on rural finance is summarized in the document Expanding Access to Microfinance in Rural Areas as a Tool for Poverty Reduction: A Strategic Challenge for Latin America and the Caribbean, presented to the Microcredit Summit, Puebla, October 2001.
Economic change. Adjustment programmes have led to major changes in macroeconomic and sectoral policies. The direct state role in productive activities - including agricultural production, processing and trade - is far less prominent today than it was a decade ago. Privatization of agricultural processing and marketing agencies is widespread. At the same time, governments have been slow to take on the public functions that only they can fulfil. Economic growth in the region has been uneven and generally disappointing. WCA economies and trade regimes are now more open than in the past. This carries risks as well as opportunities in the context of a global economy. While there may be new possibilities to enter niche markets (examples include off-season horticulture, natural and forest products), the risk remains of unfair competition from highly subsidized agricultural sectors of developed countries. Greater openness also means greater exposure to international commodity-price fluctuations, an especially serious problem given that most WCA economies are not very diversified. Potential opportunities of globalization are numerous and include improved communications (although they have not yet reached most rural areas) and agricultural technology, including biotechnology. Considerable investment in infrastructure and education is needed before information technology can reach its full potential. While biotechnology holds great promise, the limited capacity for developing and enforcing safeguards, and underdeveloped agricultural-input distribution systems are formidable constraints on this potential.

In contrast to the generally poor macroeconomic performance in the region, overall growth in food production has been reasonably good, keeping pace with population growth. Per capita food production fell during the 1980s but picked up markedly in the 1990s. Yet performance varies among countries. Those countries that have experienced protracted warfare have seen per capita food production fall precipitously. In other countries, market and exchange rate liberalization have contributed to strong growth. Demographic change. Urban population growth rates averaged 6% annually from 1960 to 1990. Megacities like Lagos, Ibadan, Kinshasa, Douala, Abidjan and Dakar were created. Yet the pull of many secondary cities such as Kaolack, Bouaké, Kumasi, Garoua and Mbuji-Mayi was also important. Swelling of the megacities and rising numbers of large secondary cities will continue. By 2030, the majority of the region's people will live in urban areas. The number of cities in the region with more than 100,000 inhabitants will grow from 90 in 1990 to more than 300 in 2030. Nigeria will have more than half these cities. Lagos alone will have 12-15 million inhabitants.

These trends create major opportunities for market development. In the future, farmers will need to increase productivity to keep pace with spiraling urban demand. Incentives to intensify will be more pronounced due to the stronger pull of urban markets, which will also be closer to production areas. Urban-rural linkages will become stronger, especially along the coast and across large parts of the Sahel. Integration among urban markets should also strengthen noticeably, both within countries and intraregionally. 

HIV/AIDS has emerged as a major threat in the 1990s. While incidence is generally higher in eastern and southern Africa, many WCA countries are at a stage at which growth threatens to become exponential (incidence of 4-5%) if not combated actively. In countries with high prevalence rates, in addition to the terrible human cost, the skilled labor force is being decimated and economic growth seriously disrupted. AIDS puts an unbearable strain on poor rural households. As labor is the primary income-earning asset of the rural poor, degeneration of adult health status can be devastating to those who remain, including orphans.

Environmental change. Land degradation resulting from extensive agriculture, deforestation and overgrazing has reached alarming levels. Forest area is declining as a result of the unchecked growth of timber exports, agricultural expansion and fuelwood demand for a growing population. This degradation has implications for the biodiversity of flora and fauna, where the losses are irreplaceable. About 50% of farmland suffers to some extent from soil erosion, and as much as 80% of pasture and rangelands exhibit some form of degradation, with use exceeding carrying capacity. One consequence in the Sahel is that land conflicts are becoming more frequent between livestock herders and sedentary farmers.

Rural Poverty in the Region

In summary, poverty in the region is primarily rural and will remain so for some time. Of a total of about 125 million poor in the region, almost three quarters live in rural areas. Agriculture is the single most important sector contributing to economic growth, incomes and employment. In addition to agriculture's direct contribution to growth, the indirect effect of increased demand for off-farm goods and services in market towns can broadly raise employment relative to other productive sectors. Poverty is often localized in specific regions. In coastal countries with a northern Savanna and forests in the south (Cameroon, Côte d'Ivoire, Ghana and Nigeria), rural poverty has traditionally been significantly higher in the north. These
zones are characterized by cereal, cotton and livestock production, while the forest areas produce several tree crops for export. Yet poverty may be growing in forest zones: world prices for forest-based export crops such as coffee and cocoa are quite volatile and have fallen substantially in recent years.

Several factors are important in explaining rural poverty in WCA. First and foremost, the rural poor have little or no voice in many major decisions affecting their livelihoods. They are rarely consulted on policy issues and investment decisions. There is also a long legacy of neglect of rural areas, with urban interest groups more concentrated and thus more vocal in lobbying for their interests. They have traditionally been successful in capturing disproportionate shares of social and infrastructure investment and arguing for artificially cheap food prices, which has swollen import bills (much of it paid for by agricultural exports) and made it hard for rural producers to compete.

Boosting agricultural productivity will be a key challenge to sustainable economic growth and poverty reduction. Yet many donors and governments continue to minimize the importance of agriculture and rural development in their investment decisions. If the Millennium Development Goal of halving poverty by 2015 is to be achieved, it means bringing 75 million people out of poverty in the region. Clearly, a renewed commitment to agriculture and rural development is needed, given the predominance of poverty in rural areas and the centrality of agriculture to rural livelihoods.

IFAD Experience in the Region

Since its creation in 1977, IFAD has financed over 130 investment projects in all 24 countries of the region, for a total commitment level of USD 1.3 billion. Numerous grants to regional bodies and national NGOs have been implemented in the areas of agricultural research, training, studies and community development. With its partners, IFAD has accumulated considerable experience regarding the constraints on and opportunities for rural poverty reduction. Constraints include: insufficient human and social capital development; inappropriate macroeconomic and sectoral policy frameworks; low farmer productivity and major challenges to natural resource management in the face of steadily rising urban populations and food demand; inefficient agricultural marketing systems, especially for food products; lack of access to financial capital; inability to fully exploit non-farm investment opportunities; and inadequate rural infrastructure development. Opportunities are numerous and some have already been mentioned: the growth of democracy and civil-society movements; improved incentives due to economic and sectoral policy reforms; and the move towards decentralization.

Throughout the 1970s-80s, macroeconomic and agricultural policies were generally inhospitable to rural development in the region. With the adjustment programmes of the late 1980s and 1990s, many governments in the region have made great strides in instituting economic and sectoral policy reforms and liberalizing markets. Liberalization has largely succeeded in removing governments from direct roles in production and marketing. In some cases, the private sector has successfully taken on roles in food- and export-crop marketing channels. Yet with the exception of the cotton subsector, input marketing systems have collapsed, with serious negative implications for agricultural productivity. Progress has also been very slow in improving capacity to handle roles that only government can fill, including design and enforcement of legal and regulatory frameworks; research and extension; social services; and infrastructure investment and maintenance. Existing institutions (ministries, extension and research agencies, parastatal marketing boards, etc.) have often been unresponsive to the needs of the rural poor. Improving responsiveness and accountability will involve: changing incentive structures; decentralizing decision-making and budgeting processes; raising awareness that different socio-economic classes of rural clients need different types of technical and organizational solutions to their problems; and building meaningful monitoring and feedback mechanisms so the rural poor can have a voice in decisions that affect their well-being.

Food-crop agricultural marketing in much of WCA is characterized by high marketing costs and limited innovation. Inflated marketing margins (especially for perishable food crops) are caused by several factors: elevated transport costs, low economies of scale, lack of information, high risk, legal and illegal taxes, too many intermediaries, and excessive physical losses. Marketing costs are highest for farmers located in remote or less accessible villages, where buyers can exert monopsony-buying power. Donor and government investments in marketing are often inappropriate. Sometimes it is assumed that a

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market exists when it really does not. Many projects equate marketing with credit lines, warehouse construction, roads, and sometimes provision of group-managed processing equipment. While roads are essential, the provision of credit, warehouses and processing equipment often does not address real problems that may be amenable to simpler and cheaper solutions. Farmers may simply want to be reasonably assured that they will have a sales outlet. In such cases, establishing links with traders so that produce is bulked at a prearranged delivery point may be all that is needed.

When it comes to linking poor farmers with markets, a number of special challenges present themselves. Most poor farmers are illiterate and this makes transparency of management decision-making and record-keeping particularly challenging. Functional literacy programmes have often been essential complementary investments in empowering poor farmers to interact with cooperative officials and private marketing agents.

Poor farmers are often far from markets, produce small quantities of marketable surplus, and may need assistance in grouping their produce for bulk sale. Finally, such farmers tend to be primarily food-crop rather than export-crop producers. Food-crop market structure tends to be less developed than that for export crops. In many instances, a major constraint on improving the lot of the rural poor is lack of access to capital for financing income-generating agricultural and off-farm opportunities, paying school fees, and dealing with medical emergencies and important social obligations. While informal credit and savings schemes are widespread in the region (and the potential to build upon them is too commonly overlooked), they exhibit some drawbacks. These include high interest rates and limited possibilities (usually only short-term, rapid-turnover investments). Commercial banks cannot reasonably be expected to adapt their financial products to the needs of small, poor and remote clients and have thus taken no interest in rural microfinance, nor in agriculture in general (with the exception of financing selected export and agri-industrial operations). There is a long and disappointing experience in WCA with large, formal agricultural credit institutions that has left a troublesome legacy of political interference and non-repayment. This will make it difficult to rejuvenate similar institutions in the future.

WCA is a challenging region in which to develop viable microfinance institutions (MFIs). Generally low levels of economic activity: low population densities in many rural zones; widespread illiteracy, and scarcity of qualified personnel drive up the costs of delivering financial services to clients. Yet there are also opportunities. There is a strong entrepreneurial spirit, with its origin in precolonal trade. Women are prominent participants in small commerce, actively involved in food marketing and long-distance trade. There is a long tradition of informal credit and savings arrangements that can be built upon. In addition, if urban-rural linkages and population densities will be increasing substantially in the long-term, this will in turn increase demand for financial services and the potential for economies of scale. Finally, adjustment efforts have restored the health of the financial sector in many countries.

There is an emerging consensus in the region, accepted by major donors and a number of governments, on what constitutes best practices in MFI development. These include: development of specialized institutions; savings promotion; and de-emphasizing the targeting of credit to specific end uses while emphasizing instead the development of appropriate financial products for savers and borrowers. It is also recognized that MFI development takes considerable time and subsidization, but that it is institutional support and technical assistance that should be subsidized rather than interest rates. Interest-rate subsidies are neither financially sustainable nor effective in reaching poor clients.

The development of cost-effective 'proximity' approaches is perhaps the greatest challenge in increasing the rural outreach of financial services. A number of promising approaches exist. One is the concept of financial service associations promoted by IFAD. Other examples are village banking in Burkina Faso and Mali and systems of village financial contracts in Guinea. These approaches try to reach those rural poor usually bypassed by other MFI approaches because either they live in remote areas or the conditions for accessing credit services are too stringent. They seek to promote sustainable financial intermediation based on the general best-practice principles outlined above and also recognize the importance of establishing member-driven governance structures.

Smallholder households in rural areas manage complex portfolios of activities; diversification is the normal state of affairs. On average, rural non-farm (RNF) income and employment in West Africa account for 36% of total rural income and employment, while individual country estimates often go much higher. Rural households participate in RNF activities for various reasons, including potentially high returns, cash-flow management and spreading risk. The poor often participate in RNF activities because their agricultural output is insufficient to achieve survival. In marginal lands like the Sahel where agricultural risk is high, RNF activities (including migration) are central to spreading risk.
Rural household members in WCA engage in a wide variety of RNF activities linked to agriculture, such as food-processing and marketing, blacksmith construction and repair of agricultural tools and machinery. A dynamic smallholder agricultural economy forms the backbone of a vibrant RNF sector. Due to multiplier effects, smallholder agriculture is more likely to stimulate off-farm employment than either large-scale agricultural or industrial development. Small farmers are more likely to use increased incomes to purchase locally produced goods and services, which in turn creates additional local employment. The rural poor have special problems in exploiting non-farm employment opportunities. A combination of limited human and social capital, insufficient access to markets, and lack of credit for working and investment capital leads to high barriers against entry into remunerative RNF employment. Strategies for reaching the rural poor through development of RNF activities include many highlighted elsewhere in this paper, and in particular those pertaining to human capital, rural finance, marketing and infrastructure development. Most support to microenterprise development has targeted better-off urban entrepreneurs that seek to graduate their firms to higher levels of output and managerial sophistication. Such approaches may do little to reduce rural poverty. Targeting the rural poor for microenterprise development requires institutions specialized in lending to the rural poor. Even if the policy climate provides correct incentives, insufficient rural infrastructure can greatly impede development. In the case of food marketing, high transport costs related to bad roads are passed on to both consumers as higher food prices and farmers as lower producer prices. While the importance of adequate road networks is generally recognized, development of financially sustainable road maintenance systems remains a big challenge. One positive development is that most governments have now shifted to competitive bidding for rehabilitation and maintenance, rather than maintaining expensive and ineffective permanent public road crews. Introduction of local systems for road maintenance is needed, as well as innovative ways to fund such maintenance. There are major disparities between urban and rural social indicators and availability of related water, health and sanitation infrastructure. In much of arid Africa, wells near villages could save women as much as 2-3 hours per day in time spent hauling water. This equals or surpasses most improved 'labor-saving' agricultural technologies. Because so few WCA countries have yet reached acceptable levels of rural access to safe water, and health impacts are significant and immediate, potable water investment should be viewed as a major priority for rural development.

IFAD Strategy for Rural Poverty Reduction

In order to improve the incomes and living conditions of the rural poor in western and central Africa, IFAD will respond to a critical mass of priority needs. This will involve capacity-building to empower rural poor women and men and strengthen local-level institutions. It will also involve the mobilization of energies, resources, and local and external knowledge and capacity through partnerships with institutions sharing IFAD's objectives and having complementary approaches and expertise. Accordingly, this will be achieved through the design and implementation of projects and programmes that are: impact-and-learning oriented; flexible and participatory; equitable and gender-sensitive; sustainable (cost-effective both environmentally and institutionally); and capable of providing input to policy analysis and dialogue. The rural poor need to have greater access to a variety of interdependent assets, human and social, natural, infrastructural and financial. They need to have influence over the major decisions that affect their well being. They also need to be less vulnerable to shocks (e.g. disease, conflict, and natural disasters) that threaten to completely destroy their asset base. Four related and mutually-reinforcing strategic objectives will be pursued in the design and implementation of IFAD supported programmes in the region: (i) strengthen the capacity of the rural poor and their organizations, and improve the pro-poor focus of rural development policies and institutions; (ii) raise agricultural and natural resource productivity and improve access to technology; (iii) reduce vulnerability to major threats to rural livelihoods (e.g. conflicts and HIV/AIDS); and (iv) increase rural incomes through improved access to financial capital and markets. The demographic trends already mentioned clearly provide opportunities to strengthen urban-rural market linkages. With the right types of investments, broadbased market-led growth can reduce poverty, raise rural incomes, improve both rural and urban food security, and provide strong incentives for increasing land and labor productivity. Indeed, efforts to raise agricultural productivity and rural incomes can only be effective if they are linked to an appreciation of market potential. Integrated approaches along the continuum of production, processing and marketing are needed. Diversifying income sources is also necessary, either...
through production and marketing of nontraditional crops or exploiting off-farm opportunities. It reduces risk to farmers and can help even out seasonal income and consumption fluctuations. Given regional demographic trends, support to marketing, especially food and input marketing, must take on increased importance in future IFAD interventions. IFAD will continue emphasizing the 'software' side of market development, management and technical training for the strengthening of farmers’ groups and associations. IFAD experience demonstrates that building on existing local structures for income-generating activities is preferable to creating new structures, which may not be suited to the social milieu. Credit and transport infrastructure support will be viewed as complements to capacity-building efforts. Repair and rehabilitation of access-road infrastructure will receive priority, provided appropriate maintenance modalities can be designed. IFAD will place greater emphasis on working with national and regional partners to strengthen input supply systems in order to improve farmer access to input markets and productivity-enhancing technologies. In its loans and grants, for example, IFAD has invested in participatory varietal selection and development of community-based seed multiplication. These efforts will continue but need to be more widely replicated and scaled up. In line with internationally recognized best practices in microfinance development, IFAD will continue to invest in developing MFIs. In recognition that this is a long-term investment, assistance will focus on support to institutional development and technical assistance, with a strong emphasis on savings mobilization and credit. It will also focus on building the capacity of poor MFI clients through management training and related support to functional literacy programmes. The Fund will de-emphasize the targeting of credit to specific end uses, promoting instead the development of appropriate financial products for savers and borrowers as a more effective means of targeting. The development of proximity rural financial services has received significant IFAD resources, with some positive results. The introduction of the concept of financial service associations and other proximity approaches requires additional support to reach financial and institutional maturity. Support will include: (i) establishment of a larger number of local branches; (ii) gradual development of national networks providing training, back-up and control functions; (iii) promotion of formal banking system linkages; (iv) establishment of a proper legal and regulatory framework for microfinance networks; and (v) development of new financial products (such as medium-term credit instruments and insurance).

Indicators of strategic objectives achievement and lessons learned

As a result of its work in Western and Central Africa, IFAD has identified a set of indicators of strategic objective achievement to reduce rural poverty in the region, as follows:

(i) Strengthen the capacity of the rural poor and their organizations, and improve the pro-poor focus of rural development policies and institutions:
- Work with partners to increase effectiveness and accountability of rural service delivery and promote decentralized decision-making
- Continued investment in community-driven development and monitoring of experience
- Development and promotion of participatory monitoring and evaluation tools and approaches
- Knowledge sharing increased with regional and national partners on effective grassroots strengthening investments and policies (FIDAFRIQUE network, Multi-Donor Regional Hub, Popular Coalition, Global Mechanism, regional grants).

(ii) Raise agricultural and natural resource productivity and improve access to technology:
- Continued development of community-based natural resource management activities
- Technically, economically and socially appropriate technologies generated by technical assistance grants for agricultural research (yams, rice, cowpeas, millet and sorghum, vegetables) and disseminated to poor farmers, including through IFAD-supported projects
- Supply systems strengthened to improve poor farmer access to input markets and productivity-enhancing technologies
- Sustainable access to water resources through support to potable water and small/micro-irrigation investment.

(iii) Increase rural incomes through improved access to financial capital and markets:
- Rural finance systems strengthened, and experience disseminated on effective pro-poor rural financial services delivery
- Food-marketing systems improved through support to farmers’organizations, market information and transport infrastructure investment
- Income diversification promoted through support to nontraditional crops and off-farm income generation.

(iv) Reduce vulnerability to major threats to rural livelihoods:
- Post-conflict assistance through grants and coordinated multi-donor-supported programmes in relevant countries
- Support to HIV/AIDS prevention through outreach, and support to coping through targeting.

Given the overwhelmingly rural nature of poverty in WCA and the centrality of agriculture to rural livelihoods, a renewed effort will be required on the part of governments, donors and civil society to invest in rural people and the institutions that can be responsive to their needs. IFAD can and will play an important role in this effort, both directly through project investments, but also as a catalyst, bringing lessons from its field experience to the attention of its partners. The strategy outlined in this document is a step towards further concentrating IFAD's efforts and sharpening the focus to meet the objectives of responding to a critical mass of priority needs of poor women and men and enabling the rural poor to overcome their poverty. (Strategy for Poverty Reduction. IFAD Operations, Internet. June 2000).

2.4 Examples of IFAD funded market oriented projects for rural development in Latin America and the Caribbean and in Western and Central Africa.

The aim of this chapter is to highlight IFAD experience in financing market oriented programmes for rural development, through the selection of IFAD funded projects in the two regions of interest for the study. As anticipated in the introduction, the examples of the selected projects and programmes include rural innovation and innovative financial mechanisms components that characterize the PISA Programme (cf. Annex 1) of potential interest for IFAD and the Italian Government investments. One of the main strategic operating lines of the PISA initiative is the identification of projects and actors in Latin America and the Caribbean and in Western and Central Africa dealing with the agribusiness sector from a rural innovation perspective and a filière approach.

In Latin America and the Caribbean, IFAD is working in a variety of ways to empower rural poor men and women by ensuring access to economic opportunities, building on local knowledge and developing links with the market. Several recent projects have adopted an “agri-productive-chain” approach. (IFAD Annual Report 2000. Working with the Rural Poor. Pp.153:24.)

In Western and Central Africa, IFAD is emphasizing, inter alia, the building of human capital through skill training (both technical and financial), promotion of non farm rural enterprise and support to credit delivery, including new types of rural financial institutions. (IFAD Annual Report 2000. Working with the Rural Poor. Pp.153:23.)

Forty-seven IFAD funded projects have been analyzed and exploited for the study out of which nine have classified, as reported below.

The methodological approach developed to compose the present chapter has been described in the introduction to the study. Each selected project was classified according to their objectives, target group(s), innovative features and loan summary.

List of Projects analyzed and exploited for the study

Latin America and Caribbean

1. Bolivia: Cotagaita-San Juan Del Oro Agricultural Development Project

Innovative feature. IFAD used the balanced scorecard in 2000 to improve its performance (Corporate Performance) as a result-oriented institution. As an internal management tool, the scorecard enables the Fund to set targets and analyse its performance from four different perspectives:

- Client
- Political and financial
- Innovation and learning
- Internal business.

2. Bolivia: Consolidation and Development of Smallholder Settlements in the Department of Santa Cruz Project
3. Colombia: Rural Micro-Enterprise Development Programme
4. Colombia: Rural Development Project Arauca II
5. Costa Rica: Proyecto de Credito Agricola
7. Dominica: Integrated Rural Development Project
8. El Salvador: Rural Development Project for the Central Region
9. El Salvador: Smallholders’ Agricultural Development Project in the Paracentral Region
10. Guatemala: Cuchumates Rural Development Project
11. Mexico: Rural Development Project for Rubber Producing Regions of Mexico
12. Uruguay: National Smallholder Support Programme – Phase II
13. Venezuela: Agro-Productive – Chains Development Project in the Barlovento Region

Western and Central Africa

14. Benin: Roots and Tubers Development Programme
15. Benin: The Microfinance and Marketing Project
16. Burkina Faso: Community Based Rural Development Project
17. Chad: Food Security Project in the Northern Guéra Region – Phase II
18. Equatorial Guinea: Agricultural Development Project on the Mainland
19. Ghana: Rural Financial Services Project
20. Ghana: Northern Region Poverty Reduction Programme
22. Ghana: Rural Enterprises Project
23. Ghana: Root and Tuber Improvement Programme
24. Ghana: Smallholder Credit Input Supply and Marketing Project
25. Ivory Coast: Project de Development Rural dans le Nord Est
26. Ivory Coast: Small Horticulture Producer Support Project
27. Liberia: Smallholder Rice and Seed Development Project
28. Niger: Rural Financial Services Development Programme
29. Senegal: Village Organization and Management Project
30. Senegal: Village Organization and Management Project-Phase II
32. Senegal: Village Management and Development Project
33. Senegal: Second Small Rural Operations Project
34. Senegal: Integrated Rural Development Project of M’Bour Louga
35. The Gambia: Rural Finance and Community Initiatives Project (RFCIP)
36. The Gambia: Agricultural Development Project II. Project co-financed with Italy

Other regions

37. Bosnia Herzegovina: Farm Reconstruction Project, Re-stocking Activities
38. India: Andhra Pradesh Tribal Development Project
40. Kenya: Central Kenya Dry Area Smallholder and Community Services Development Project
41. Lebanon: IFAD to support cooperative Rural finance Programme in Lebanon
42. Morocco: IFAD to support Rural Development Project in the Kingdom of Morocco
43. Mozambique: Family Sector Livestock Development Programme
44. Mozambique: Nampula Artisanal Fisheries Project
45. Nepal: Production Credit for Rural Women
46. Seychelles: Employment Generation Project
1. Bolivia

Project Title: **Cotagaita-San Juan Del Oro Agricultural Development Project**

The key factor upon which this six years project conception has been based is the area’s disarticulation. Historically, it has been affected by a series of events that continually disconnected it from the rest of the economy, and more specifically from its natural markets, the mining areas. The project would attempt to reintegrate the region into the national economy mainly by: (i) reducing its geographical isolation, through the construction of roads and its isolation from national markets through an effort to organize a marketing channel mainly to the mining centers; (ii) improving social organization by fostering the formation of peasant associations to serve as basis for marketing and other development activities; and (iii) eliminating the productive stagnation, brought about by the lack of market outlets, through the introduction of appropriate agricultural technology and establishing small-scale agro-industry, backed by the provision of credit, a strengthening of extension services and the introduction of soil conservation measures.

The main objective of the proposed project would be to increase the incomes and standard of living of the rural population in the area, principally by: (i) increasing agricultural productivity and production (mainly foodstuffs) as well as (ii) organizing a profitable marketing system for the increased marketable produce surplus, including that from agro-industrial processing;

(a) reintegrating the peasant economy into that of the rest of the country by means of a substantial effort in road construction and through the organization of a marketing channel which would link the project area with the mining population of fresh food from the area;
(b) improving social infrastructure and services, particularly the provision of drinking water and sanitary services in the rural areas as well as organizing a strong preventive campaign against Chagas disease;
(c) foster the peasants’ social organization, in order to give them the possibility of managing their improved productive system;
(d) contributing to the national integration of the project area through an increase of government activities in the region and a reduction of emigration.

As a result of the Government’s priorities and taking into account the present land tenure structure, the project’s potential target group consist of those farmers with holdings averaging 1.5 ha of cultivated land concentrated in the Inter-Andean Valleys along the banks of Cotagaita and SAN Juan del Oro rivers. These families number 10,500 and are still grouped in their traditional peasant organizations (“aylus”). All of them would benefit from the project while only 5500 would be direct beneficiaries of its agricultural credit and extension component.

Family income of the potential target group is low, averaging only US$ 520 per family. Of this income, however, only 50% is generated on-farm, while the rest is earned in seasonal wages outside the region. Income per capita of the target group, therefore, averages only US$ 130 per year, which is lower than the absolute poverty income level.

**Loan amount**
SDR (USD 11.35) approximately USD 13.0 million.
Total project costs
Estimated at USD 17.4 million, of which USD 5.4 million provided by the Government of Bolivia including USD 0.5 million cofinanced by FAO/WFP.

Cooperating institution
Corporation Andina de Fomento (CAF).


2. Colombia

Project Title: Rural Micro-Enterprise Development Programme.

This six years programme aims at contributing to the global objective of reducing rural poverty in Colombia by increasing the incomes of rural households. The programme’s general objective is to support the development of rural micro-enterprises as a way of increasing the incomes of rural poor landless population with particular emphasis on households headed by women. This general objective recognizes the following specific objectives: providing training and technical assistance to rural micro-entrepreneurs; granting adequate credit facilities to rural micro-entrepreneurs; strengthening NGOs and financial intermediaries to enhance their ability to deal with rural micro-entrepreneurs; strengthening the second-tier national institutions responsible for the provision of technical assistance and training as well as for financial services directed at rural micro-entrepreneurs.

The programme is framed by both the objectives of the Micro-enterprise National Development Programme as well as by the current policies of rural poverty alleviation and rural development. Given the importance of the landless rural population, the correlation between these social groups and rural poverty and the expected scarce job opportunities in the agricultural sector, the GOC has made a strategic decision to foster rural non-agricultural productive activities. Rural micro-enterprise development is both a priority as well as a challenge with some risk for the GOC since the country has no major previous experience.

Programme strategy is also based upon the acknowledgement of the need to identify a minimum set of conditions for the birth, consolidation and development of rural micro-enterprises. Consequently, a set of criteria related to the “rural nature” of micro-enterprises, the existence of previous externalities, basic infrastructure, market access, traditional skills, critical mass of micro-enterprises, significant technical, economic and cultural linkages, etc., would be considered with the eligibility criteria of the target group to determine which zones and areas would be selected for programme activities.

Programme strategy would also recognize different approaches for the different situations. Hence, in a region with both a significant number of existing rural micro-enterprises and high potential for micro-enterprise development, the programme would carry out all type of activities: i.e. training, technical assistance and financial services; in a region with few existing micro-enterprises but with indicators of high potential, the programme would concentrate on training activities, and in a region with many existing and successful micro-enterprises, the programme would emphasize the provision of financial services and would reduce the granting of training and technical assistance services. Programme strategy also includes the following operational principles: (i) emphasis would be given to existing rural micro-enterprises; (ii) priority would be given to zones where existing NGOs and financial institutions are working with rural micro-entrepreneurs; (c) priority would be given to areas without open social and political conflicts in the rural sector.

Programme strategy is, therefore, based upon the utilization of already existing mechanisms for the development of micro-enterprises in Colombia. These mechanisms have worked linking Government decision-makers with first-tier NGOs and financial institutions that provide services to urban micro-entrepreneurs. The programme is going to take advantage of this system but will also introduce innovative feature at the first-tier level in the rural sector: i.e. programme strategy would stress the need to link financial with technical assistance and training services, to better reach the rural micro-entrepreneurs.

Eligible beneficiaries are those rural families that comply with the following criteria: (a) annual family incomes below the equivalent of USD 3 000, the rural poverty line for Colombia; and (b) family rural micro-
enterprises with assets under USD 15,000, not including real estate, and less than three employees; or, (c) collective rural micro-enterprises with total assets below USD 70,000, not including real estate, and less than ten employees with at least 80% of its members belonging to the rural poor as defined in (a). It is estimated that 10,200 rural poor households would be direct beneficiaries of the programme.

The Programme would have national coverage. Area selection would have to comply with the set of criteria included in the Programme By-laws. However, the Programme would start its operations in the Departments of Cauca (Southern Andean region), Bolivar and Sucre (Atlantic region). After two years and a half and based upon an evaluation of the Programme’s effect and impact in these areas, the Programme would expand its activities to other eligible areas in the country.

**Loan amount**
SDR 11.0 million (approximately USD 16.0 million).

**Total programme cost**
Estimated at USD 27.9 million, of which USD 0.3 million will be provided by the Andean Development Corporation (CAF) and USD 11.6 by the Government of Colombia.

**Cooperating institution**
Corporacion Andina de Fomento (CAF).


3. **Venezuela**

Project Title: *Agro-Productive-Chains Development Project in the Barlovento Region.*

The general objective of this six-year IFAD-initiated project is to improve the capacity of beneficiary families to forge links with local and national markets and manage their agricultural, microenterprise and marketing activities efficiently and sustainable. Specifically, it seeks to: (i) develop human resources and local productive organizations; upgrade on-farm production and productivity and the marketing of new cash crops and traditional, local permanent crops, and improve subsistence crops in order to promote food security and better nutritional levels, (iii) promote the rational use and conservation of local natural resources; (iv) strengthen production, transformation and marketing links; (v) consolidate rural development processes at the state and municipal level by improving the organizational capacity of beneficiaries and rural communities and (iv) promote a gender-balanced approach to project activities. The target group will consist of 15,000 rural poor families, encompassing small farmers with less than 5ha of productive land, 3000 landless rural dwellers, women and a small number of men engaged in the small-scale processing of agricultural products. Approximately 12,000 families, 50% of which are of African origin, will benefit directly from project interventions. The project will provide equal opportunities for, and encourage the full participation/access of women to, all of its productive aspects.

**Innovative feature**
The “agora-productive-chains” approach to agricultural and non-agricultural development focuses on the simultaneous solution of production, post-harvest, transformation (processing) and market constraints faced by beneficiaries. It will contribute to incremental income generation through vertical, horizontal and market integration. Another innovative aspect is the organization of interinstitutional mechanism to promote the exchange of proven methodologies and best practices among IFAD-, government- and other donor-supported projects and programmes in Venezuela. The simultaneous implementation of these innovative features is expected to have a catalytic effect on poverty alleviation in the Barlovento region.

**Loan amount**
SDR 9.8 million (approximately USD 13.0 million) on ordinary terms.
Total project costs
Estimated at USD 17.0 million, of which USD 3.0 million will be provided by the Government and USD 1.0 million by the beneficiaries.

Cooperating institution
Corporacion Andina de Fomento (CAF).


From Client Perspective: Elvira Gomez and Ana Digna Meia, two women from the Department of Cauca in Colombia - Rural Microenterprise Development Programme, IFAD
The Rural Microenterprise Development Programme, launched in 1997 with funding from IFAD and the Government of Colombia, has breathed new life into an entire production chain, ranging from the raising of silkworm through the processing of silk thread to the weaving of fine silk cloth. Elvira Gomez describes her own experience of the “silk chain”, first investing in the new crop, then becoming a silk producer and going on to develop her creativity as a weaver. “I got started by exchanging two cows for a plot of land”, she recalls. “I began by planting mulberry bushes, but I soon realized that I would need to get involved in production and weaving. “She learned how to make and use natural dyes in various technical assistance courses and is now experimenting with new colors. Elvira has become a group leader and taken on responsibilities for training and guiding others in the silk business.
Ana Digna Meia heard about the silk project and went from farm to farm to find out more about it. Her experience affirms the power of example and demonstration. “People see how well their neighbors do after they join the programme.” She started her own silk production three years ago, and like Elvira Gomez, she became involved in all stages of the production chain so at to capture for herself the benefits of an additional enterprise. In her own words, “I am not just a farmer, I’m a businesswoman. The silkworms have made it possible for me to have what I have.” She has a nice-sized house, an area for raising silkworms, a plot of land and a supplemental income from her silk enterprise that she uses to help her two children. (IFAD Annual Report 2000. Working with the Rural Poor. Pp. 153:24).

Western and Central Africa
4. Ghana

Project Title: Rural Financial Services Project.

The objectives of this six-years IFAD-initiated projects are to: (i) assist government efforts to deepen and broaden rural financial intermediation, in support of its strategy for accelerated rural development and poverty reduction; and (ii) encourage the development of an appropriate policy and institutional framework for increasing access of rural poor communities to financial resources. Attainment of these objectives will enhance the productivity of farming systems, promote rural enterprise development and empower local groups and associations providing savings and credit services in rural areas. To achieve the objectives, the project will: (i) support the development training and empowerment of informal financial institutions and rural groups in order to deepen outreach and expand services to a large number of rural clients, including women, many of whom are among the poorest; (ii) strengthen the overall capacity of rural banks for effective intermediation through technology enhancements, human resource development, and development and testing of innovative instruments best suited to the changing financial needs of rural dwellers; (iii) support the development of an apex institution, which will enable rural banks to address generic technical and institutional constraints on their full potential and impact on rural economic development; (iv) strengthen intramural bank linkages for more efficient information transmission, knowledge sharing and cost-effective provision of services; and (v) enhance the Banks of Ghana’s supervision of rural banks. While the project will be national in scope, intervention will be concentrated in rural areas, which account for more than 70% of national poverty. Because woman in rural Ghana are more active in the formation and operation of informal financial groups, support to them will be significant and broad-based (woman constitute over half the rural population, head more than 40% of rural households and produce about 70% of all food).
Innovative operational features of informal microfinance services will be proposed that remove gender-specific barriers to women’s access financial resources. Intervention will result in significant indirect benefits in the areas of institution- and capacity building. Approximately 39% of the rural population is expected to benefit from the project.

**Innovative features**

A number of innovative features have been built into the design of this project:

- multiple donor project targeted at different tiers of the rural finance continuum through a coordinated programme cofinanced by the principal donors active in Ghana’s rural finance sector, with each donor’s participation based in on its area of comparative advantage;
- an accent on capacity-building rather than injection of credit lines;
- establishment of an apex for rural banks, whose purpose will be to enhance the community-ownership structure and strengthen service delivery, focusing on decentralization of financial services and decision-making and greater community participation in the rural development process; and
- pre-testing promising models such as the financial services associations (FSAs) developed in Benin by IFAD and other innovative processes and products with potential for wider replication.

**Loan amount**

SDR 8.2 million (approximately USD 11.0 million) on highly concessional terms.

**Total project cost**

Estimated at USD 23.0 million, of which USD 5.1 million will be provided by IDA, USD 5.0 million by AfDB, USD 1.2 million by the Government and the Banks of Ghana and about USD 600,000 by the beneficiaries.

**Cooperating institutions**

International Development Association (IDA).


5. Ghana

**Project Title:** *Rural Enterprises Project*


The objective of this seven years project is to increase rural production, employment and income in order to alleviate poverty through the increased output of small off-farm enterprises. This is being accomplished by: facilitating access to new technology and business advice; promoting easier access to financial services; improving the efficiency of existing small rural enterprises, supporting the creation of new enterprises, and removing communication constraints through feeder road rehabilitation. The project was designed to build on the Government of Ghana’s economic reforms and to encourage individuals and other private sector actors in rural areas to take advantage of opportunities created by the opening up of the economy.

The project targets 48 000 families or 300 000 people in the project area who live in poverty. Of these, an estimated 10 000 families live in absolute poverty. At design, it was estimated that direct benefits would accrue to 16 000 families or about 100 000 people in the target group. The design gives special attention to the most vulnerable households, socially disadvantaged women, unemployed youth and those who have been apprenticed to a trade but lack the capital or experience to start a business.

The project has three components: (i) *Support for the Promotion of Rural Small Scale Enterprises*, which includes the establishment of Business Advisory Centers, the construction of Rural Technology Service Centers, and the development and transfer of appropriate technologies; (ii) *Rural Finance Services Support*, which includes lines of credit to eligible participating banks, supported by training for groups and individual beneficiaries in managing credit, deposit facilities, and a monitoring unit for participating rural banks under
the Association of Rural Banks that also provided training to select rural bank staff; and (iii) *Infrastructure Support*, which includes rehabilitation of 100 km of feeder roads and a further 15 km of spot improvements to improve mobility and access to markets.

**Loan amount**
USD 7.68 million.

**Total project cost**
Estimated at USD 9.3 million, of which USD 1.18 million provided by the Government of Ghana, and USD 0.45 million by the participating banks.

**Cooperating Institutions**
United Nations Office for Project Services UNOPS


6. **Senegal**

**Project Title:**  *Village Organization and Management Project-Phase II*

The second phase of this seven-year IFAD-initiated project aims to consolidate and broaden the support activities initiated, tested and improved under Phase I. The overall goal is to improve the incomes and living conditions of the most disadvantaged of the rural population sustainable. To that end, the project seeks to: (i) enhance the natural resource base through capacity-building of village-based, grass-roots organizations responsible for the design and implementation of their local development programmes; and (ii) promote economically and environmentally sustainable farm and non-farm income-generating activities. The project will cover about 400 villages supported during the first phase and about 100 new villages that are among the poorest in the provinces of Fatick, Kaolack and Thiès. According to the 1995 poverty assessment, the incidence of rural poverty in these provinces is about 47-49%. The target group will consist of approximately 20 000 small farm families, accounting for about 90% of all rural households in the area (the total population is estimated at 223 000 inhabitants). In view of large-scale outmigration of men, women contribute substantially to income generation and will play an important role both as major recipients of project support and as key actors in its implementation. Youth will constitute the other major target group, as they have limited access to land and financial services.

**Innovative features**
The second phase introduces two key features with strong replication potential. The first is an explicit graduation-exit strategy that forms an integral part of the intervention approach. The strategy will involve regular participatory assessments of organizational, implementation and managerial capabilities at the village level and targeted capacity-building support based on a learning-by-doing process. The second feature will consist of an intra-village emulation process to promote broad adoption of best practices developed during implementation.

**Loan amount**
SDR 10.7 million (approximately USD 15.9 million) on highly concessional terms.

**Total projects cost**
Estimated at USD 21.5 million, of which USD 2.0 million will be provided by BOAD, USD 2.7 million by the Government and USD 3.1 million by the beneficiaries.

**Cooperating institution**
West African Development Bank (BOAD).
7. Senegal

Project Title: Rural Micro – Enterprises Project. Special Programme for Sub-Saharan African Countries affected by draught and desertification.


The long-term objective of this six years project is to promote sustainable development of the micro-enterprise sector, based on the mobilization of human, physical and financial resources. In the short and medium term the project aims at: creating new permanent and seasonal job opportunities and thereby increasing the income of poor families; producing goods and services which the rural population needs in order to undertake economic development; increasing the length of annual productive period which is currently mostly limited to the agricultural labor period; and reducing the rural exodus through the increased job opportunities offered to the youths in their villages. The project’s approach would be based on three main principles: beneficiaries would be responsible for the choice and the management of any sustainable and profitable activity relevant to the comparative advantages of the area; beneficiaries capacities would be improved to help them resolve the main constraints of their activities; and beneficiaries would be encouraged to join savings and loan networks in order to secure their access to credit.

The project would target rural youth, adult men and women who have a business idea for the rural sector which they cannot implement because of their poverty or because of they have insufficient knowledge of appropriate technologies. They would either be the farmers wishing to complement their agricultural income with off-farm revenues, or existing prospective micro-entrepreneurs with no agricultural income. Youths and women would be considered priority groups. They will have access to all project support facilities including training and technical support and will be given priority in the allocation of credit. The project would equally consider helping existing micro-entrepreneurs develop and strengthen their activities in order to create employment and improve rural working and living conditions. Altogether the project would examine the request of 4 000 potential or existing micro-entrepreneurs; after the selection process, an estimated 1000 among them would receive the full package of assistance, including loans. An additional 200 would have access only to economic and technical advisory services. It is estimated that approximately half of the assisted RMEs would be run by women while service activities would be predominantly performed by the youth.

Innovative features

With the present project, IFAD attempts to transmit lessons learnt in implementing demand-oriented project in the agricultural sector, to the off farm sector. Contrary to pre-defined interventions aimed at specific category of artisans, traders, etc., this project has been formulated in an open dialogue with the rural populations. Their expressed needs and aspirations have been taken into account in designing the support activities that the project will finance and in assessing the expected impact and economic return of the project. However, no detailed projections as to which type of undertakings will be promoted, have been made; it will depend entirely on the proposals of the prospective entrepreneurs, which enterprises will be taken into consideration and will, therefore, eventually be selected for project support (provided the economic and market analyses turn out positive).

Loan amount

SDR 2.50 million (approximately USD 3.67 million).

Total project costs

Estimated at USD 10.94 million, of which USD 1.13 million will be provided by the Crédit Mutuel du Sénégal (CMS), USD 1.15 by the Government of Senegal and USD 1.33 million by the beneficiaries.

Cooperating institution

United Nations Department for Development Support and management services (UNDDSMS).

8. Senegal

Project Title: *Village Management and Development Project*


The main objective of this eight-year project is to establish a durable, self-sustaining development process that will increase food security and rural incomes, reduce poverty and prevent rural exodus. Specifically, it will strengthen the capacities of the rural population and support the implementation of village development funds; promote improved, environmentally sound use of productive resources; and provide rural infrastructure to support the development process. The project will be implemented in phases, starting with an action-research period of three years to test technical and organizational innovations as well as the implementation of the local policy of decentralization, followed by a five-year period of full implementation. Project components are: (i) strengthening of local capacities and implementation of village development funds; (ii) support for agropastoral production and diversification; and (iii) rural infrastructure.

The project area is located in the Louga region and covers 80 villages. It is expected that the project will benefit around 3,500 households, 4,000 members of women's groups and 1,000 young people.

*Loan amount*

SDR 6.9 million (approximately USD 9.5 million) on highly concessional terms.

*Total project costs*

Estimated at USD 13.4 million, of which USD 1.4 million will be provided by the West African Development Bank (BOAD), USD 2.2 million by the borrower and USD 300,000 by the beneficiaries.

*Cooperating institution*

West African Development Bank (BOAD).


9. The Gambia

Project Title: *Rural Finance and Community Initiatives Project*


The overall goal of this six-year IFAD-initiated project is to improve the household food security and incomes of rural farm families in the deprived areas of the country. More specifically, the project aims at: (i) consolidating and expanding rural financial services; (ii) increase access to a diversity of nutritional food and promote the means of boosting rural incomes; and (iii) promote self-help activities that can enhance household food security and provide a focal point for strengthening the capacity of village groups and their members to more effectively establish their development priorities.

It is estimated that a total of 275,000 persons will benefit, representing the families of 100,000 members of the mutualistic village savings and credit associations (VISACAs) to be supported by the project. In addition, and to some extent overlapping with the latter, about 30,000 farmers will benefit by adopting/improving minor crop production and 3,759 households (40,000 persons) by adopting improved practices in the raising of small ruminants. The population of up to 150 villages (with an estimated population of 85,000) will benefit from enhanced household food security as a result of about 450 mini-projects to be financed on a matching-grant basis. The capacity for development of both the leadership and members of up to 300 traditional women and men's groups (kafos) will be strengthened. The VISACA network will be expanded from the current 37 to an estimated 80 branches nationwide.

*Innovative features*
The fully participatory approach built into the design will ensure that participants have a direct influence on project activities and government technicians will be trained in participatory, demand-driven approaches. Use will be made of the traditional village-based system of groups (kafos), most villages having at least two kafos: one for women and one for men. This highly important element of social and economic life has proved to be a more efficient tool for a participatory approach than project-instigated groups. Prominence will also be given to information/education/communication activities that seek both to improve the knowledge base at the village level and to involve beneficiaries in recording and evaluating the impact of initiatives supported by the project.

**Loan amount**
SDR 6.6 million (approximately USD 9.2 million) on highly concessional terms.

**Total project costs**
Estimated at USD 10.6 million, of which USD 1.0 million will be provided by the Government and USD 0.4 million by the beneficiaries.

**Cooperating institution**
The project will be supervised directly by IFAD.

(Report and Recommendation of the President to the Executive Board on a Proposed Loan to the Republic of The Gambia for the Rural Finance and Community Initiatives Project. IFAD Intranet).

2.5. Examples of case studies on rural sustainable financing systems, including innovative mechanisms.

The purpose of this chapter is to present the learning process of IFAD experience on rural sustainable financing systems, including innovative mechanisms, through the selection of the case studies. One hundred fourteen IFAD case studies have been analyzed and exploited for the study out of which eight have been reported. Also, they are of particular relevance in the context of the PISA programme and eventually IFAD contribution.

Rural development projects and the creation of sustainable financial systems

1. Credit: IFAD in Mauritania

Increasing agricultural productivity is the main objective of a number of projects in West Africa. Access to credit has been considered one way to achieve this objective, as has the provision of inputs and equipment and the introduction of better agricultural technology. Credit lines have been opened for projects or development banks to finance loans. Goods, which are in fact provided on credit in kind, have been determined at project design. Under this system, extension agents, representing the project, sell inputs and equipment on credit to farmers. With few exceptions (such as credit for motorized pumps in the Komadougou Valley, Niger), this approach usually leads to repayment rates of less than 80%, and sometimes as low as 50%. Inevitably, this reduces the level of the project revolving fund for the provision of credit. Furthermore, institutional commitment to continued provision of credit is seldom guaranteed once the project cycle is complete (including the Komadougou project), since banks are not involved in the field extension of credit, but only in the management of the project credit line. In Mali, around the lake zone (SRS 004 ML), the Banque Nationale de Développement Agricole (BNDA) pulls out of its funding commitment once the rate of unrecovered loans reaches 518. In Burkina Faso, the Caisse Nationale de Crédit Agricole (CNCA) pulled out of its operations in the Central Plateau after making only a timid attempt to establish itself. During project implementation, priority is given to meeting predetermined targets for input and equipment supply; and the provision of goods to farmers on credit enables project personnel to meet these targets. However, lack of a sustainable credit system is a major hindrance for meeting long term development objectives for IFAD projects. Agricultural development sparked off by the availability of credit will lose momentum once the project ends and credit supplies dry up. Loss of confidence because of failed project credit components, could affect future credit systems, as a result of non-repayment of previous loans and the
ineligibility of farmers groups with outstanding debts to obtain new credit. In the case of the Mbour Louga project in Senegal, the Société de Développement et de Vulgarisation Agricole (SODEVA) has recovered only 77% of its loans after four years, with 800 farmers groups still indebted and ineligible for credit from a recently established CNCAS branch in their zone.

For credit to be a viable development tool in a region, project credit components must be formulated within the context of promoting sustainable rural financial institutions. The objective of establishing sustainable financial systems should override any attempt to quickly provide pre-determined amounts of inputs and equipment. Each loan application should be examined rigorously and independently by a financial institution.

If investments which are critical to the attainment of project objectives cannot be through a rigorously managed credit (insufficient expected cash flow of the client, unacceptable levels of risk), then other means of financing should be investigated (subsidies, counterpart funding and lease-hire schemes).

(A farmer channeling irrigation water into a sand canal to irrigate palm trees, Mauritania, SRS-001-MR, Credit: IFAD/Mauritania/Sahar Nimeh)

2. Groups and financial intermediation

Many IFAD-financed projects have systematically tried to establish groups or associations, such as village groups (VGs), economic interest groups (EIGs) and village associations (VAs), to serve as intermediaries between lending institutions (these may or may not be present in the field) and borrowers. Such groups have also been channels for development activities, such as agricultural extension. Group membership is a pre-requisite for accessing credit. The group is expected to analyze the need for credit by its members and take responsibility for its distribution among them. Consequently, the lending institution should be able to limit the tasks associated with loan administration and collection and achieve economies of scale. Participation in a group provides a collective guarantee or group collateral for members. However, in reality:

- groups have not been able to maintain records to follow-up on individual borrowers. There is little transparency within the group, as most information about operations is kept by the group leaders, who have little accountability to the members. This intensifies the power of the leader and can lead to irregularities. Inappropriate use of funds is not uncommon. An additional problem is that the project or participating lending institution considers the account at the group level only and problems of repayment are difficult to identify;

- group collateral usually does not operate as a guarantee. Group guarantees accepted as collateral may not be effective. Lack of an appropriate legal framework makes prosecution through the judicial system impossible; yet this type of guarantee has worked efficiently in decentralized credit systems modeled after the Grameen Bank (e.g., the Rural Credit Project in Guinea and the Small Rural Credit Project in Burkina Faso). Experience explains two reasons for the inadequacy of group guarantees: (i) the size and composition of the group and (ii) the way groups are mobilized. Groups should be limited to 3-6 well-acquainted individuals, as opposed to more than 10 whose only common interest may be getting credit from a project. A preliminary information phase should be held, with explanations and training about group guarantees and credit, as opposed to the rapid, artificial introductory phase included in most projects;

- IFAD target groups (rural women and the poorest farmers) are often under represented. This is especially true of village associations that reinforce the existing power structure of the village. In Fouta Djallon, Guinea, village associations are composed of heads of households, principally adult males, often elderly. Women and youth are in the minority. This approach is characterized by a large portion of groups, which do not repay credit they have received. Such groups are subsequently ineligible for credit and may be excluded from future credit programmes.

Organizing borrowers into groups as a condition for providing credit under projects is not in itself a guarantee of success. The idea of group collateral is often artificial with group solidarity and illusion. Groups have been largely incapable of managing their financial records, facilitating abuses. The wisdom of basing an emerging new financial system on such groups is questionable.

If a suitable financial system is available in the project area, then:
The role of the group must be limited. The lending institution should administer its own loans both at group and individual borrower levels. Following restructuring of the Caisses Locales de Crédit Agricole Mutuel (CLCAMs), group responsibility has been reduced to that of a guarantor, to limit irregularities within the groups. Provision of individual credit and loan monitoring are carried out by the CLCAMs.

The training period prior to group formations should receive careful attention. Collaboration with NGOs may be worthwhile, as long as there is close coordination with the lending organization concerned.

Groups should be small (less than 10 people) so that members participate voluntarily, trust each other, and apply effective pressure on each other to repay loans.

In the event that there is no operational financial system in the project area, the use of multi-purpose groups should be avoided. Project support should be focused on promoting a specialized financial system. This approach requires investments in research and training and can easily be considered a separate project itself. Collaboration should be sought with other operators with experience in developing decentralized financial systems. (Women carrying basket of vegetables (yellow eggplant) at Yejimarket, Ghana, Credit FAO/Ghana/P. Cenini).

3. {PRIVATE "TYPE=PICT;ALT=Farmer at the counter of the UBD Agency of Rosso dealing with the cashier")Medium term credit

The provision of medium term credit is an important aspect of IFAD-financed projects in West Africa. On-farm investments on credit look essential for the project to reach its incremental production objectives rapidly: In Segou, medium term loans were needed to finance animal traction, to raise farm productivity; in Niger, medium term loans were used to finance motor pumps. Sizable volumes of medium-term credits are often disbursed quickly at the beginning of a project, but repayment rates of less than 50% are common.

There are two notable exceptions: (i) credit financing for motor pumps in the Komadougou Valley, Niger, where loans were well-suited to the needs of beneficiaries and the activities financed were profitable; and (ii) financing animal traction in the Borgou project in Benin, where cotton provides cash income, credit repayment is deducted directly at the point of cotton sales, and farmers and the Caisses Locales de Crédit Agricole Mutuel (CLCAM) already successfully provided medium-term credit before the IFAD intervention. The consequences of failure can be serious: repossession of motor pumps in the Niger Valley; farmer over-indebtedness and exclusion from credit in Segou; and household decapitalization, to reimburse unprofitable loans at any cost. Medium-term credit is much riskier than short-term credit, both for the borrowers (risk of indebtedness) and for the lenders (large volumes of credit and risk of default).

The decentralized financial systems which have been gradually emerging in West Africa over the past ten years have started with the provision of short-term credit. After several successful years (at least three), some have begun to provide medium-term credit. In the Rural Credit Project in Guinea, medium-term credit is provided by local credit schemes after three years of successful operations. In Borgou, Benin, CLCAMs have started providing medium-term credit after short-term credit proved successful. Experience shows that when medium-term facilities are available [Fédération des Caisses d'Epargne et de Crédit Agricole (FECECAM) in Benin, rural credit in Guinea], there is little demand for credit outside profitable cropping zones (for cotton, in particular). The demand for medium-term credit is actually quite limited, which directly contradicts the beliefs of developers and the supposed "needs" of farmers.

To minimize risk for both borrowers and lenders, medium-term credit facilities should be introduced gradually, after short-term credit operations are working well. This ensures that beneficiaries consider credit as something that must be paid back eventually. The "agricultural policy statement" in Guinea includes the following recommendation: "Projects should not offer medium-term credit until they are satisfied with the success of short-term credit operations."

Where large investments require rapid financing, methods other than medium-term credit could be considered:

Lease/hire schemes have the advantage that they may be terminated abruptly with minimal risk to both parties. If the beneficiary does not honor his/her commitment for repayment, the equipment can simply be recuperated. Similarly, the beneficiary can return the equipment if it is found unsuitable.

Outright grants, through new institutions should be promoted in those poor areas where monetary revenues are low and where proposed investments may not generate stable and immediate cash income. The Local Investment Fund in Mali provides interesting experience with regard to financing village land development
works. (Farmer at the counter of the UBD Agency of Rosso dealing with the cashier, Mauritania, SRS-001-MR, Credit: IFAD/Mauritania/Horst Wagner).

4. {PRIVATE "TYPE=PICT;ALT=Taking care of the weekly campaign for Malaria-prophylaxis"}

Savings and Credit

Having encountered difficulties when the provision of credit in kind was the sole project objective concerning the credit component, projects began to appear that encouraged savings. In promoting financial systems, savings mobilization was a way of ensuring sustainability. The "savings before credit" approach, developed by the Coopérative d'Epargne et de Crédit (COOPEC) and "Crédit Mutuel", encouraged borrowers to honor their debts. In previous projects, credit financed by external borrowing was seldom repaid (hot/cold money). In some projects, access to credit is secondary to the objective of mobilizing savings; and the promotion of a "savings culture" becomes an objective on its own. This approach has been characterized by more satisfactory repayment rates (over 90-95%) and is the basis for a sustainable financial system. Nevertheless, there are certain shortcomings:

- the amount of cash savings, which can be mobilized in rural areas, is limited; and this problem is aggravated by the remoteness and poverty of the area. Since cost effectiveness is largely determined by the total amount of deposits, the financial viability of some credit schemes is precarious [Caisses Locales de Crédit Agricole Mutuel (CLCAM) in the non-cotton zone of Atacora, Benin, and Caisses Mutuelles in the Siguiri region, Guinea], or has limited ability to lend;
- when individual borrowing is linked to compulsory savings (i.e., an individual must deposit at least 10 50% of the borrowed amount), a certain proportion of the IFAD target group (women and small farmers) may not be eligible for credit. In other cases, the requirement that funds be immobilized to meet deposit conditions can be detrimental to the profitability of the planned investment (as in Atacora, Benin, with women traders);
- the financial assets of the system, essentially composed of short-term deposits, make the provision of medium-term credit difficult;
- when the system faces a cash flow problem, losses to savers can be significant. Recurrent costs are often high (permanent employees, unproductive savings in the safe, etc.) and the potential for irregularities increases with the number of transactions and operations required.

Cooperative credit and savings schemes should not be seen as the only alternative means for addressing the failure of project-financed credit. Other decentralized financial systems, such as the "Crédit solidaire" model inspired by the Grameen Bank, show that the "hot/cold money" dilemma can be overcome; and a small group guarantee can be sufficient collateral to ensure a good level of loan repayment. To ensure sustainability, mobilization of savings can be promoted after the provision of credit (forced savings). The mobilization of operating capital can take time but the targeting of less favored groups can also be more effective (98% of the women among the beneficiaries of the Promotion of Small Rural Credit Project in Burkina Faso). In addition, beyond the different philosophies and characteristics of each system, it appears that:

- in order to reach certain IFAD target groups, credit must be available without the compulsory pre-requisite of savings mobilization. To diversify their clientele, including women, the CLCAMs in Benin have recently been developing a new line of "very small credits for women", which do not require prior savings deposits for eligibility;
- for a credit scheme to mobilize its own financial resources, a combination of savings promotion approaches can be used, such as free deposits, savings deposits as a condition for obtaining credit, and forced savings (as part of a loan and withheld by the scheme). The savings approach used will depend on the clientele and the type of credit that is needed;
- the financial system/scheme established can become an intermediary between borrowers and formal financial institutions for negotiating refinancing [village schemes in the Dogon region of Mali are refinanced by the Banque Nationale de Développement Agricole (BNDA)]. This allows the system/scheme to increase its lending capacity, even though its own savings capacity may be limited, and to provide medium-term credit even though its own resources come from short-term deposits. (Taking care of the weekly campaign for Malaria-prophylaxis, Mali, 103-ML, Credit IFAD/Mali/Horst Wagner).
In countries with well-established networks of savings and credit schemes ["Crédit Mutuel" in Guinea and Caisses Régionales/ Caisses Locales de Crédit Agricole Mutuel (CRCAM/CLCAM) in Benin], IFAD has used these operators for the implementation of credit activities in some of its projects. Institutional support and credit lines are the main tools used. The approach is generally positive; rates of repayment are usually greater than 90-95%, far superior to those encountered in "project-credit" or "bank-credit" approaches. Expectations for sustainability are good. However, with regard to targeting, adequate provision of medium-term credit and proximity to financial services in rural areas is doubtful when compared to IFAD's specific objectives. This illustrates the difference between a donor such as IFAD and a financial institution whose objective is to ensure the profitability of its branch offices, providing financial services adapted to the needs of depositors.

The capacity to mobilize cash savings in rural areas is limited and decreases with the remoteness and poverty of the area. Since cost effectiveness is determined by the total amount of deposits, some branch offices may be on the edge of financial viability. For example, the CLCAMs in some non-cotton zones of Atacora, Benin, are barely profitable (less than 50 million Francs CFA (FCFA) in deposits). Similarly, some mutual credit schemes are experiencing difficulties in IFAD's project areas in Guinea.

The need to deposit savings in order to be eligible to borrow can exclude a portion of IFAD's target group (women and small farmers). The immobilization of funds for several months as a deposit condition can seriously affect the profitability of the planned investments (women traders in Atacora, Benin).

The financial resources of the saving and credit schemes are composed of short-term deposits. The risk of running out of liquid assets prevents the networks from using their resources for medium-term financing. For example, in Borgou, Benin, the CLCAMs have put forward medium-term loans on a small scale, backed by their own resources.

Providing institutional support and credit lines to these networks of savings and credit schemes does not guarantee that they will respond to IFAD's priorities for targeting specific areas or productive activities. Too much donor intervention in savings and credit schemes might compromise the whole system and undermine its institutional sustainability.

In choosing new locations, schemes must take into account the savings mobilization capacity of the population, to ensure future scheme profitability. In certain remote areas, it simply may not be viable to establish a scheme. In these situations, IFAD must examine supporting specialized financial systems at the village level that may serve as intermediaries between the network and the beneficiaries. The project supporting small producers in Lower North Guinea seeks to promote "financial services associations". In some areas of Benin, village savings groups act as relays between CLCAMs and the population. The presence of the networks ensures that training, financial control and auditing functions of local savings groups are carried out. Deposits from local savings groups can be deposited within the network.

To reach certain IFAD target groups, particularly poor rural women, credit should be available without the pre-condition of having to make a deposit first. To diversify its clientele towards women, the CLCAMs in Benin have recently developed a new line of "very small credits", which require no prior deposit. The Réseau des Caisses Populaires in Burkina Faso (RCPB) is successfully implementing this kind of an approach through women's groups.

The provision of additional funds or the establishment of a risk fund are two ways of risk sharing which can promote the provision of medium-term credit. (Literacy course for adults in the community center of Cinzana, Mali, 103-ML, Credit IFAD/Mali/Horst Wagner).

6. Financial equilibrium

Financial equilibrium is the essential prerequisite for a sustainable decentralized financial system (DFS). The necessary pre-conditions for establishing this equilibrium are:

- Interest charged for loans - Interest paid for deposits
- + Interest received on investments + Operating costs
- + Fees charged loan administration + Provisioning for bad debts

There are seven important variables: (i) volume of transactions, (ii) share of lending from mobilized savings, (iii) return earned on surplus resources invested, (iv) rate of interest paid on deposits, (v) interest rate charged
for loans, (vi) operating costs and (vii) provisioning against bad debts. The DFSs have no control over certain variables, such as the rate of return on investments. Through prudent management, DFSs can establish appropriate interest rates on savings and loans and can control costs, such as salaries and transport, and loan recovery rates, while avoiding irregularities.

DFSs have evolved on the fringes of the financial sector and its legislative framework. The growing importance of these systems required a suitable regulatory framework for their operation. Existing regulations in the Francs CFA (FCFA) monetary zone countries establish reserve requirements and lending rates at 17%, which is double the Central Bank re-lending rate. Only a few DFSs can actually comply with these rules. Most of them must lend at a rate above 2% per month to cover the costs of providing a service in the remote rural areas where their customers are found, while paying a high enough interest rate to attract savings. Notwithstanding, the interest rates charged by DFSs are far below those charged by usurers and are quite reasonable for small short-term loans and suitable for their rural clients.

Experience has shown that about 4-5 years are required for local credit schemes to reach a state of financial equilibrium; 10-15 years are needed for regional networks to reach this balance. Time periods are longer than the expected project period at appraisal (6-7 years), although the implementation period of most IFAD projects is actually longer. In fact, when loan closing date extensions and continuations into a second phase are considered, the field presence of IFAD-financed projects can often reach up to 15 consecutive years (Segou, Mali; Atacora, Benin; Siguiri, Guinea, etc.). If this fact was an acknowledged reality, project planning could be undertaken with a medium-term perspective, allowing support of DFSs until they have reached "full" development.

Whatever model of DFS is used, efforts should be made to balance savings and credit. The need for credit encourages savings, which can stagnate if the distribution of credit is too cautious. Initially, credit should be available quickly but only on short term and a small scale.

Serving many poor rural people spread out over wide area costs more than financing wealthy urban dwellers concentrated in cities. DFSs should be allowed to fix their own interest rates on savings and credit so those margins are large enough to cover operating costs (10-15%). Reference to the current usury law in the Union Economique et Monétaire Ouest Africaine (UEMOA) should be avoided, since interest rates must be set at a realistic level.

Operating costs should be contained. As voluntary work of credit agents appears unsustainable, even at the village level, they should be remunerated. Salaries could be divided into a minimum fixed payment and a commission, determined by the performance of the local scheme (increase in deposits, rate of loan recovery, etc.).

Lending operations should be transparent and equitable. A 518 recovery rate should be the expected norm, resulting from the prudent choice of borrowers and the halt to credit if conditions are not met.

The regional and national networks should be limited to essential activities and they should remain within the control of the local schemes.

Supporting an emerging DFS requires continuity over a time frame, which surpasses that of usual projects. Programmes should be planned for execution over the medium term (10 to 15 years for a new DFS). In addition to investments, which are required for the development of local schemes, and the regional and national networks, international support should be tailored to include a decreasing grant element for operating costs during the growth phase. Any grant element should have been completely eliminated by the time "full development" is reached. Any grant element should be established on the actual expenses of the system to avoid any unbalances. (Youngsters arranging a stone 'diguette', a technique to combat soil erosion, Burkina Faso, BURKINA FASO, SRS-011-BF, Credit: IFAD/B.Faso/Jeremy Hartley).

7. **Public finances and loans: shortages of counterpart funds**

Lack of counterpart funding will slow implementation and is often a root cause of reduced levels of disbursements. In both eastern and western Africa there have been a number of occasions when the lack of counterpart funding has severely affected the rate of project and programme implementation. This has arisen mostly because of reduced government income overall, and restrictions on the general levels of spending. Whilst such circumstances are unfortunate, they need to be accommodated realistically by means of revised annual targets in the AWPBs, and possibly by altering the balance of funding in those items which are jointly funded.

In Uganda, lack of counterpart funding severely affected implementation. This was caused by a complex of factors as the country recovered from 15 years of turmoil, including restructuring, decentralization and civil
service reform and the collapse of the prices of major export crops. Devaluation resulted in the exchange rate of the Uganda shilling falling from 20 to 1200 to the USD over a period of six years. Four years after the start of the project, government counterpart funding was running at about one third of the level required in the loan agreement. In 159-UG reformulation was necessary before the project could make any progress; as part of this, the proceeds from input sales were allowed to be recycled as a contribution from the government, to fund project activities. In Liberia, shortages of counterpart funds in the Smallholder Rice Seed Project meant that the project could not purchase seed in one year from the contracted growers, which severely this damaged farmers’ confidence.

The most frequent items of counterpart funding are salaries of government staff and taxes foregone. In many projects the experience has been that even these items can be difficult to fund for governments struggling with fiscal straitjackets. Counterpart funding is intended to demonstrate commitment to development, but realistically it usually only represents a minor contribution to project costs.

It is incumbent on appraisal missions to make realistic estimates of government capacities to provide counterpart funds, and this assessment should be regularly reviewed by supervision missions as part of the CI’s role. Wherever possible, counterpart funds should not be used for activities, which can have a major impact on project performance.

During implementation there seems to be no point in merely stating that the government is not meeting the requirements of the loan agreement with respect to counterpart funding, a much more positive approach is required which might involve rescheduling project activities or agreeing to meet a larger proportion of the local funding costs.

When counterpart funding is inadequate, instead of a general reduction in the levels of all project activities, it may be preferable to prioritize areas for funding. This would need sufficiently detailed budgets for locally funded activities so that the requirement of specific project interventions for local funds could be identified. (Ref: Liberia - Smallholder Rice Seed Development Project, 063-LI R063LICE, Completion Evaluation, 1989; Uganda - Agricultural Development Project, 159-UG R159UGCE, Completion Evaluation, 1995; Uganda - Southwest Region Agricultural Rehabilitation Project, SRS-10-UG S010UGAE, Mid-Term Evaluation, 1992).

8. {PRIVATE "TYPE=PICT;ALT=Literacy course for adults in the community center of Cinzana"}IFAD Projects and Banks

In order to insure the sustainability of credit activities within the projects, IFAD has tried to involve a number of banking institutions (agricultural development banks and commercial banks). The level of branch representation in poor rural areas by the formal financial institutions is extremely sparse in many countries (Mali, Niger, Senegal, and Burkina); and the financing that is available is limited and only covers cash crops such as cotton. Under these circumstances, IFAD suggested the following approach: Management of an IFAD-financed credit line is theoretically the bank's task; producers are organized into groups or village associations as intermediaries with the banks; the project must collaborate with the banks in following up the loans. A line of credit is opened up for the bank with institutional support to set up field branches. During the start-up period, the bank assumes none of the risk associated with non-repayment by borrowers (generally assumed by the government).

In practice, the bank's role in managing the loans is an artificial one. In fact, the project field staff takes responsibility for group training, providing the credit, and following up and recovering the loans. Often, these multi-functional producers groups are incapable of playing the expected role of financial intermediary. The bank often restricts itself to simply preparing the accounts of operations. As far as the bank is concerned, the entire operation is a profit-making one: It does not bear any risk; the project takes on most field work for extending credit; and the difference between the interest rate at which the bank receives IFAD funds and the interest rate charged to creditors gives the bank a comfortable profit margin. In some cases, the establishment of local branches has not been viable. At times the bank may even withdraw entirely from the project activities. The project then has to manage the entire credit program as well as supply inputs and equipment according to its objectives, in total disregard for institutional sustainability. The Banque Nationale de Développement Agricole (BNDA) involvement in Segou, Mali, is partly successful. The branch office, which has opened, is diversifying its activities to operations not linked to the project. In the second phase, the BNDA is also bearing the risk associated with default. However, branch field offices have not yet opened and the project is still obliged to play an intermediate role between the BNDA and the project beneficiaries.

So far, none of the projects using this approach have achieved institutional sustainability, even when rates of
repayment are good. While the repayment rate of loans for motorized pumps in the Komadougou Valley, Niger, is 518, the Banque Internationale pour l'Afrique de l'Ouest (BIAO) refuses to open field offices.

When a banking institution has no active presence in the field, institutional support and credit lines will not guarantee its lasting involvement in the area concerned. The establishment of multi-functional village associations is no guarantee of financial intermediation.

When banks are not present in the field, implementing the credit components has to be achieved through the support of decentralized and specialized rural financial systems, capable of guaranteeing a localized service to individual beneficiaries. There are two main types of decentralized financial systems that can achieve this: (i) systems that can coordinate with the banking system and act as intermediary between the beneficiaries and banks [The Centre International de Développement et de Recherche (CIDR) village schemes, having generated their own capital with members deposits, negotiate refinancing with banks. The Promotion of Small Rural Credit Project in Burkina Faso is refinanced by the Caisse Nationale de Crédit Agricole (CNCA). Institutional support and credit lines can be supplied by IFAD. In fact, this is the approach developed in the recent appraisal of the Income Diversification Project in southern Mali]]; and (ii) systems that are, by definition, independent to the banking system, such as networks of cooperative savings and credit schemes [Caisses Régionales/Caisses Locales de Crédit Agricole Mutuel (CRCAM/CLCAM) in Benin and Credit Mutuel in Guinea]. Resources are mobilized from the savings of depositors. IFAD's own input consists of institutional support and, in some cases, a credit line (for medium-term credit, for instance) or a risk guarantee fund. This is the approach developed by IFAD, notably, in Benin and Guinea. (Literacy course for adults in the community center of CINZANA MALI, (103-ML), Credit IFAD/Mali/Horst Wagner).

3. Conclusions

The thematic study has been developed under a two-stage process:

1. A review of available documentation has been summarized and drafted on: (i) IFAD strategy for increasing access to financial services and markets and partnerships with financial institutions; (ii) IFAD strategy for rural poverty reduction in Latin America and the Caribbean and Western and Central Africa; and (iii) projects and case study revealing the specificity of each experience. The sample selection was conducted mainly on the basis of recommendation and evaluation reports.

2. Upon completion of the first stage, the next step was to compile and synthesize the full set of information.

The example selected comprises forty-seven IFAD funded projects out of which nine are classified to highlight the Fund experience in rural financing for development and market mechanisms. In addition, one hundred forty-one case studies have been exploited to present IFAD learning process and eight examples on rural sustainable financial systems are reported.

The study underlines IFAD major roles for rural development supported by its financial interventions:

- **As an innovator** in the development of effective rural poverty-eradication instruments, models and know-how at the grass-root level, IFAD seeks new and effective ways to address the constraints faced by its beneficiaries in a diversity of local context. In so doing, it consolidates, refines and enhances its “intellectual capital”.
- **As a knowledge institution**, IFAD builds on its role as an innovator through a process of mutual learning and lesson sharing with other stakeholders active in this field.
- **As a catalyst**, IFAD extends the outreach of its poverty eradication efforts through strategic partnerships with other donors, governments, non-governmental organizations (NGOs) and civil society organizations working with the poor at the grass-roots level. Such partnerships are also build on cross-fertilization of ideas and are approached taking into account the programmes and efforts of other donors. The Fund’s catalytic role also implies facilitating the replication and scaling up of national and local initiatives, as well as influencing policy and practices in favor of the poor.

In carrying out this study, limits and difficulties were met. Because of the constant political and financial upsets in the Latin American region following the Argentine crises, it is not possible to precisely define
strategic lines of intervention. The reported information for both regions is based on the work activities
carried out by the Fund in the recent years.
All of the projects exploited for the study concern rural development and do not include in exact terms the
issues concerning market mechanisms and innovation. This was one of the difficulties met to present IFAD
experience in a homogeneous platform of information in the two studied regions. Meanwhile, the same
projects highlight the Fund understanding in financing rural development interventions. In addition, the two
regional evaluation processes are under appraisal.
4. Consulted documents

- Report and Recommendation of the President to the Executive Board on a Proposed Loan to:
  - Bolivia: Cotagaita-San Juan Del Oro Agricultural Development Project
  - Bolivia: Consolidation and Development of Smallholder Settlements in the Department of Santa Cruz Project
  - Colombia: Rural Micro-Enterprise Development Programme
  - Colombia: Rural Development Project Arauca II
  - Costa Rica: Proyecto de Credito Agricola
  - Costa Rica: Proyecto de Credito para el desarrollo Agricola de la Zona Norte
  - Dominica: Integrated Rural Development Project
  - El Salvador: Rural Development Project for the Central Region
  - El Salvador: Smallholders’ Agricultural Development Project in the Paracentral Region
  - Guatemala: Cuchumates Rural Development Project
  - Mexico: Rural Development Project for Rubber Producing Regions of Mexico
  - Uruguay: National Smallholder Support Programme – Phase II
  - Venezuela: Agro-Productive – Chains Development Project in the Barlovento Region
  - Benin: Roots and Tubers Development Programme
  - Benin: The Microfinance and Marketing Project
  - Burkina Faso: Community Based Rural Development Project
  - Chad: Food Security Project in the Northern Guéra Region – Phase II
  - Equatorial Guinea: Agricultural Development Project on the Mainland
  - Ghana: Rural Financial Services Project
  - Ghana: Northern Region Poverty Reduction Programme
  - Ghana: Upper-East Region Land Conservation and Smallholder Rehabilitation, Project Phase II.
  - Ghana: Rural Enterprises Project
  - Ghana: Root and Tuber Improvement Programme
  - Ghana: Smallholder Credit Input Supply and Marketing Project
  - Ivory Coast: Project de Developpement Rural dans le Nord Est
  - Ivory Coast: Small Horticulture Producer Support Project
  - Liberia: Smallholder Rice and Seed development Project
  - Niger: Rural Financial Services Development Programme
  - Senegal: Village Organization and Management Project
  - Senegal: Village Organization and Management Project-Phase II
  - Senegal: Village Management and Development Project
  - Senegal: Second Small Rural Operations Project
  - Senegal: Integrated Rural Development Project of M’Bour Louga
  - The Gambia: Rural Finance and Community Initiatives Project (RFCIP)
  - The Gambia: Agricultural Development Project II. Project co-financed with Italy
  - Bosnia Herzegovina: Farm Reconstruction Project, Re-stocking Activities
  - India: Andhra Pradesh Tribal Development Project
  - India: National Microfinance Support Programme
  - Kenya: Central Kenya Dry Area Smallholder and Community Services Development Project
  - Lebanon: IFAD to support cooperative Rural finance Programme in Lebanon
  - Morocco: IFAD to support Rural Development Project in the Kingdom of Morocco
  - Mozambique: Family Sector Livestock Development Programme
- Mozambique: Nampula Artisanal Fisheries Project
- Nepal: Production Credit for Rural Women
- Seychelles: Employment Generation Project
- Tanzania: Rural Financial Services Programme

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ANNEXES
Annex 1

An outline on the origin and characteristics of the PISA Programme

One of the important conclusions of the GFAR-2000 Conference that took place in Dresden, Germany, is that in order to achieve the objectives of poverty eradication and food security one of the main challenges that is being confronted is that of promoting value-added and employment in the rural sector in developing countries, specially in peasant economies. The objectives of poverty eradication and food security cannot be reached only by increasing food production through the development of appropriate technologies. If the issues of value-added and employment generation in the rural sector are not directly addressed the development objectives being pursued will not be reached. As a follow-up to the GFAR-2000 Conference, the Toscana Region, together with the Istituto Agronomico per l’Oltremare (IAO) and the GFAR Secretariat organized an International Seminar on Agroindustrial Chains for the Development of Peasant Economies, that took place in Firenze on November 12-13 of 2000, with the active participation of research groups and of farmers’ organizations and producers (private sector) that are working in this area. Two important recommendations came out of this international seminar (see footnote 1). The first one is the need to establish an international programme (PISA Programme) whose general objective is to support innovative projects of agroindustrial development aimed at generating value-added and employment in the rural sector of developing countries. The importance of generating value-added and employment in the rural sector has also been identified by the regional priority setting exercises that the Regional/Sub-regional Fora have been carrying out with the support of GFAR. The projects that will be supported through this programme will be related to the development of specific rural agro-industries that typically require the development of “innovation networks” in order to link the farmers to the market. The second recommendation is that of the establishment of a Polo Internazionale per l’Innovazione e lo Sviluppo Agroindustriale/International Pole on Innovation and Agroindustrial Development in the IAO in Firenze, as a focal point of a Global Network of Agro-industrial Groups for the Development of Peasant Economies that can facilitate the interaction and exchange of experiences among the groups and programmes that are actively involved in this type of agroindustrial development in different countries.

PISA is an international programme based on the work that Italy and the Regione Toscana have developed with Colombia and other Latin American and Caribbean countries in recent years (in the development of the RESECA-Colombia Project since 1998), as well as on the work that stakeholders of agricultural development have been doing in the context of the Global Forum on Agricultural Research (GFAR). This international programme will be implemented through specific Projects that will be presented by NARS institutions in the developing world.

The PISA Programme has the following general objectives:

a) Support of innovative projects aimed at the development of agroindustries in developing countries, and specifically of small and medium-sized rural enterprises, that can play a critical role in advancing rural development, generating local value-added, employment generation, and thus contributing to food security and sustainable development. In order to address the issue of value-added, the projects that will be supported will go beyond agricultural technological research to include post-harvest and processing aspects. These projects will (i) take a “rural innovation” perspective that places emphasis on the needs of the producer; (ii) be based on a commodity chain (filière) approach that addresses the problems the farmer faces in interacting with the various other actors in the chain, from production to consumption.

b) Seek to develop a sustainable Funding Strategy for agroindustrial development projects in developing countries by integrating the banking system (both development banks and commercial banks) to the funding of such projects. This will entail a strategic alliance between the public and the private sector, and it will require the development of new innovative funding mechanisms for investment projects related to agroindustrial development.

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7 The Toscana Region, together with its Colombian partners, promoted the ReSECa project (Rete per lo Sviluppo dell’Economia Campesina); the model developed with ReSECa was included in the conclusions of the Dresden world conference (May 2000).

The PISA Programme is based on innovative ideas, among which the following can be mentioned:

a) The problem of development cannot be solved only through the generation and supply of good science and of "appropriate technologies". This "supply approach" has to be complemented with an approach that concentrates on the *innovation process*, looking at both technological innovations and social innovations that are required to assure sustainable rural livelihoods. The innovation approach places the farmer and people at the center, by addressing the process through which farmers generate, adopt and use knowledge and technology and thus introduce *innovations* in their farm or agro-industry. These technological and social innovations are quite often of an incremental nature, based on the use of both scientific knowledge and of local/traditional knowledge. This approach places a great emphasis on the need to increase the "capacity of knowledge management" to facilitate innovation processes at the community, farm or firm level. This approach does not replace, but rather complements, scientific research programmes as we know them today. In doing so, it plays a critical role in increasing the effective impact of these endeavours on development.

b) Secondly, it is strongly felt that for sustainable development processes to take place we have to link the farmer to the market. This brings into the picture the post-harvest phase and the need to look into the insertion of farmers into food-chains and into agro-industrial chains (adopting a "filière approach"). This approach is a prerequisite to cope with two of the most serious constraints that developing countries are currently facing: the need to increase the value-added they generate in their agricultural sectors, and the need to generate employment and income in the rural sector, including here non-agricultural rural employment.

c) Thirdly, this more holistic approach makes it easier to integrate the increasingly important role of the various stakeholders of agricultural research and of rural development, including the farmers themselves at the center of attention, NGOs and the private sector, besides researchers, extension workers, input-providers (i.e. seeds and other inputs) and other actors of scientific and technological development. These various stakeholders can make a very valuable contribution in the development of "innovation networks" and "innovation clusters", that in turn can facilitate the emergence of truly sustainable development processes.

Fourthly, it is felt that through the cumulative impact of the previous three factors we can develop *"true partnerships*" between developed and developing countries. International cooperation in this field should no longer be seen as a matter of "aid" in the traditional sense of the word, but as one of real partnerships that can lead to win/win opportunities through the development of agro-industrial chains that can bring together partners in both the North and the South. And this requires looking at the role financial institutions and credit mechanisms can play in these endeavors, in order to promote and support dynamic and sustainable development processes.

**Innovative funding mechanisms**

One of the main bottlenecks that the development of agroindustries confront in developing countries is the provision of credit and other funding mechanisms for the development of small and medium-sized enterprises (SMEs). One of the main challenges of PISA initiative will be to integrate the banking system into these efforts, as an important case of a public/private sector strategic alliance for development purposes. The PISA Programme will seek to facilitate the dialogue among bankers, and between these and stakeholders of agroindustrial development in developing countries, to see what *innovative funding mechanisms* can be designed and implemented in order to assure the development of a *sustainable funding strategy for agroindustrial development projects*. In this respect, the important experience in the Italian banking system with the “banca etica approach” could make an interesting contribution. This was one of the topics that was discussed in the *GFAR/IAO International Seminar on Agroindustrial Development for Peasant Economies* that took place in Firenze in October of 2000, where the Banca Etica presented its experience of mobilizing financial resources for this type of projects in Italy. A further proposal is being developed by the *Banca Nazionale del Lavoro* for the development of an innovative funding mechanism. The proposal being suggested by the BNL is considering the setting up of a financial instrument called *BOGR*: build, operate, guarantee human rights and structural reforms, and reduce the debt. This proposal presents an interesting financial architecture in order to channel potentially growing resources dedicated to sustainable projects in developing countries. Three interesting elements of *BOGR* re the following: (i) the commitment by developed countries to set aside funds “*a fondo perduto*”, from capital and/or interest reduction, starting up a new *BOGR* scheme of financial support from financial institutions; (ii) involving developing countries “to
agree on a moral covenant, a performance bond on civil rights”, in order to have access to this funding mechanism; and (iii) making available its own know how to the banking system in order to contribute to set up a new mechanism. The establishment of such a system goes beyond the PISA Programme, since this will have to be an initiative that involves bankers in both developed and developing countries, and will most likely involve development banks and commercial banks, as well as Finance Ministries in both developed and developing countries. Thus, it will take time to be set up, since this will involve the main stakeholders working in this process to develop the necessary consensus for its implementation.

With this objective in mind, the PISA Programme can support meetings and dialogue among bankers, policy-makers and stakeholders of agroindustrial development in order to explore this and other possible options that could lead to the establishment of innovative funding mechanisms, aimed at the development of a sustainable funding strategy for the support of agroindustrial projects. The experience of the Regional Development Banks (i.e. ADB, IDB, etc.) will also be taken into consideration. (Programme on Innovation and Agroindustrial Development/Programme sull’Innovazione e lo Sviluppo Agroindustriale (PISA): Poverty Reduction and Sustainable Development. GFAR Document, February 2002).
Annex 2

Planeta Valle: Mobilizing Stakeholders and Establishing Partnerships for Poverty Eradication and Sustainable Human Development

At the dawn of the 21st century we confront great opportunities and at the same time daunting challenges. On the one hand, the scientific and technological progress that we are witnessing in the molecular biology revolution, in information and communication technology, in new materials and in other areas of science, is generating new opportunities for achieving greater welfare for the population and is increasing our capacity to solve the problems that the world confronts. At the same time, we are confronting a persistent problem of high rural poverty that has remained at a very high level in the last decade, and has tended to further deteriorate in recent years. Rural poverty is generating a rural to urban migration, thus generating an equally serious problem of the urban poor, many of which come from the rural sector, expelled by the lack of opportunities in the latter. In the case of Colombia this process is also aggravated by the “desplazados”, who migrate because of social unrest and civil strife in the countryside. Rural poverty is also closely linked to the increasingly serious environmental deterioration that characterizes many developing countries, compromising the possibility of a sustainable development and of their future welfare. Unemployment, poverty and lack of opportunities create living conditions that generate deep social conflict and one of the worst problems of our time, which is that of terrorism. These conditions do not only threaten the sustainability of the development efforts, but they also weaken the basic social fiber of society, diminishing consensus on basic human values and decreasing the capacity to assure sustainable rural and urban livelihoods.

The region of the Valle del Cauca in Colombia is going through such a process. This region is facing a high level of unemployment that is leading to a significant increase of rural and urban poverty, an increasing problem of food security despite having previously been self-sufficient in basic foodstuffs, a sharp increase in social unrest and social conflict, and serious environmental deterioration in terms of sustainable agricultural production, water depletion and soil erosion. Despite the fact that the Pacific coast of this region is one of the geographical areas with the richest biodiversity concentration in the world, this region is now facing a high level of deterioration of its natural resource base.

At the same time, development efforts by the national government are having only a limited impact and are not being able to effectively reach the people and respond to the magnitude of the problems that are being faced. From recent experiences two important lessons are emerging. The first one is that complex problems such as those of rural poverty and of food security are no longer a problem that increased food production can resolve. Agricultural research, improved production technologies and rural development policies cannot solve these problems on their own. Given the nature of these complex problems, they require the development of inter-sectorial strategies to be able to confront them, that combine increased agricultural production, higher value added, employment generation, improved education and health services, a sustainable natural resource management and improved governance and community organization based on participatory social processes. The integration of inter-sectorial strategies can better be done at the regional level and at the community level. Two important dimensions play an important role at this level: the territory (territorial dimension) and the local government and local social organization (community organizations). The convergence of these two dimensions provides a context within which it is easier to articulate inter-sectorial strategies than at the national level, provided that their governance capacity is improved. A second very important consideration that emerges from recent experiences is the need to mobilize the various stakeholders that intervene in this process (government, the private sector, farmers, NGOs, community leaders, the academic and research community), and to develop a consensus among them on the basis of a Shared Vision of the society they wish to construct, and of a common perception of the strategic challenges and opportunities they confront. On the basis of these two factors, concerted action and partnerships among stakeholders in strategic development programmes can increase the possibilities of success.

It is within this context that the Planeta Valle Initiative has been launched. This is a very special undertaking based on a public/private sector strategic alliance that has taken about two years to put together. It is a Regional Development Entity that is being established as a joint collaboration between the local (provincial)
Government, the private sector (coordinated by the Chamber of Commerce of Cali), the academic and research community spearheaded by a major University (University del Valle) and by CIAT, NGOs and other community organizations. It is truly an *inter-stakeholder undertaking* based on partnerships among them and on very strong grass-roots participation. Core budget funding is coming from the local government and from the private sector based on a formal commitment between the two; funding for the programs that will be developed is coming from a variety of sources, including both national and external funds. This initiative is aimed at developing, in the Valle del Cauca region, an integrated inter-sectorial strategy for addressing the challenges of poverty eradication, food security, sustainable development and competitive insertion in the globalized world of today. But in doing so, it seeks to mobilize all the stakeholders around a Shared Vision and around a set of strategic issues and action proposals, that have been identified as either obstacles or opportunities for the development of the region.

The programmes and activities of the Planeta Valle Initiative are being carried out at two levels. The first one is that of strategic thinking and consensus-building aimed at identifying key development challenges and opportunities the region confronts, that can lead to concrete action proposals and investment requirements that have to be addressed. The second level is constituted by the concrete development and/or investment projects that are generated to address the needs and requirements identified in the first level of analysis. It is this second level that makes this Regional Development Entity an operational one. Building on the fact that the economy of the region has a strong agricultural basis, Planeta Valle seeks to mobilize and bring together the key actors in agricultural development, in industry (including agro-industry), in education, in health, in transportation, in natural resource management and in other aspects of regional development.

The Planeta Valle Agenda is being developed through several modules, four of which will be described in this brief summary. The first module has to do with strengthening strategic thinking and prospective analysis in the region. This module plays a key role in the development of the Planeta Valle Agenda, since the latter is derived from this type of analysis and from efforts aimed at developing a consensus as well as “concerted action” among stakeholders in the region. Planeta Valle has already carried out a series of regional workshops and seminars with a strong participation from a broad range of stakeholders, with the purpose of advancing this strategic thinking exercise in the region. From these seminars, as well as from the follow-up actions that will be carried out in the near future, three products are being envisaged: (1) a Shared Vision of the type of society stakeholders wish to construct in the region and the characteristics it should have; (2) the identification of a set of strategic problems or challenges that have to be addressed, in order to respond to both the opportunities and challenges the region confronts; and (3) an emerging Planeta Valle Agenda that can help to articulate the concerted efforts of stakeholders in the development of the region. The first product, the Shared Vision, has already been achieved. In order to achieve this Vision, three critical challenges have been identified that provide three broad strategic objectives for this initiative: (a) generate employment through an increased sustainable production based on a competitive insertion in the national and international markets; (b) improve security in the region, by developing sustainable rural and urban livelihoods that can lead to a higher social consensus and to the strengthening of the basic social fibre of society; and (c) assure good governance by strengthening social participation, improving local public administration and combating corruption and inefficiency. All the action proposals that are described in the next three modules are all related to one of these strategic objectives or to a combination of them.

The next steps in the development of this initiative will be to operationalize these strategic objectives into concrete action proposals, as well as development and investment projects, that can constitute the Planeta Valle Agenda. The regional seminars that have been carried out have produced valuable information and recommendations that can provide inputs into this process, but further work will have to be carried out in order to develop a feasible agenda. In this respect, it is not only a question of developing a coherent view and a set of proposals for action. It is much more complex than this. The challenge here will be to develop consensus among stakeholders on these ideas and action proposals, in order to develop a commitment of the various stakeholders to the objectives and the activities that are being proposed. This requires providing opportunities and fora for debate and reflection among stakeholders in order to socialize (internalize) the knowledge and ideas that are being generated, and to develop “shared collective perceptions” on key

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9 The contribution from the private sector is being mobilized through the Chamber of Commerce of Cali (“Cámara de Comercio de Cali”) and through contributions from various enterprises.
strategic issues. Secondly, the challenge also requires the mobilization of stakeholder efforts around those shared ideas and action proposals, thus converting them into viable actions and specific development projects, such as those that are described in the next three modules.

A second module is aimed at the development of rural-based agroindustries that can add value and generate employment in the rural sector, and that can thus contribute to the objectives of eradicating rural poverty and achieving food security through a sustainable development effort. The competitive insertion of these agroindustries in both the national and the international markets is of great importance. This module has two important components. The first one is aimed at identifying opportunities for agro-industrial development in the region on the basis of the current agricultural production as well as on the identification of new products that could be introduced through the agricultural diversification program, placing a special emphasis on the identification of underutilized and orphan crops that can have a market value, either in the national or the international market. This may require both further agricultural research to achieve this objective (including post-harvest technology and processing), or it may basically consist in a problem of getting the existing technology into the hands of the farmer. In either case emphasis is being placed on participatory research approaches to assure an increased interaction between research and extension. The second component is related to the formulation and implementation of specific agro-industrial development projects in the region. The agro-industrial projects that are being formulated within the Planeta Valle Agenda have two important characteristics. The first one is that they are based on the development of “rural innovation systems” in the particular crop/commodity that is chosen, following a commodity-chain (“filière”) approach. This implies the articulation of innovation networks that bring together technological research centers, farmers’ organizations, NGOs/Community organizations, and development agents active in the region. These innovation systems seek to include modern scientific knowledge as well as local empirical knowledge (or “local wisdom”). Here the “Centro de Productividad del Pacifico”, that seeks to promote innovation and competitiveness in the productive sector of the region, can play a key role. The second characteristic is that the community and the farmers are deeply involved in the design and development of these agro-industrial projects. Thus these projects have a strong component of strengthening social organization and participatory mechanisms at the community level in order to make sure that the benefits reach the small producer, and that the development of this agro-industry is strongly based on the development of small and medium-sized enterprises (SMEs) that are close to the producers (i.e. rural SMEs). These projects thus seek to contribute to the strengthening of the social fiber of the regional society through the strengthening of these community social organizations and their related participatory mechanisms (i.e. cooperatives, etc.). Two specific agro-industrial projects are ready, and they have been presented for funding to Italy: the “Uva Isabella Project” and the “Mora Project”. Documents with the detailed description of these projects are available. Other crops/commodities are being analyzed in order to identify opportunities for their development.

This second module will participate actively in one of the Global Partnership Programs (GPPs) that the Global Forum on Agricultural Research (GFAR) is sponsoring, which is that of the Global Network on Rural Innovation and Rural SMEs that is coordinated by the International Pole on Rural Innovation (IPRI) in the IAO in Firenze (Italy). Through these GFAR global networks the Planeta Valle initiatives will seek to interact with similar experiences that are being developed by stakeholders around the world, in order to learn from their experiences and to identify “best practices” that could be useful to the projects that are being developed locally. Through this interaction with other stakeholders around the world it is hoped that “learning networks” can be developed in terms of what works and what doesn’t, and why. Repeating the same mistakes again can be avoided, as well as contributing to the accumulation of knowledge on key issues for the development of the region. One of the most interesting aspects that GFAR networks contribute is that they allow local projects at the municipio (community) level to take advantage of the fact that they are operating in a globalized world, where it is possible to have access to information and knowledge resources generated by stakeholders around the world. This possibility of inter-stakeholder interaction at the global level has an important value added for stakeholders that act locally, since this allows them to tap knowledge systems that are based on stakeholder experiences around the world.

A third module is aimed at strengthening the capacity for sustainable natural resource management (NRM) at the community level. In order to do so, this module concentrates on two specific issues. The first one is that of strengthening the capacity to monitor the deterioration of key natural resources through the use of modern technologies, such as GIS and other techniques. This will be developed through a combined effort
between the University del Valle, CORPOICA, CIAT, the IAO of Firenze (Italy), regional NRM agencies such as CVC and the local governments of the participating communities (municipios). The second issue, which will be addressed only in a few selected cases, will be that of conflict-resolution among stakeholders in the management and use of specific natural resources (i.e. water, forest resources, etc.). One of the main issues that will be addressed here is that of the sustainability of agricultural production systems in the region, and how to introduce more agroecologically sound production practices. On this particular topic CIPAV, a local NGO that forms part of an international network of research groups that work on these topics, will play an important role. Given the importance of sugar cane production in the region, this topic of sustainable agricultural production is of central concern. This third module will participate actively in two of the Global Partnership Programmes (GPPs) that GFAR is sponsoring: one on Conservation Tillage (DMC) and the other one on Promoting Local Innovation (PROLINNOVA) in NRM. There is a third GPP that will be followed with interest to see what can be learned from it, which is that of Appropriate Technologies for Tropical Ecosystems, that FORAGRO and GFAR are sponsoring. The same considerations made in the previous module apply here with respect to the role the GFAR networks can play in allowing local projects to profit from the experience accumulated by stakeholders elsewhere.

A fourth module is aimed at strengthening the management of genetic resources in the region, a problem of great importance given the rich biodiversity this region has. The emphasis here is placed on both conservation of genetic resources, as well as their sustainable utilization. CIAT, CORPOICA and other institutions play a major role in matters related to ex-situ conservation. The initiatives or projects promoted by Planeta Valle will concentrate more on in-situ conservation, and on the role of farmers as well as of communities in this process. In this topic, a close interaction will take place with the programs that are being carried out in the wider region of the “Chocó Biogeográfico”. In terms of sustainable utilization of genetic resources, this leads to a very close interaction with the previous two modules (NRM and commodity chains and agro-industrial development). The activities that Planeta Valle will sponsor in this area will seek to develop a close interaction with the regional/sub-regional genetic resources networks that currently exist, with IPGRI and with the endeavors aimed at implementing the Leipzig Plan of Action.

In this brief summary emphasis has been placed on those modules that are more relevant for the Cooperation Program that is currently being discussed in Italy. But Planeta Valle also has three other modules: the first one is related to improving education and training in the different levels of the educational system (education and human resources development having been identified as one of the main challenges the region faces); the second one relates to improving governance and public administration at the regional and local levels, in order to increase efficiency and decrease corruption; the third one is related to promoting innovation in industrial development projects, such as in the software industry and others that may play an important role in the development of the Valle del Cauca region. There is also a cross-cutting topic/issue that cuts across all modules, which is that of the development of a greater capacity of social consensus and conviviality (“convivencia”) in a society characterized by a very high level of social unrest and social conflict. This is one of the main challenges the region confronts, which is that of how to contribute to the recovery of Social Peace through the strengthening of the social fiber of a society that has been under stress by recent events, in order to generate a new Social Pact. This major objective cuts across all the four modules that have been described above, since the conditions for the emergence of this new social pact can only be assured through the development of sustainable rural and urban livelihoods that the above mentioned efforts can generate.

From the point of view of the institutional context in which this initiative is taking place, it is interesting to point out the importance of the strategic alliance between the “region”, represented by the provincial Government and the territorial dimension it covers (the “territory”), and the Chamber of Commerce of a major metropolitan center of that region, which in this case is the Chamber of Commerce of Cali, that has the capacity of mobilizing the private sector. But at the same time, the institutional context that emerges is one that is participatory and that seeks to develop through partnerships among stakeholders, and that thus clearly integrates academia and the research community, the NGOs, farmers’ organizations and various forms of community organizations. Most of the actions that are carried out within this strategy are really at the local community (“municipio”) level, but they form part of a concerted strategy that is conceived at the regional level, here defined by the region of the Departamento del Valle del Cauca.
This local regional dimension is complemented by an awareness that we live in a *globalized world* based on a *knowledge economy*, where access to knowledge is critical if we want to avoid the dangers of the *knowledge divide* that is distinguishing between those with the capacity to access the knowledge they need and those that do not have it. Thus, the local activities that Planeta Valle will sponsor will be inserted into global networks through the Global Forum on Agricultural Research (GFAR) and other similar undertakings. Through these networks local stakeholders will be able to tap the knowledge and experiences developed by stakeholders elsewhere, while seeking to contribute to the knowledge pools that these networks generate.
Annex 3

INTERFACE, Sénégal


INTERFACE, entend trouver des solutions aux contraintes rencontrées par les PME-PMI au niveau des différentes filières, notamment en ce qui concerne l’accès à l’information, aux ressources financières, aux marchés, à la recherche, et à la technologie.

La faim, la malnutrition, l’insécurité alimentaire, la pauvreté, l’exode rural, le chômage engendrent bien des maux qui ont pour noms : banditisme, criminalité, conflits armés, terrorisme… C’est pourquoi, il est urgent de mettre en œuvre un véritable plan de développement des entreprises agro-industrielles en Afrique pour développer des pôles économiques à l’intérieur de chaque pays pour limiter l’exode rural et l’émigration, par une approche filière qui prenne en compte la PME-PMI quel que soit son niveau d’intervention. Dans la réalité, la plupart des sièges de ces entreprises gravitent autour des villes car toutes les activités y sont concentrés, même si l’essentiel de leurs activités proviennent de la zone rurale.

INTERFACE, va déployer beaucoup d’effort pour permettre aux PME-PMI de ne pas rester, en marge du progrès et de bénéficier des avancées de la science et de ses applications industrielles pour valoriser nos ressources locales, en dépassant le cadre de la sécurité alimentaire et en améliorant la nutrition et le bien-être social des populations africaines dans une perspective de lutte contre la pauvreté.

La mission d’INTERFACE est d’améliorer la compétitivité des entreprises par la valorisation des ressources locales, source de création d’emplois et d’augmentation de richesses en Afrique.

Le réseau peut, en outre, émettre des vœux et faire des suggestions auprès des pouvoirs publics sur toutes les mesures économiques, financières, législatives et administratives, intéressant le secteur de l’agrobusiness. Il peut participer de façon générale, à la conception et au suivi évaluation des programmes de développement ainsi qu’aux négociations concernant les réglementations internationales.

Suite à une étude réalisée sur « L’Identification des acteurs et la stratégie de développement du réseau » INTERFACE s’est fixé, pour réaliser la mission retenue, en tenant compte de la préoccupation des entrepreneurs de l’agrobusiness, quatre objectifs :

1. Promouvoir l’existence d’un environnement des affaires favorable au développement de l’entrepreneuriat national, régional et panafricain
2. Jouer un rôle d’agence d’exécution de programmes de développement des petites et moyennes entreprises, tout en tenant compte des organisations de micro entreprises qui constituent des pépinières d’entreprises à encadrer ainsi que des grandes entreprises, partenaires potentiels
3. Favoriser les transactions entre ses membres, et renforcer les entreprises de l’agroalimentaire en développant leurs capacités managériales et institutionnelles
4. Promouvoir des projets d’entreprises visant à résoudre des problèmes d’insécurité alimentaire, de malnutrition, de santé publique en assurant une meilleure gestion de l’environnement.

Ces objectifs ont été déclinés sous forme de programmes :
- Programme n° 1 : Information– Communication
- Programme n° 2 : Plaidoyer et Négociation
- Programme n° 3 : Formation, Assistance Technique et Conseils, Recherche
- Programme n° 4 : Projets d’intégration régionale
- Programme n° 5 : Promouvoir le développement des exportations

Il n’en demeure pas moins que pour relever ces défis, il faut régler définitivement en Afrique Subsaharienne le problème de l’accès aux ressources financières qui constitue l’un des principaux goulots d’étranglements au développement de l’agrobusiness. INTERFACE s’est penché sur cette question cruciale lors de la tenue d’un atelier régional sur la « Stratégie de développement du secteur agroalimentaire des pays de l’Afrique de...
l’Ouest – Renforcement Institutionnel du Réseau Interface » Dakar (Sénégal), 24-26 novembre 1999. La contribution du représentant de la Banque Centrale (BCEAO) a porté sur le « Financement de l’économie, dispositif adapté au financement des PME. L’examen des crédits alloués en 1998 par le secteur bancaire révèle que 41 % des crédits ont concerné le secteur de la commercialisation, y compris celle des produits agricoles, contre 6% seulement des crédits qui ont concerné le secteur agricole, et 7 % pour les industries manufacturières. Les 36 % restant concernent les services divers (19%) et les autres secteurs (transports, communications, travaux publics…) pour 17 %. Malgré une légère tendance à la hausse des crédits surtout dans le domaine des investissements productifs, il faudrait néanmoins mobiliser davantage de ressources à long terme. La BCEAO reconnaît que les ressources collectées actuellement sont essentiellement à cours terme… et elle a pris des mesures pour favoriser un financement adéquat pour diversifier l’économie et elle suggère la mise en place et la structuration des fonds spécifiques en vue d’un dispositif spécifique de financement de la PME à travers le fonds à l’intégration régionale.
Les réactions des entrepreneurs ont été très vives car ils doutent de la capacité de la BCEAO à satisfaire leur demande d’accès à un crédit à long terme vue le contexte de libéralisation dans lequel évoluent les banques commerciales, les banques de développement n’existant plus dans notre environnement. Les banques commerciales ne veulent prendre aucun risque avec les PME et tout particulièrement avec celles qui évoluent dans le domaine de l’agroalimentaire. L’expérience montre que beaucoup de lignes de crédit négocié à des taux intéressants pour stimuler le développement du secteur, sont proposés par les banques à des taux prohibitifs. Si bien que ces lignes de crédit restent logées dans les banques à leur profit… puisque ces ressources génèrent des intérêts…
Compte tenu de cette situation, INTERFACE souhaiterait mettre en place une institution financière dans le cadre d’un complexe régional de l’agroalimentaire, avec l’appui du projet PISA pour relever les défis du développement avec une nouvelle génération d’hommes et de femmes décidés à prendre en mains leurs propres destinées et l’avenir de l’Afrique dans la recherche d’opportunités, d’innovations, de créativité et de partenariat.

Gisèle Lopès D’Almeida
Annex 4

Linking Farmers to Markets: The basis for a global post-harvest initiative

A co-ordinated approach proposed by The Global Postharvest Forum* (*ACIAR, CIRAD, FAO, GTZ, NRI, NZ Crop and Food Research, JIRCAS CIAT, CIP, IFPRI, IITA and IRRI)

**Summary**

The challenges posed by globalisation are particularly acute for developing countries, where small-scale producers, processors and traders face increasing competition and market volatility. Many have gone from ‘not enough’ production to ‘too much’ production, while they are still affected by serious post-harvest losses from pests and diseases, and limited options for marketing and value adding. The challenges are also faced by governments and support institutions, which may need to make fundamental changes in policies, strategies, human resource skills, and organisational linkages. To meet the challenges and capitalise on globalisation to achieve their developmental goals, governments and society need an action plan, that can clearly define and enable ways for reducing post-harvest losses and improving marketability and profitability of agribusiness systems. Members* of PhAction, the Global Postharvest Forum are facilitating such an action plan, “Linking Farmers to Markets”, with the aim of improving the ability of the agri-produce sector in developing country economies to contribute to the economy. This document describes in detail the rationale for the initiative and the details that have resulted from the planning meetings and consultations undertaken to date.

**Goal of the initiative:**

To contribute to improved livelihoods, food security and sustainable development in developing countries through the execution of dynamic post-harvest interventions that equitably link smallholder farmers to growth markets. It is envisaged that in the longer term, the initiative will develop into a global programme for post-harvest development.

Through consultations during 2001, PhAction defined four major areas within the post-harvest field where collaborative research and development can deliver positive outcomes to smallholders and small rural agri-enterprises in developing countries from the changes now occurring in the agri-produce sector:

- **Improve the identification and assessment of market opportunities.** Become more competitive in a market-oriented environment and able to make sound business decisions in identifying, assessing and developing market opportunities for agri-produce (but not at the expense of environmental or social sustainability).
- **Improve market access.** Link with agri-produce supply chains that go beyond the local economy, under terms that are equitable as well as competitive, supported by affordable, sustainable and effective local business development services.
- **Foster technology innovation.** Become more innovative in accessing, developing and applying appropriate post-harvest technologies to produce the products demanded by the market.
- **Enhance product quality.** Consistently meet regulatory standards and consumer demands for high quality, safe food products in their target markets (with corresponding implications at policy level).

**Introduction**

The world is becoming increasingly integrated. Material goods, money, information and ideas move in larger volumes, faster and more frequently than in the past. While this is partially due to advances in logistics and information technologies, it is also a consequence of policies that have fostered the extension of “global market opportunities” to areas of national economies that were previously unaffected. This is especially true of the agricultural sector of remote regions and developing economies. The way this sector develops has a large impact on the ability of these countries to achieve major policy goals such as poverty alleviation, food security and enhanced environmental sustainability. Agriculture often remains the largest sector of the

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10 This paper summarises two meetings, held under the PhAction banner, to elaborate an initiative to link farmers to markets in the developing world. The text was assembled for PhAction by Mr Chris Wheatley.
economy with a majority of the population living in rural communities. As many countries attain self-sufficiency, the production (supply-driven) focus of agriculture can change towards a market-driven “agri-produce” orientation, and the impact of the transformation on people, economies and the natural environment, is (and will continue to be) profound.

Clear trends associated with the increasing complexity of the agri-produce sector are: declining real prices for basic agricultural commodities, increasing value adding, through off-farm processing and marketing (Rosenrant et al., 2001), and a decline in the portion of the consumer dollar that reaches the farmer. Increases in productivity can fail to compensate farmers for falls in unit price, even in developed countries. For developing countries, post-harvest processing and marketing activities, that retain a proportion of the value added in the rural areas, offer scope for improving community sustainability. Several options exist for developing economies to:

- Identify and sustainably produce and market higher value crops/livestock/fishery and forest products, especially those where scale economies are less pronounced,
- add value to primary production through rural processing, packaging, branding and other marketing arrangements,
- associate with other farmers to reduce scale disadvantages and gain market power
- seek to differentiate away from “commodities” towards “products” targeted at higher value market segments, that encourage more sustainable production systems (e.g. alternative, ethical and organic markets).
- develop long-term equitable relationships with agri-produce enterprises closer to the end customer (larger processors, retailers etc).

In developing countries, for smallholders and rural service providers to build on these options, they must consider difficult and different types of decisions. Decisions will be based on new styles and sources of information (e.g. market demands) and require a better harnessing of skills, technologies, resources and community resolve than that required for less competitive production environments.

Thus, while the globalisation offers opportunities, as well as threats, to the small-scale, resource poor farmer, realisation of these opportunities will generally not occur by default. The global community has a responsibility to ensure that the rural poor in developing countries are not disadvantaged by greater economic integration. Improved delivery of benefits to the rural community will come from R&D assistance that:

- works closely and participatively with the different stakeholders in supply chains, including the private sector and NGOs, to improve decision making and build on concrete opportunities, develops methods and tools to assist farmers, and farmer groups, in making the new and difficult decisions and fosters a more demand-driven, production to consumption chain and systems approach, covering the post-harvest and marketing sectors, as well as production (i.e. from “Agriculture” to “Agri-produce”).

The institutions involved in PhAction, The Global Post-harvest Forum, are concerned that attention to an integrated approach to globalisation, and improving delivery of benefits from rural production systems, is inadequate at present, and that the imbalance in attention to production over postproduction and marketing may impede the full realisation of benefits by rural communities.

The term “post-harvest” is often used to describe those on-farm activities occurring immediately after harvest, such as crop grading, drying and packaging. Under the new market oriented agri-produce systems, ‘post-harvest’ is a more open ended term, referring to all stages in the chain that occur after harvest of the agricultural goods, including secondary processing, marketing and distribution into urban areas. This ‘paddy to bowl” definition of ‘post-harvest’ increases the complexity of the topic, and places it firmly in the context of globalisation and trade, urbanization, and social change. It thus involves a wide range of actors in the production-consumption continuum. Especially, it opens up the prospects for dialogue and joint action with the food industry in both local and export markets (GASGA, 1999, PhAction 2000).

The challenges posed by globalisation are particularly acute for developing countries, where small-scale producers, processors and traders face increasing competition and market volatility. The challenges are also faced by governments and support institutions, which may need to make fundamental changes in policies, strategies, human resource skills, and organisational linkages. PhAction members are jointly concerned with initiatives to foster the efficient, equitable and sustainable development of the post-harvest components of agri-produce systems, in order to assist governments and societies in reaching their developmental goals.

Given the changes that this sector is undergoing, PhAction is facilitating the conceptualisation and design of a programme initiative on “Linking Farmers to Markets”, with the aim of improving the ability of the agri-produce sector in developing country economies to contribute to development. During 2001 the initiative was developed into a coherent programme built around four key themes. This document describes in detail...
the rationale for the initiative and the details that have resulted from the planning meetings and consultations undertaken to date.

How “Linking Farmers to Markets” contributes to development

Three major developmental goals are commonly recognised: food security, poverty alleviation and sustainable development. The concept of improved livelihoods is relevant to each of these, and provides a linkage between them: ensuring that the rural poor have access to a number of sustainable livelihood options will reduce food insecurity and poverty, as well as ensuring that economic development proceeds without detriment to the natural environment.

To reach society’s developmental goals, it is important to understand how the poor can make the most of the opportunities that globalisation brings: what crops, products, markets, technologies, quality assurance systems, policies, institutions and organisational arrangement are most appropriate.

To ensure sustainability, changes in the agri-produce sector need to be economically and commercially successful, socially equitable and compatible with the preservation (or restoration) of the natural resource base upon which future generations depend.

The post-harvest components of agri-produce systems, as conduits for products, information and opportunities flowing in both directions between markets and farmers, have a key role in shaping the impact that agricultural production has on the natural environment and local communities.

Meeting these complex challenges requires co-ordination across disciplines and institutions and, a pooling of resources, expertise and insights in pursuit of a common vision.

Increasing integration of the rural population in developing countries with non-local markets will have major impacts on incomes, food security and the environment. And, integration with global markets will also have critical impacts on policy and governance Impacts may be positive or negative, depending on the way in which integration is managed, and the decisions that the different actors take. Possible impacts of increasing market linkages on food security, poverty alleviation, sustainable development and good governance are shown in Table 1.

Table 1. Possible impacts of increased market linkages on food security, poverty alleviation, sustainable development, policy and governance.

<table>
<thead>
<tr>
<th>Positive impacts</th>
<th>Negative impacts</th>
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<tbody>
<tr>
<td><strong>Food security</strong></td>
<td></td>
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<tr>
<td>Market for surplus production of traditional staples</td>
<td>Switch from food to cash crops increases risk and food insecurity</td>
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<tr>
<td>Improved storage of fresh produce, reduced wastes and losses</td>
<td>Volatile prices for staples</td>
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<tr>
<td>Increased food entitlements</td>
<td>Health problems associated with overeating and dietary imbalances.</td>
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<tr>
<td>Reduced cost of imported basic foodstuffs</td>
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<td>Improved health and nutrition</td>
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<tr>
<th><strong>Poverty alleviation</strong></th>
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<tr>
<td>Increased income from higher value crops and added value post-harvest activities</td>
<td>Concentration of land holdings and productive resources</td>
</tr>
<tr>
<td>Employment generation in larger rural enterprises</td>
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<tr>
<th><strong>Sustainable development</strong></th>
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<tbody>
<tr>
<td>Market-based incentives for sustainable use of natural resources.</td>
<td>Reduced crop biodiversity</td>
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<tr>
<td>Market-based incentives for clean production technologies, and recycling of wastes/by-products</td>
<td>More intensive production systems, more use of external inputs</td>
</tr>
<tr>
<td>Market based incentives for applying food quality and safety standards</td>
<td>Increased pollution from post-harvest processes</td>
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<th><strong>Policy and governance</strong></th>
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<tr>
<td>Additional options for tax revenue</td>
<td>Reduced viability of ’protected’ industries</td>
</tr>
<tr>
<td>Enhanced consumer demand</td>
<td>Short-term drop in government revenues</td>
</tr>
<tr>
<td>Diversification of employment for women</td>
<td>Collapse of regional industries</td>
</tr>
<tr>
<td>Enhancement of rural stability</td>
<td></td>
</tr>
<tr>
<td>Improvements in marketing arrangements and infrastructure</td>
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</table>
Linking resource poor farmers to markets may produce positive or negative development outcomes: this will depend on the type of markets, the nature of the linkages and the actors that are involved. Under one scenario, where farmers are linked to bulk commodity traders in a vertically integrated, export market, the end result might be a rapid increase in farm size as scale economies become necessary to compete, and small farms are no longer viable. This would result in increased food insecurity and reduced incomes for many rural people, even if food production per se increased. Alternatively, smallholders producing for niche markets may be able to increase the diversity of their production systems, as well as improve their income and food security, from post-harvest value-adding and making new market linkages. Thus, the developmental outcomes may depend on the capability for decision making of the different actors as to what crops to grow and markets to enter, and the types of linkages that are created.

The PhAction initiative is designed to assist the development of linkages between smallholders and the wider agri-produce sector in ways that maximise the positive outcomes from economic integration. Post-harvest research and development can make a difference in determining whether globalisation will deliver more positive than negative outcomes for the rural poor, and there is clear evidence that positive outcomes can be achieved. Goletti and Wolff (1998) cite numerous examples of positive developmental impact from post-harvest R&D with high rates of return on the research investment, e.g.

Improved pest control methods for grain storage in the humid tropics (ACIAR, Philippines and Malaysia), with an internal rate of return of 43% on the research investment and a net present value of US$ 5.7 million. Control of the larger grain borer in Africa, where the economic benefits in just two countries (Tanzania and Ghana) showed a benefit-cost ratio of four on the research spending of DFID, and a biological control programme producing an internal rate of return of 68% over 20 years (GTZ), not including benefits from reduced environmental pollution from less chemical use.

Improved storage and handling of tropical fruit: six ACIAR projects in SE Asia produced internal rates of return of between 21 and 48%, increasing over time as benefits accumulate.

Introduction of cassava drying in Colombia (CIAT) where over 100 small farmer co-operatives initiated processing of cassava for the animal feed market, reaching a total production volume of 35,000 tonnes of cassava chips in 1994. This generated over US $22 million in additional income (compared to a total project cost of US $1.2 million), of which 69% went to small farmers (through higher fresh root prices), 10% to processors (who are also cassava farmers) and the remainder to consumers. More recent research (Gottret and Raymond, 1999) also showed that the project has directly and indirectly reduced levels of poverty in these cassava-producing communities on the Atlantic coast region of Colombia, and provided an incentive for the adoption of new, higher yielding cassava varieties.

In Vietnam, the growth of the cassava starch industry has been studied by IFPRI, CIAT and PHTI. This growth has resulted in increased rural employment and income: the 20,000 households involved in starch processing have per capita incomes 80% above the average for rural Vietnam, and are linked to markets where domestic demand is growing at 10% annually and export potential is developing fast.

Policy changes in Vietnamese agriculture have stimulated rice exports since 1989, making the country the world’s second largest rice exporter. The policy research undertaken by IFPRI assisted the Vietnamese government in making the rice sector more market oriented. The benefit-cost ratio of this research was 56, considering Vietnam only, and 91 considering benefits to the rest of the world.

Novel organisational arrangements linking small farmers with larger markets (e.g. contract agriculture) can produce quantifiable benefits: In Africa, small farm incomes were found to increase between 10-15% and 100%, and is especially high for crops whose production requires intensive use of skilled labour.

The external environment

A number of macro-economic trends have been alluded to already, especially trade liberalisation, globalisation and tariff reduction that are resulting in an increasingly integrated and connected global economy. These all impinge on the agri-produce sector although subsidies and tariffs are still more common than in other sectors. Other major trends are:

Continued global population growth and urbanisation: over 50% of global population is now urban. Urban incomes are increasing faster than rural incomes.

However, extreme poverty is still largely rural: 75% of the 1.2 billion people in extreme poverty in the world today are rural (The Economist, 7 March 2001).
Continued per capita income increases and busy urban lifestyles (especially for women) are driving increased consumer demand for a more diversified diet, for processed and convenience foods and for animal products.

A plateauing of productivity increases in irrigated regions with more scope for improvement in rain-fed regions of high production potential.

A reduced role for the public sector in delivery of services, combined with decentralization policies that increase scope for local initiatives involving both public and private sector along with civil society groups.

Advances in information and communications technologies that increase the speed and volume (and reduce the cost) of information flows.

Continuing improvements in roads and utility services.

Additionally, there are some specific trends within the global agri-produce system that need to be taken into account in any future development strategies, namely:

- While most common in industrialized countries, competition in the marketplace, is also being reduced in the developing world through: contract agriculture and the concentration and vertical integration in the food industry, with chain power shifting from manufacturers to retailers e.g.:
- Vertical integration of international supply chains for tropical and off-season produce and products, captained by major retailers in the OECD and,
- Supply chains being developed by supermarkets in developing countries, and which increasingly involve contract agriculture, especially in Latin America and S.E. Asia.
- Consumer concern for environmental sustainability, food quality and safety and a desire for natural foods increase the scope for differentiated, value added products in niche markets, most noticeably in OECD countries, but also in major urban markets of Latin America and S.E. Asia.
- The opportunities and threats of biotechnology, as it impacts on cost competitiveness, product quality, market power (through restricted intellectual property rights ownership) and prospects for niche market segmentation (e.g. both ‘GM-free’ and ‘GM improved’).
- Continued falls in the price of major cereal grains for the next 20 years under the recently released IFPRI baseline scenario (Rosegrant et al., 2001).

Two different combinations of these trends are operating in the global agri-produce system. The opportunities and constraints they produce are quite different.

A production oriented “agribusiness” or “agro-industry” trend, that seeks efficient, low cost commodity production, and competitive advantage based on price leadership. This approach is associated with globalisation, economies of scale, agri-produce industry concentration, vertical integration, contract agriculture and production intensification. In this context, biotechnology is essentially production oriented, focusing on increasing crop yields, decreasing pest losses and reducing production costs.

A “consumer/marketing orientation” trend, in which food safety, nutritive value, quality and adding value are important. This is associated with competitive advantage based on differentiated products and niche/alternative markets (including, but not exclusively comprised of, organics, nutraceuticals, natural products and ethical trade) and (potentially) quality-enhancing and value-adding biotechnology. The approach is being driven by increasingly powerful retailer groups in response to consumer, not regulatory, pressures.

The low cost, competitive approach to agri-produce offers much less potential for small (or large) scale farmers to increase their income by increasing yields. Income gains come instead through farm size increases and greater efficiency in cutting production and post-harvest costs. By encouraging large-scale production and concentration at all levels in the value chain, it offers little scope for poverty reduction in rural communities. Rather, it will provide a push force for urban migration. Efficient developing country producers opting for this approach may be competing in global markets with (sometimes subsidised) commodity producers in North America and Europe. Additionally, such high-input, high-yield mono-crop production systems can be less ecologically sustainable in the longer term.

The consumer/market orientation offers potential for smallholders and rural communities to market higher value crops and food products, but only if they can successfully target and reach niche markets with differentiated products. While some such markets are local, others may be distant both geographically and culturally. Developing these markets requires expertise in post-harvest handling, processing and marketing, which is often beyond most rural small enterprises and communities in the developing world. While, in total,
such markets can be currently small in volume, they offer both high margins (i.e. scope for rural value added) and high market growth rates.

The Linking Farmers to Markets initiative

The goal of the initiative is to contribute to improved livelihoods, food security and sustainable development in developing countries through the execution of dynamic post-harvest interventions that equitably link smallholder farmers to growth markets. It is envisaged that in the longer term, the initiative will develop into a global programme for post-harvest development.

Through a process of consultation during 2001, PhAction has defined four major areas within the post-harvest field where collaborative research and development can deliver positive outcomes from the changes now occurring in the agri-produce sector. Smallholders and small rural agrienterprises in developing countries can benefit from these changes if efforts are made to:

- **Improve the identification and assessment of market opportunities**
  - Become more competitive in a market-oriented environment and able to make sound business decisions in identifying, assessing and developing market opportunities for agri-produce (but not at the expense of environmental or social sustainability).

- **Improve market access**
  - Link with agri-produce supply chains that go beyond the local economy, under terms that are equitable as well as competitive, supported by affordable, sustainable and effective local business development services.

- **Foster technology innovation**
  - Become more innovative in accessing, developing and applying appropriate post-harvest technologies to produce the products demanded by the market.

- **Enhance product quality**
  - Consistently meet regulatory standards and consumer demands for high quality, safe food products in their target markets (with corresponding implications at policy level).

The four areas are interrelated (Figure 1). Identifying realistic opportunities that are sustainable in commercial, social and environmental terms and with potential for becoming more market oriented are a first step. Once opportunities are identified, specific supply chains (market linkages) can be developed, and the necessary services tapped. Within the supply chain, technology is a key factor determining efficiency and competitiveness, as well as environmental sustainability (e.g. recycling of wastes and by products). Technology is also related to food quality/safety standards and compliance with quarantine requirements, as is the integration of the different actors in the supply chain. Both technology and quality themes can be seen as services areas to agrienterprises.
In each of these four areas, the choices made by small enterprises and rural communities can vitally affect local development. Selecting the wrong market, product or crop, making the wrong type of linkage with traders, food processors, exporters or financial services, investing in inappropriate technology and producing poor quality products can all result in commercial failure, or in short term economic gains at the expense of longer term social and environmental sustainability. Making the right decisions is very important for both rural actors and their communities (especially those that are small or remote).

The 'Linking Farmers to Markets' initiative is aimed at ensuring that rural people, enterprises and communities in the developing world have access to information, technologies, methods, tools and community support networks, to help them make the right choices in these complex situations. This document contains a description of the major issues in each theme area around which collaborative R&D projects can be developed. Specific projects developed within each theme areas will build on existing activities of the institutions and organisations involved, with added value derived from the global reach of PhAction, and the capacity to synthesise and analyse diverse experiences across communities, regions, commodity markets and institutional/organisational settings. In these projects, PhAction members will work hand in hand with partners in developing countries, local and international NGOs, the private sector and advanced research institutes. One innovative feature of the partnerships will be an emphasis on bridging the gap between agriculture and enterprise development, especially as regards methodologies for market identification, assessment and development, enterprise and supply chain organisation, and product quality/safety assurance schemes. Outputs from the projects that are developed within these theme areas will be both developmental (e.g. more successful and diverse rural enterprises and livelihoods, stronger support institutions) and research oriented (e.g. decision support tools and methods that are international public goods).

Theme area 1: Identifying, assessing and developing market opportunities
Developing successful linkages between farmers and markets involves requires better decision making about resources, investments and products, value-adding and market destinations. Information from the market is critical to making these decisions, but often this information is not available, or it is poorly used. Farmers,
and the institutions that support them, often are more familiar with choices based on agricultural production criteria alone, rather than on integrating this with assessment of market information and resource requirements. As well, community networks, and their capability for sound decision making, are often underdeveloped. Rural communities will need to be both competitive and resilient if they are to survive the market freedom that comes with trade liberalisation and the restructuring or privatisation of para-statal marketing agencies. Enhancement of capacity to access and analyse market information and resource requirements is therefore vital. Many tools to assist enterprises in market analysis and resource assessment are available, or under development, but have not been systematically evaluated. This theme area seeks to assist both private sector enterprises and their support institutions to make the shift from a production focus to a market orientation, and so facilitate the process of identifying, assessing and developing market opportunities.

**Theme 1 goal:** To enhance agricultural commodity trading in developing countries through improved research and community level assessment of market opportunities, resource requirements and agribusiness competitiveness, leading to sound agribusiness decisions, better market access and more stable stakeholder incomes.

**Theme 1 purpose:** To evaluate, adapt, institutionalise and build capacity for community use of market decision making tools and strategies in the:

- identification and assessment of changing market opportunities and demand,
- evaluation of agri-enterprise feasibility plans and establishment and improvement of benefit flow from market support services.

**Objective 1.1** To evaluate, adapt and offer a range of methodologies for market analysis, resource assessment and improvement of marketing support services, which target policy groups, researchers, extensionists, producers, processors and traders operating in the agricultural sector, by:

- Assessing community structure and decision making processes,
- Developing rapid decision making tools and effective strategies for communities to analyse selected products based on market demand, resource assessment and supply chain efficiency,
- Market oriented research and development of decision making tools and agri-business service activities suitable for policy makers, agricultural researchers, smallholders and processing entrepreneurs and
- Developing rapid decision making tools and community development strategies for business evaluation and investment programmes

**Objective 1.2** Institutionalise best practice marketing tools, information support services and impact assessment to enhance policy and infrastructure development by public and private sector agencies including NARS, NGOs, Ministries of Trade and Investment, and collective marketing groups with activities that

- Build capacity for market analysis, business feasibility evaluation and the formulation of community development strategies through training programmes that foster institutional and policy shifts within agricultural research and development agencies and other parts of government from a production to a market-oriented R & D strategy.

There are a number of marketing tools and community development methodologies already available as well as some projects, which are already evaluating various techniques. This theme area will therefore act as a cohesive mechanism to enhance the targeting and impact of the outputs from a number of teams of researchers and development agencies.

The types of marketing and community development methods that will be evaluated and implemented include:

**Research**
- Methods for rapid analysis of market demand and supply.
- Methods for spatial analysis of market opportunities based on local conditions and market access.

**Community**
- Methods for analysing the feasibility of business plans depending on different levels of investment from clients.
- Methods for assessing, predicting and interpreting the likely impacts from the adoption of technical innovations and market research findings
- Methodologies for encouraging improved decision-making and collective action by communities and institutions.
Methodologies for enhancing market information / market intelligence services. Methodologies for selection and empowerment of partners, methodologies for enhancing benefit flows to women and children.

Policy

- Methods for encouraging institutional and community changes towards greater market orientation and for tackling the challenge of scaling-up of technologies and demand while avoiding market failure.

Some of the dimensions and focus areas for this theme include:

- Client types and networks: private sector farmers/enterprises (individual or in associations), and their support institutions (research and development sector agencies in public and private sectors, and NGOs),
- Market types; local, national, regional, global or niche markets,
- Spatial application zone: enterprise/farm, community, watershed, regional or global,
- Information delivery strategies, policy formulation and appraisal,
- Commodities: staple food crops (grains, roots and tubers); animal products; horticultural produce; high value export crops; niche market crops (medicinals etc),
- Sites: Uganda (ECA region as defined by ASARECA), Mekong region (SE Asia in support of PhAction member target countries), Pacific Island Nations and Papua New Guinea and Latin America (CIAT (Honduras and Nicaragua) and Andean (Colombia, Ecuador, Peru and Bolivia) Regions.

Several PhAction members are already involved in the development and evaluation of specific marketing methods and tools for agrienterprise projects in Africa and Latin America. Regional networks in Africa such as FOODNET/ASARECA are key actors in this theme area, with funds to support projects within this theme area that are relevant to the needs of their clients.

Theme area 2: Enhancing the competitiveness of rural agrienterprises through better integration of supply chains and delivery of effective business support services.

With the increasing concentration and vertical integration of the food industry, the development of long-term relationships within the production-consumption chain is seen as a source of considerable competitive advantage. Integration of smallholder producers and rural enterprises into these “supply chains” is critical for long-term access to markets, especially growth and high value markets. But this integration needs to be equitable, as well as competitive.

Successful enterprises require a range of services. While micro-finance and other financing schemes have solved many of the problems inherent in delivering financial services to the rural poor, non-financial services (termed Business Development Services or BDS) still suffer from a supply-driven ethos, and may offer inappropriate or poor quality services. Privatisation of the public sector has reduced the availability of such services drastically in many countries, especially in remote rural areas. Implementation of more demand-driven mechanisms to improve the delivery of BDS in rural areas are critical. This will require a shift from the supply side mentality of many providers, but also a balanced partnership between private and public sectors, together with other actors in wider civil society.

The two issues of BDS delivery and integration of supply chains are both organisational in nature. This theme area thus focuses on organisation in the agri-produce context, with two objectives under a common purpose:

**Theme 2 goal:** To integrate smallholder farmers and rural agrienterprises, in an equitable and sustainable manner, into value-adding supply chains serving growth markets.

**Objective 2.1:** to identify and evaluate options for organisational structures and relationships between actors, that enhance local innovation and result in greater and more equitably distributed benefits through the supply chain for agri-produce products in growth markets.

Emphasis includes:

- Rural enterprise clusters (groups of locally concentrated small enterprises in one sub-sector and market) where the potential for collective action to develop such supply chains is most likely to exist.
- Equitable and efficient mechanisms for supply chain linkages between small- and large-scale agri-produce enterprises.
- Mainstreaming organic and ethical (alternative) trade markets.
Objective 2.2: to identify and evaluate organisational options for sustainable improvement in content and delivery of business development services to small rural agrienterprises.

Emphasis is placed on:
- Identifying effective demand for services
- Mechanisms for developing markets for services in rural areas (including the informal sector)
- Definition of roles, for the private sector, NGOs, community organisations and the public sector, in service delivery and finance (and possible subsidy), depending on context.
- Schemes for organising services at local level in rural areas.

This theme area attempts to integrate approaches from the small enterprise development field with those of the rural agri-produce development area. PAction recognises that considerable experience is available in Advanced Research Organisations (e.g. on BDS delivery and supply chain organisation) in the small enterprise development field, although often in an urban context. Equally, the private sector, NGOs and the communities themselves have experience in a number of specific cases that can supply lessons learned. The following process is proposed to combine these experiences with those of PAction members and partners:

1. An initial learning process in which PAction members, partners and clients, and relevant agencies from the small enterprise field, can develop a common analytical frameworks. The research products should also be defined at this stage, based on client needs.

2. The specific project components outlined above can then be developed in an integrated fashion in specific locations (case study sites) where PAction members and their partners are working (or planning to work) with communities.

3. The research products and strategies will be tested and validated in other areas.

4. A cross-site component to the project will ensure the overall co-ordination of activities, the development of the common analytical frameworks, and undertaking subsequent analysis of the experiences.

Within this framework, specific projects involving PAction members, NGOs and communities are now under discussion, to build on NGOs R&D activities in supply chain organisation and BDS delivery (e.g. with Traidcraft and ITC):

- BDS support to export horticulture in several countries,
- Agrienterprise clusters and their supply chain linkages,
- Local BDS support systems in Latin America,
- Producer qualification and supply chain organisation in Sri Lanka and Cambodia,
- Supply chain organisation for alternative trade markets in Malawi.

Theme area 3: Developing and disseminating post-harvest technology for rural industries

To meet the challenges and opportunities of globalisation, farmers, processors and traders need appropriate techniques and technologies that will:
- expand their markets,
- enhance their competitiveness and
- add value and improve quality of their products.

Success in these endeavours can boost livelihoods and the long-term sustainability of agri-enterprise in remote rural communities, and deliver positive benefits for the natural environment. However, this depends on:
- efficient uptake of technology that is appropriate for the commodity,
- agri-ecological conditions,
- the production system and the market requirements as well as
- local capacity for manufacture, operation and/or maintenance of the technologies.

While many appropriate technologies exist, they may not be accessible to rural enterprises in developing countries because of lack of information, local manufacturing capability, infrastructure or operational expertise.

Theme 3 Goal: To improve food security and strengthen the competitiveness of small and medium enterprises by improving the development and uptake of innovative post-harvest technologies and techniques for smallholder rural producers.

Objective 3.1. To undertake information and technology needs assessments that will enable the better use of technologies for reducing post-harvest losses and improving the marketability of smallholder rural produce.

Objective 3.2. To develop, and foster adoption of, post-harvest technologies that enable smallholders to
capitalise on market opportunities, improve competitiveness and adhere to food quality and safety standards through new and existing collaborative partnerships.

**Objective 3.3.** To improve adapt and improve use of information and decision support tools for introducing or improving post-harvest techniques and technologies, and train end-users in the application and improvement of these tools

Key elements in achieving these objectives are:
- Technology needs assessment of rural industries and post-harvest enterprises in selected key commodities/areas,
- Inventory of innovative post-harvest processes, technologies, processing products and techniques and manufacturers as well as infrastructure requirements and constraints,
- Private sector linkages for the development of products and technologies, aiming to strengthen technology uptake and market development,
- Participatory development, verification and adaptation of innovative technologies,
- Development of training materials, facilitation of training and fostering of new networks for technology and information exchange (e.g. FAO-INPhO),
- Information system design and decision support tool development, including for the exchange of information between developing countries and
- Training of trainers and end-users in the use of technology information systems and strategies.

Priorities identified for project development within this theme area are:
- S and SE Asia: Vietnam, Bangladesh, Thailand, Nepal: Innovative technologies for drying and storage of rice, wheat and maize
- Sub-Saharan Africa: Benin, Ghana, Guinea Conakry, Uganda: Food processing technologies for yam, cassava, and maize
- Global: Colombia, Peru, Venezuela, Tanzania, Malawi, Nigeria, Kenya, Vietnam, and Thailand Production and processing of cassava, sweet potato, soybean and maize, for protein and energy for animal feeding.
- Tropical regions: Under-utilised commodities and by-products (fruit, vegetables and cereals) - income diversification and value adding; market access/quarantine treatment; better use of byproducts reducing contaminants; documentation of traditional practices for storage and processing.

**Theme area 4: Ensuring production quality and safety for small rural agrienterprises: learning and projecting from experience**

Many developing countries have difficulty meeting the food quality and safety standards of export markets. These standards are becoming more stringent over time, in response to consumer concerns (e.g. mycotoxin and pesticide levels in produce). Within national urban markets in developing countries themselves, consumer demand for safe and high quality food products is rising rapidly, and can result in a loss of market share to imported food products.

In order to operationalise food quality and safety programmes in developing countries, it is necessary to understand the determinants of quality. This may be incomplete for many tropical products. National food quality standards may be set unrealistically high (using international codex standards), yet enforcement is sporadic. More appropriate and achievable quality objectives can be set and enforced. The quality challenge is particularly acute for small-scale enterprises. Food quality is a function of the whole supply chain, requiring co-ordination among actors handling the produce. Diagnosis of the critical points where quality deteriorates is vital, but can be expensive. Adherence to quality assurance programmes can, however, bring benefits at the consumer level. Research under this theme will develop and evaluate the methodologies (and policy initiatives) to enable small and medium scale enterprises to overcome the quality and food safety challenges in both national and export markets. This requires action at the level of the regulatory organisations as well as the enterprises/supply chains themselves.

**Theme 4 goal:** Contribute to the development of small and medium scale Agri-enterprises (SMaEs) that efficiently, profitably and sustainably produce and market products that meet appropriate regulatory standards and quality requirements for national and export markets.

**Theme 4 purpose:** To support Small and Medium Agri-enterprises (SmaEs) in developing countries to identify and address the constraints in developing appropriate Food Safety and Quality Management Systems (FS&QMS). At the same time, facilitate capacity building within the institutions that support SMaEs, to study the processes involved so that strategies can be identified for the promotion of sustainability in the
production of a safe and wholesome food supply. This approach will ensure that farmers products comply with appropriate regulatory standards and quality requirements for national and export markets.

**Objective 4.1.** To develop quality and safety assurance methodologies that can be applied in developing countries by small and medium-scale enterprises, and build capacity in the institutions that support them, so that their products meet appropriate regulatory standards and quality requirements for national and export markets.

**Objective 4.2:** To develop appropriate quality and safety objectives for local regulatory systems in developing countries through the application of risk analysis techniques, including assessment of human health risks and identification of feasible quality/safety targets for supply chain actors.

Six components that contribute to the above objective have been identified:

- **Identify and understand constraints,** through participatory research conducted with key stakeholders along the supply chain
- **Design, test and implement food quality assurance systems,** based on the identification of constraints identified in 1.
- **Develop and test low-cost diagnostic techniques** using applied research and development, appropriate for use by small and medium-scale agri-entrepreneurs, buyers for local and export markets, and food inspectors.
- **Develop realistic food safety and quality standards, specifications and objectives** using principles of risk analysis, This will include taking into account:
  - the nature and prevalence of quality problems identified in 1;
  - a determination of acceptable levels of quality for the consumer (based on regulations in effect, on WHO-determined acceptable levels of exposure for certain contaminants, on market analysis for non-safety quality issues);
  - assessment of the capacity of local supply chain actors to meet safety and other quality objectives, given potential methods for addressing constraints identified in 1.
- **Establish food quality and safety management networks** at national and regional levels, involving the full range of stake-holders, to review standards and objectives of quality programs and determine new needs for training, analysis and outreach to consumers.
- **Develop and implement outreach and training programs for introducing quality assurance systems,** targeting SMEs (farmers, traders, processors), consumers and support groups and laboratories with which they will be working. A key output of this activity will be the establishment of centres of excellence, e.g. a regional laboratory for pesticide analysis.

Key supply chains have been identified for this theme area to focus on, balancing different end-markets (national or export), types of quality/safety issues (mycotoxins, pesticide residues etc) and storage/shelf life characteristics. The agricultural commodities around which this theme area could develop are: groundnuts, maize, roots and tubers, dairy products, poultry, fish, fresh fruits and vegetables (horticulture), coffee and cocoa, and street foods.

Implementation can be based on existing project activities of PhAction members in West Africa (Senegal, Benin, Ghana) Asia (Vietnam, India) and Latin America (Brazil, Paraguay, Bolivia, Colombia). These cover many of the commodities mentioned above. The FAO Food Quality and Standards Service could also have an important input. The value added through this PhAction initiative will be to ensure that location-specific activities include a range of locations, types of products and supply chains, market and policy environments, facilitate cross-project analysis and the development of the globally relevant outputs, and provide a strategy for their dissemination.

**References**

- GASGA 1999. The importance of postproduction to sustainable rural livelihoods. Natural Resources Institute, University of Greenwich, UK. GASGA Seminar No. 11, pp 102.
Annex 5

FAO/AGSI – GFAR. A Global Initiative Toward Strengthening the Post-harvest Sector

The post-harvest system should be thought of as encompassing the delivery of a crop from the time and place of harvest to the time and place of consumption, with minimum loss, maximum efficiency, and maximum return for all involved (The Hidden Harvest, 1976)

1. Background

Post-production operations account for more than 55 per cent of the economic value of the agricultural sector in developing countries and up to 80 per cent in developed countries. Although they are the basis of socio-economic development in rural areas and are of critical importance in meeting the food security and nutritional requirements of populations, relatively little public sector and developmental support is targeted to addressing these fundamental concerns and the growing and changing trends within the sector. The Consultative Group on International Agricultural Research (CGIAR) for example has less than 4 % of its total funding allocated to post-harvest development.

Three decades have elapsed since the last major conference geared toward soliciting developmental support for the post-production sector. The focus then was on the reduction of post-harvest losses. Considerable growth in the sector, as well as changes in market demands and trade regulations point to the increasingly important dimension of produce and product quality, if developing countries are to gain advantages from the safety, security and potential trade benefits of a stable food supply. By and large, this growth and change is very poorly supported by developmental policies and strategies, and technical capacity within the sector remains very weak.

In recognition of these deficiencies in policies, strategies, and technical and financial inputs to address the fundamental and growing concerns of the post-harvest sector, the Agro-Industries and Post-Harvest Management Service of FAO (FAO/AGSI) with the endorsement of Ph-Action11, embarked upon launching an international initiative geared toward facilitating development within the post-harvest sector of developing countries. This initiative will be implemented in two-phases:

Phase 1 - Developing a global perspective of the post-harvest sector, through the planning and implementation of five co-ordinated technical regional workshops.
Phase 2 - Conducting a five-day International Technical Consultation on Post-Harvest, with the objective of launching a Global Initiative on Post-Harvest Technology (GIPhT).

FAO/AGSI funded the implementation of Phase 1 activities, which were executed in collaboration with the Global Forum for Agricultural Research (GFAR), during 2001. Funding is however currently being solicited in support of implementing Phase 2 Activities.

2. Phase 1 Activities - Planning of Five FAO-GFAR Regional Workshops

An appraisal of the current status of the post-harvest sector from both institutional and stakeholder perspectives in developing countries is of paramount importance to the identification of the problems, potentials and constraints of the sector. It would also provide a basis for initiating the development of an action plan geared toward facilitating these countries in keeping abreast of the changing requirements of the sector, while fulfilling their fundamental objectives of maintaining a safe, secure, and stable food supply. It is within this context that FAO/AGSI, in collaboration with GFAR, embarked upon the planning and implementation of five Technical Regional Workshops. Each of these Workshops seek to:

- Identify and analyze the problems, potentials and constraints of the post-harvest sector in each region;
- Assess the technical, organisational, institutional and information needs of the post-harvest sector in each region;

11 [ACIAR, CIAT, CIP, CIRAD, FAO, IITA, IPGRI, IRRI, JIRCAS GTZ, NRI]
- Identify major areas for improvement and development;
- Prepare a Regional Strategy for post-harvest;
- Identify concrete follow-up actions to be undertaken for implementation of this strategy.

Information derived from these Workshops will be used as a basis for the development of a GIPhT and a plan of action for its implementation. The development of Concrete Action Proposals by these Workshops is therefore critical.

FAO-GFAR Collaboration

GFAR is a stakeholder-led initiative aimed at promoting and facilitating research and development partnerships in key areas of agricultural and rural development. The collaboration of FAO/AGSI with GFAR in the conduct of these Workshops is based upon recognition by GFAR stakeholders of the critical importance of the post-harvest sector and of the need to increase local value-added through the development of rural agro-industries based on a commodity approach, as discussed at the GFAR-2000 Conference in Dresden, Germany. It is also justified by the high priority given to post-harvest development by the Regional/Sub-regional Fora (RF/SRF), in particular the NARS, which have emphasised the importance of the role of the post-harvest system in assuring the effective contribution of the agricultural sector to economic growth.

3. Implementation of FAO-GFAR Regional Workshops

The FAO-GFAR Regional Workshops were held in: Sub-Saharan Africa (sponsored by FARA), Latin America and the Caribbean (sponsored by FORAGRO), West Asia and North Africa (sponsored by AARINENA), Asia/Pacific (sponsored by APAARI), and Central Asia and the Caucasus (sponsored by the CAC Regional Forum). Stakeholders were mobilised for this purpose within each Regional Forum. Preparation for and implementation of each Workshop was co-ordinated by the respective Regional Forum that works within the GFAR framework.

Each respective Regional Forum for Agricultural Research worked in conjunction with its Sub-Regional Fora (SRF) on the organisation and implementation of a 3-day Regional Workshop. In order to ensure the involvement of a wide cross-section of stakeholders and to reflect the diverse characteristics and requirements of the various sub-regions, three sets of background documents were prepared:

- Regional consultants were contracted to prepare Sub-regional Papers on the status, challenges and opportunities of the post-harvest sector in each sub-region, seeking to identify conclusions and recommendations that can be derived from this analysis.
- Stakeholder Papers were presented by interested stakeholders. These papers analyzed the main challenges and opportunities perceived from the perspective of each stakeholder.
- A Regional Summary Report was prepared on the basis of the inputs provided by the sub-regional papers. This summary report emphasized concrete actions that can be carried out by the various stakeholders, individually or in partnership, in order to respond to both the challenges and the opportunities faced by the post-harvest sector in the Region.

All background documents together with the results and recommendations of each Workshop, as well as a strategy for development of the post-harvest sector at the regional level, were compiled and documented in a Workshop Report.

In order to accomplish the above, either the Regional Forum, or the executing agent that it may identify among its member organisations, undertook the following activities with the support of FAO/AGSI and the GFAR Secretariat:

- Designate a Regional Coordinator who had three responsibilities: (a) supervise the work of the consultants who prepared the sub-regional reports; (b) prepare a regional summary report

on the basis of the sub-regional papers seeking to identify concrete proposals for action that can be presented and discussed at the Regional Workshop; and (c) oversee the organisation of the Regional Workshop. The co-ordinator, in addition, prepared the Regional Workshop Report.

- Identify a suitable venue (country and location) and date for the Workshop and make and finalise all arrangements for the conduct of the Workshop at the venue.
- Approach each of the Sub-regional Fora to identify the most suitable consultant to prepare and present a Sub-Regional Status Report at the Regional Workshop. All Status Reports will become the property of FAO.
- Identify potential participants to the Regional Workshops from FAO member countries in the Region. Participants must be from a diversity of stakeholder backgrounds. All FAO-sponsored participants, other than the Regional Coordinator and the consultants, were required to prepare a 5 to 10 page document on a specific topic, and to make a 10 minute presentation at the Workshop.
- Issue invitations to Workshop participants at least six weeks in advance of the Workshop. The draft letter of invitation was cleared by FAO/AGSI through the GFAR Secretariat, prior to being distributed. It provided the prospective participant with all details of the conditions of participation, etc.
- Arrange travel and accommodation for Workshop participants, and inform both the FAO Sub-Regional Representation and FAO/AGSI of these travel arrangements.

4. Projected Phase 2 Activities

Activities projected for phase 2 of the post-harvest initiative need to be further developed. These activities are currently foreseen to include:

- The preparation of regional synthesis documents based on information derived from Regional Technical Workshops and information solicited from various other interested parties. These synthesis documents will be used as background papers to technical presentations at an International Technical Consultation on post-harvest.
- The development of a web-site for dissemination of this information.
- The conduct of e-mail conferences.
- The preparation of a plan of action for a GIPhT

The implementation of an International Technical Consultation on Post-Harvest, the primary of objectives of which are:

- To create an improved international awareness of the breadth of the post-harvest sector and the importance of its contribution to socio-economic development in developing countries;
- To explore and highlight technical and policy issues which impact upon growth and change within the sector;
- To develop a vision and a plan of action for implementation of a GIPhT;
- To obtain firm financial commitment from private sector, donor and development agencies in support of the GIPhT.

FAO is currently in the process of soliciting funding in support of preparation for, and implementation of Phase 2 activities.
The Post-Harvest Sector: A Concept Note

The concept of the post-harvest sector (or system) has different connotations to different persons. It is therefore important to clearly define the breadth of the sector as a basis for outlining the scope of the work undertaken in preparation for the Workshops on Post-harvest.

The post-harvest sector encompasses a diversity of activities including research, extension, production, processing, distribution and marketing that span the continuum “from the field to the plate.” Major technical concerns of the sector include the prevention of food losses and the preservation of food quality through proper handling, quality control, and storage. A primary objective of the sector is to increase local value-added through processing, thus contributing to economic growth in the agricultural sector.

Economic and efficient functioning of the sector hinges not only upon the availability of appropriate technology, but also upon proper institutional arrangements (policies, incentives, and infrastructure), and adequate marketing, distribution and commercialisation systems. Socio-economic and cultural practices also have a major impact on efficiency within the post-harvest sector.

For the purpose of these Regional Technical Workshops, the “post-harvest sector” was conceived as covering the following major steps within the post-harvest chain:

- On-farm pre-treatment and primary processing
- Distribution
- Processing, which includes R&D efforts aimed at developing or adapting appropriate technologies, as well as the other factors that intervene in the development of small and medium-sized rural enterprises (rural SMEs), such as policies, incentives, credit, market information, etc.
- Storage infrastructure and technology
- Marketing and commercialisation, which requires appropriate policies and incentives, as well as institutional support and knowledge of markets.
- Consumption patterns and consumer preferences.
- Information and networking

Figure 1 graphically summarises these various components of the post-harvest chain and the links among them, identifying some of the main governing criteria and actors that play a major role at each step of the chain.
Figure 1: The Post-Harvest Sector

Governing Criteria  Actors  Steps of the post-harvest chain  Needs

Policies
- Infrastructure: Government
- Incentives: Farmer
- R&D
- Quality management

Standards
- Safety: Industry
- Preferences: Consumer

Transportation Infrastructure
- Private Sector
- Government

R&D Policies
- Research: Government
- Incentives: Private Sector
- Investment: Farmers
- Market information: Equipment suppliers
- Inputs: Ingredient suppliers

Infrastructure
- Government

FINANCIAL SUPPORT

TRAINING & RESEARCH

TECHNICAL SUPPORT

INFORMATION

INFORMATION

POLICIES & REGULATIONS

Socio-economics Policies
- Preferences: Consumer

Private Sector

Government

Transportation

Processing

Storage

Distribution

Marketing and commercialisation

Consumer/PLATE