



GCARD

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SESSION P3: PARTNERSHIPS FOR LIVELIHOOD IMPACTS

Sub-Session P3.2: Turning Innovations into Market Opportunities

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Context – the problems being addressed

Policies affect prices, and prices dictate how much poor farmers earn and how much poor consumers spend. Policies also affect the incentives driving the private sector and the way public funds are allocated across competing priorities. Institutions establish the rules governing economic interactions and the mechanisms for delivering public goods and services. Markets organize the way private goods and services are exchanged and how interdependent agents interact along the value chain.

When policies, institutions, and markets fail, key public goods and services are undersupplied, incentives are biased against agriculture, consumers pay too much for food, and relationships that create wealth are ruptured. Research can identify ways in which policies, institutions, and markets can be improved to serve the interests of poor producers and consumers. In January 2012, the CGIAR launched a research program called *Policies, Institutions and Markets to Strengthen Food Security and Incomes for the Rural Poor* in order generate knowledge on how these areas can be improved to help smallholder farmers and poor consumers live better lives.

Two innovations examples under this programme address the following development challenges :

Collective action: Over the past few years, governments, donor agencies and NGOs throughout Sub-Saharan Africa have expressed a renewed interest in collective action mechanisms such as Rural Producer Organizations (RPO's), as a means to help smallholders address failures of markets for credit, insurance, and information. There are, however, few empirical assessments of these organizations in Sub-Saharan Africa and the extent to which they can support effectively smallholders. The purpose of this initiative is to contribute to filling important knowledge gaps, and to design and test relevant interventions to support RPOs.

Contract farming: Poor farmers are often left out of the market. They may not be able to compete with larger farmers who can provide firms with consistent quantities of high-quality products. These barriers to entry for small farms may be due to the fact that they cannot exploit economies-of-scale in production, but also to the inability of a smallholder to commit to a contract. Although contract farming has shown to be an effective way of integrating farmers into domestic and international markets, its benefits have gone mainly to medium-sized and relatively more educated farmers. The reasons why smaller and less educated farmers have been excluded are varied and not fully understood. Evidence suggests incentive-based problems are partially responsible for the failure of contract farming. The present work explores contract design mechanisms that are incentive-compatible and improve the welfare of smallholders.

Current activities presented and discussed in the Session

Policies, Institutions, and Markets to Strengthen Food Security and Incomes for the Rural Poor (CPR2) (2012- 2014)

The programme includes three key themes. Effective Policies and Strategic Investments (Theme 1): improve policy options at the global, regional, and country levels by modelling scenarios of future trends, analyzing how best to allocate public resources for research and investment, and strengthening governments' capacity to design and carry out policies and investments that will increase agricultural productivity and enhance rural incomes. Inclusive Governance and Institutions (Theme 2): examine the scope for policy, institutional, and governance reforms and contribute to effective and equitable access to rural services, property rights, collective action, and assets by studying existing systems and testing institutional innovations in these areas. Linking Small Producers to Markets (Theme 3): increase the competitiveness of markets to benefit producers and consumers and offer greater income opportunities by integrating small-scale producers into upgraded value chains.

Specific innovations presented in this Session are:

Collective action: The *objective* is to identify specific interventions that can improve RPOs' capacities. While recognizing other determinants of success *our innovation* will be to examine ways to affect RPOs' performance on input and output markets, through enhanced commitment of members. Broadly speaking, this is research on implementation of development actions, a much neglected area of research. Specifically, member commitment will be enhanced by (i) improved coordination of members via institutionalization of better leadership capacity, and (ii) improved compliance of members via better incentive alignments reached through the provision of complementary activities such as insurance and/or credit. Final performance will be measured as the groups' capacities to provide their members with better prices for inputs and outputs. It is also expected that the obtained increase in income will affect the relative prices of working in and out of the farm, resulting in dynamic local labor market effects. In each case, we are also interested in the distribution of beneficiaries by income, gender, and other factors. The research project is interdisciplinary and combines quantitative and qualitative approaches.

Contract farming: IFPRI developed contracts that had been tested both in the laboratory and in the field to improve small farmers' welfare in Vietnam, Tanzania and Peru. *Our innovation* is that we implemented these contract structures in field settings which offer diverse geography, potential for contract farming with agricultural products, and the on-site technical support received to implement the contract structures. The contracts had been applied in several rural communities selected through a typology of micro regions that will serve as a scaling up device of the results of the project. The *proposed research approach will show* which contract structures work under what conditions and will measure improvements to overall farmer welfare (income and poverty levels).

Intended outcomes of intervention

Outputs the two illustrative initiatives of the *Policies, Institutions, and Markets* programme include:

- Synthesis report and extrapolation of results to stakeholders i.e., RPOs, donors, other stakeholders and other countries identify specific interventions that can improve RPOs' capacities;
- New institutional mechanisms validated providing smallholders access to dynamic markets through efficient contract farming arrangements and improving the welfare of the poor.

Commitments to collective actions in 2012-2014 (national, regional or international)

i. With existing resources

Collective action: The results of this study will be of use to RPOs as they seek to serve their members better. Partners such as the CNCR/ASPRODEB in Senegal, the UNFFE in Uganda, and the ZNFU in Zambia will be direct beneficiaries. The results will also be of use to a range of institutions in the countries in which the analysis is undertaken such as National Agricultural Research and Extension

Systems (NARES) trying to disseminate their research; national and local government officials seeking to improve the functioning of input and output markets; donor agencies engaged in agricultural projects, private traders seeking to source directly from farmers and other relevant stakeholders such as CAADP. Further, we will explore wider applicability of the findings drawing upon the Development Domains framework developed by IFPRI researchers (Omamo, et al. 2006; Pender, Place and Ehui 2006).

Contract farming: While most of the work is being done in selected countries and locations, the wider aim is to bring the results and the best practices on contract designs (including robust impact evaluations) to scale across the countries by working with implementation partners.

ii. Immediate gaps to be filled

Collective action: The outputs will strengthen the capacity of RPOs and federations of RPOs, researchers, policy makers and other stakeholders in the study countries and beyond to diagnose the key constraints affecting the performance of RPOs, identify and evaluate promising interventions, and draw lessons that can be used to help scale up interventions to improve RPO and market performance.

Contract farming: There is empirical evidence that integrating smallholders into markets is a promising strategy for a broad-based alleviation of rural poverty and for using agriculture as an engine of growth on the road towards industrialization. Contract farming is one instrument which, where successful, can enable enhanced productivity and better market integration for smallholders.

iii. With specific large scale programme investment

The outputs of both initiatives can influence large scale programmes at national level and those supported by multilateral agencies.

Work on contract farming can also be of use to private firms seeking to contract with smallholders through well-functioning contractual arrangements.