

Agribusiness and Markets - Approaches

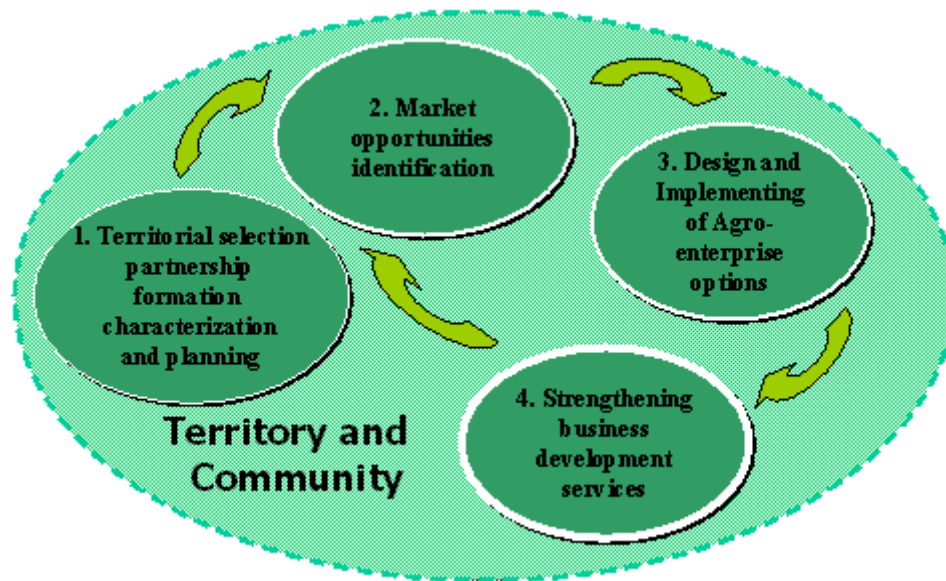
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1 Territorial Approach for Rural Agro-enterprise Development - RAED

1.1 Background

The RAED approach was developed by the International Center for Tropical Agriculture (CIAT), through its Rural Agro-enterprise Development Project (RAED) and local partners in Latin America, Africa and most recently in S. E. Asia. It comprises four interconnected methodological steps that seek to improve local capacities (Figure 1).

Figure 1 – The Territorial Approach for Rural Agro-Enterprise Development



1.2 Main Steps

Within each element, there are sub-steps that guide the service provider and community towards agro-enterprise selection and market engagement: The four elements of the process include:

1. *Territorial selection and partner evaluation*

- (i) Selection of territory,
- (ii) Bio-physical and socio-economic diagnostic of territory,
- (iii) Development of agro-enterprise interest group,
- (iv) Joint planning of action amongst partners

2. *Market opportunities identification*

- (i) Identification and evaluation of market opportunities,
- (ii) Evaluation of non traditional farm activities that could offer employment opportunities,
- (iii) Identification of a basket of opportunities that respond to market demand, can be produced under existing biophysical conditions and are of interest to local producers.

3. *Enterprise design and implementation*

- (i) A detailed participatory market chain analysis,

- (ii) Evaluation of critical points in the market chain,
- (iii) Design of an enterprise project,
- (iv) Implementation of new enterprises

4. Strengthening of business support services

- (i) Evaluation of local support services,
- (ii) Analysis of critical gaps,
- (iii) Development of plans to strengthen key services to support ongoing enterprises.

1.3 Methods

Each of these elements is approached through a series of participatory methods that address issues of diagnosis, organization, planning, action-research, learning and socializing information. These steps serve to generate, systematize, and share information / knowledge with the aim of building agreements for action, and in turn to increase the probabilities of their success. Table 1 shows a general timeline to complete the four stages, these timelines are guides and implementing agencies need to negotiate with their partners on actual investments in time and other resources as their funds and availability allow.

At the end of this four-stage process, participants will have established an agro-enterprise development team composed of various organizations and local actors with skills and capacity to:

- Identify competitive market opportunities for the territory based on the needs of diverse populations and or ecosystems;
- Analyze market chains and propose concrete actions in research and development to increase their competitiveness; and design agro-enterprise activities in which target farmers can invest,
- Coordinate supply and demand for specific business development services, and facilitate markets for business development services on a continual and dynamic basis.

Although the methodology for the territorial agro-enterprise development has been presented as a linear set of events with fixed contents and times, the process should not be considered a recipe. Each process of rural enterprise development will be different, based on the conditions of the territory where the approach is implemented, the capacities and interest of the participants, and the needs that emerge from this interface.

The methodology should be viewed as a set of principles and skills that are developed through community action in a flexible and interactive manner. The service providers should take care to encourage local adaptation and innovation. The service providers should also take time for periodic evaluation of the process according to the needs of the community taking into account their experiences and context. It is important to document and systematize local experiences so that information can be socialized and shared with others, and thus lead to the identification of general rules and lessons learned that enrich and improve the approach as well as the specific methods.

Table 1. Planning, organization, and action: key times for rural agro-enterprise development (RAED).

Planning and organization	Intermediate product(s)	Estimated time	Processes and actions to be established
Diagnosis of Territory Formation of RAeD work team	<ul style="list-style-type: none"> - Establishment of agro-enterprise working group - Development of partnerships for implementation - Territorial diagnostic - Action plan (visioning) - System of monitoring, evaluation, and learning 	2 to 3 months	<ul style="list-style-type: none"> - Consensus on what to do, and how and when to do it. - Agreement and coordination of actions among actors
Identification of market opportunities	<ul style="list-style-type: none"> - Rapid market study (local, regional, and/or national) - Characterization of market options - Participative selection of market options 	3 to 4 months	<ul style="list-style-type: none"> - Establish relations with actors in the markets - Generation, analysis, and diffusion of market information
Participative analysis of market chains	<ul style="list-style-type: none"> - A strategy to increase competitiveness designed for each prioritized market chain 	3 to 4 months per market chain	<ul style="list-style-type: none"> - Implement research and development actions of the strategy to increase the market chain's competitiveness and income of its actors
Implement the agro-enterprise option	<ul style="list-style-type: none"> - At this stage the agro-enterprise team invest and establish their agro-enterprise 	Typically enterprises works around a specific crop / animal cycle	<ul style="list-style-type: none"> - This stage is when design is turned to action and evaluation
Identification of supply, demand, and gaps in the local business development services	<ul style="list-style-type: none"> - Diagnostic of supply, demand, and gaps in enterprise development services in the territory - Design of strategies to strengthen the markets for enterprise development services in the territory 	3 to 4 months	<ul style="list-style-type: none"> - Improve rural enterprise development services existing in the territory - Establish new rural enterprise development services requested in the territory - Links with external actors that can offer the services requested in the territory

2 Competitive Agricultural Systems and Enterprises - CASE

2.1 Background

The CASE approach was developed by the International Fertilizer Development Center (IFDC) and its partner organizations in the Integrated Soil Fertility Management (ISFM) Project in West Africa. The ISFM Project encouraged farmer groups to develop, validate and disseminate ISFM technologies, and to develop and lobby for alternative organizational and institutional arrangements to spur agricultural intensification through improved access to input (factor) and output markets.

The ISFM projects were originally based on a “technology push” strategy. Although farmers were interested in ISFM options, these by themselves were not enough to improve incomes of farmers beyond a very short time horizon. In subsequent steps the project therefore focused on input accessibility, organizational strengthening of farmers to pool demand for ‘external’ inputs, and linkages between farmers and suppliers - the input supply chain. With additional experience, the integration of farmers in the market (or “value”) chain was given more weight - a ‘demand-pull’ strategy.

Targeting of commodities became a guiding principle, as competitive advantages at a regional level are much easier to obtain around a group of more or less similar commodities. The constraints faced by smallholders in integrating supply and value chains depend very much on the type of product. Competitive advantages within specific industries therefore need to be thoroughly analyzed

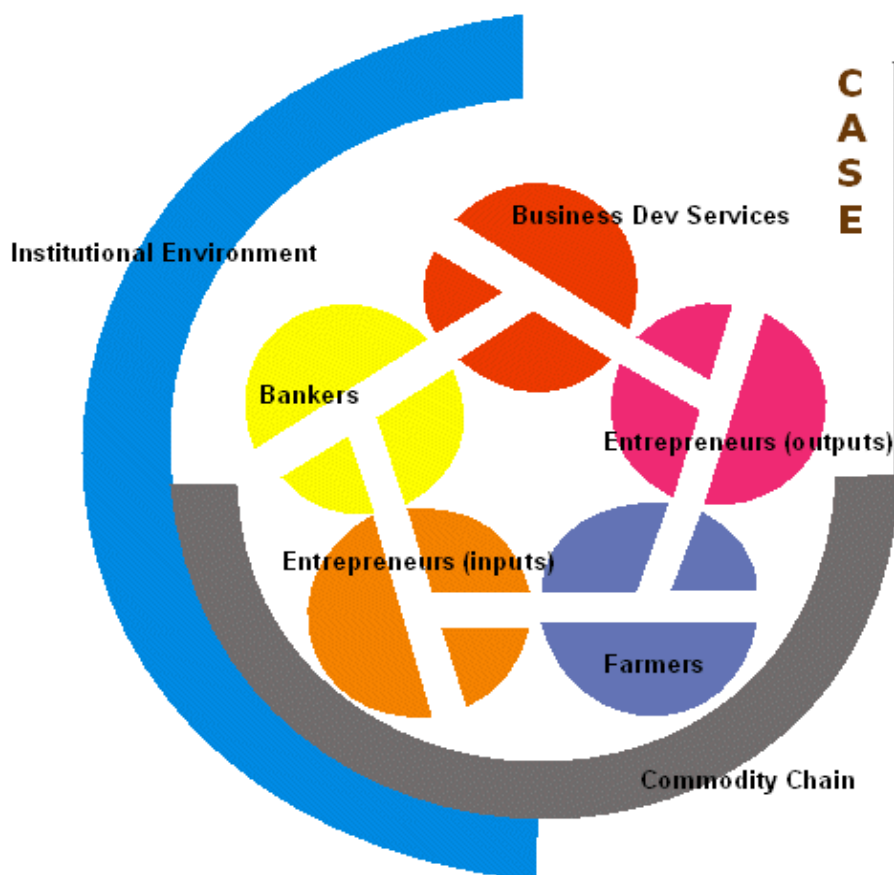
The CASE approach is designed to strengthen the competencies and strategies of local, national and in some cases international stakeholders to develop and support local “agribusiness clusters”. These clusters comprise farms, firms and business development and financial services, and are targeted at specific commodities and market “segments”.

2.2 The agri-business system

The agribusiness system is visualized in Figure 2 below. It comprises:

- The **commodity value chain**, visualized as the grey arc at the bottom of Figure 2. In practice, market integration may concern more commodities, but a certain degree of specialization in commercial orientation fits in the agribusiness cluster philosophy.
- The **agribusiness cluster**, illustrated by the 5 inter-connected circles. The agribusiness cluster connects farmers, local entrepreneurs (involved in supplier and channel value chains), bankers (financial services) and business development services in the target region. Efficient linkages within the agribusiness cluster and integration of the agribusiness cluster in commodity value chains increases incomes of farmers and local entrepreneurs, allows for multiplier effects and economic growth, and fuels re-investment in new production technologies.
- The **decentralized government structures**, visualised as the blue arc at the left of Figure 2. An enabling agribusiness environment depends on an effective dialogue between private sector agents, civil society organizations, and the government.

Figure 2 – The Agribusiness System



2.3 CASE Activities

CASE is not intended to be a 'blueprint' approach – a series of predefined activities. Activities will depend on the context, the location, the commodity or commodities that have been selected, the strengths and weaknesses of the actors and stakeholders involved, and of the business environment.

In most circumstances however, CASE will however involve activities in two main levels:

5. *Agribusiness clusters for specific commodities and locations.*

- (i) At village level:
 - Learning plot activities with target groups to explore technological options and to act as “entry points” for learning communities;
 - Establishment of “learning & information centres” to capture and explain the experiences of learning groups;
 - Promotion of farmer-to-farmer training and training of trainers.
- (ii) Strengthening of input supply chains:
 - Improvement in transportation, storage, and distribution;
 - Business training for suppliers; involvement of dealers in learning and information centres;
 - Formation of input associations, etc.
- (iii) Strengthening of value chains:
 - Processing, storage, transportation and marketing of targeted products;

- Encouraging buyer-seller contracts, codes of conduct and industry standard business practices;
- Hygiene, packaging and labelling practices; strengthening commercial producer associations; etc.
- (iv) Facilitation of access to credit for farmers and other entrepreneurs involved in the agribusiness cluster through stimulation of savings, guarantee or inventory credit schemes; interlinked contracts with buyers, etc.
- (v) Strengthening of business development services:
 - Capacity building in technical issues (e.g. analysis of commodity value chains, inventory credit systems, market analysis, business planning, etc);
 - Managerial issues (facilitation and leadership skills, networking, lobbying, etc.)

6. Regional or national-level platforms to discuss and support agribusiness cluster formation and agro-enterprise.

- (i) Establishment of multi-stakeholder national task forces.
- (ii) Consultations, stakeholder meetings and workshops to identify and assess potential commodities, and locations, based on:
 - Commodity and the commodity value chain characteristics (input requirements, potential for value addition, transport requirements, seasonality, etc).
 - Location (factor endowments, presence of entrepreneurs and supporting industries, local networks, etc.)
 - Policy (presence of priority social groups, etc).
 - Synergy with other development programmes and projects, etc)
- (iii) Facilitation of lobbying/ advocacy for specific (public, public-private) investments needed to create enabling environments for selected agribusiness clusters.
 - Capacity building in lobbying/ negotiation skills of farmer and/or trader organizations to eliminate barriers to entry in 'monopolistic' commodity chains (cartels), without giving up on coordination
 - Dialogue with policy-makers and donors, to discuss how 'competitiveness' and other social and political goals can be matched efficiently.
- (iv) Structured training of staff of national and international business development services.
- (v) Support to national and international educational systems to strengthen curricula and teaching on competitive strategy and agribusiness cluster formation.

2.4 Capacity Building within the CASE approach

CASE facilitates agribusiness cluster formation through capacity building (including building capacity to build capacity, or BC2BC) of the principal stakeholders involved. The approach is grounded in experiential – both individual and collective – learning theories, and ideas, and involves a large variety of stakeholders.

Iterative, and overlapping participatory learning cycles are based on DATE: Diagnosis – Action planning – Trying things out – Evaluation. Learning cycles can be based, for example, around action-research, to build up new experiences and expertise with individual farmer groups or learning and information centres; or other around extension, focusing on scaling-up/out of the results.

In these processes, outside 'experts' are 'facilitators', with a role in providing ideas, alternatives and in training; when experiences have been shared, discussed and the need for new ideas or expertise is commonly felt. Key issues for the facilitators are to promote efficient ways to capitalize learning through drawings, reports, photographs and videos, to

maintain flexibility in training modules and to keep the focus on the processes instead of static technical prescriptions.

Leverage of training efforts is obtained when trained actors train others or inform others of the benefits of the training. Publicity and certification of trained actors increases their status and encourages others. Emphasis is given to strategies to enhance farmer-to-farmer training, and training-of-trainers sessions. Farmer-based organizations can be supported to implement regular training sessions for their members, and local entrepreneurs (e.g. input dealers) can leverage efforts through their network of clients.

3 Chain Empowerment

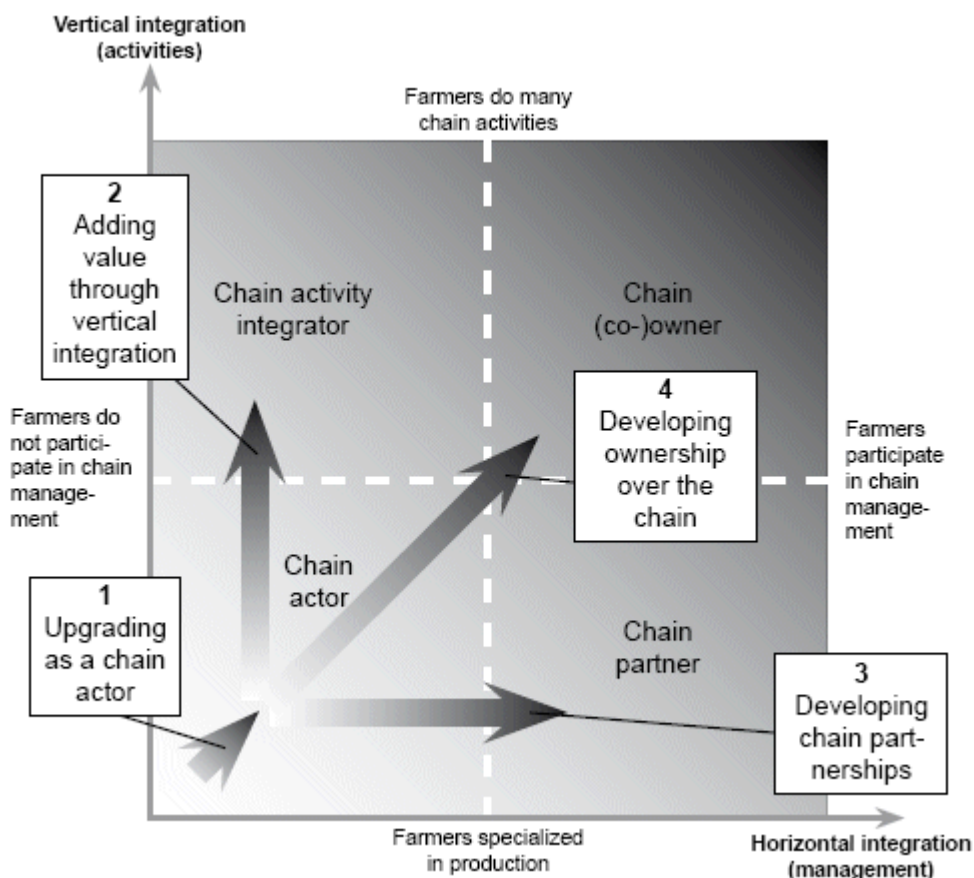
3.1 Background

The “Chain Empowerment” approach is the result of a workshop organised by KIT, Faida MaLi and IIRR in Arusha, Tanzania during 24-30 October, 2005, when different local, regional and international NGOs, United Nations organisations and inter-national research centres came together to share experiences with developing value chains and securing small farmers’ access to markets. The chain empowerment approach as described here is therefore focused very much on the farmer as target group, and designed to improve the position of these farmers.

3.2 Four strategies for empowering farmers

Participants in the workshop synthesised their experiences into 4 strategies for empowering farmers. These are summarised in the matrix below:

Figure 3 – Strategies for empowering farmers



The two dimensions – vertical and horizontal integration, refer to who does what in the chain, and who determines how things are done in the chain. The four strategies are aimed at improving the farmer as a chain actor, improving vertical or horizontal integration, or both.

1. Upgrading as a chain actor

The starting point for this strategy is one where the farmers are not well connected with markets. They wait for traders who come to the farm to buy from them. Farmers blame the traders for the low prices offered, especially when they see the produce sold in cities for much more. The world is unfair! However, the farmers do not realize that they are part of the problem: their production is not well tailored to what the market needs, and of variable quality. The trader does not know what to expect, so offers a low price.

Becoming production specialists is a necessary first step, prior to any other form of chain development. Unless the farms are well run it makes no sense to invest in processing or to seek chain partnerships. However, when the farmers have established themselves as specialized farmers, then other options open up.

The focus of interventions for this strategy is therefore to:

- Ensure that farmers have access to the basic assets (land, water, seeds, capital, etc.) that they need to improve their production.
- Improve farmers' technical (production) and business skills (e.g. planning, record keeping, financial management, managing risk, etc).
- Improve farmers' understanding of markets, chains, competition, consumer demands and contracts.
- Identify and develop markets and products.
- Promote and strengthen farmers' organisations (e.g. farmers' schools or study groups) – to enable the provision of these assets and skills.

2. Developing chain partnerships

Following this strategy, farmers are already production specialists and have something good to offer buyers. However, they feel out of control in their relations with the outside world. They may be unsure about whether they can sell their produce, to whom and at what price. Or they may be producing under contract for a processing company, with a secure market outlet, but they lack power to bargain over prices or other contract conditions. The farmers feel that they are left to the whims of others.

By linking with a buyer, these farmers can increase their business security and gradually improve and expand their businesses. They make themselves an attractive business partner so that the buyer will be willing to pay better prices, listen to their demands, and invest in them. To this end, the farmers opt for a partnership strategy based on shared interests and mutual growth.

The focus of interventions here is therefore to:

- Make the farmers an attractive business partner both technically (quality, yields) and managerially (entrepreneurial mentality, understanding of the chain).
- Organise continuous learning and innovation (farmer schools, exchange of best practice, etc.)
- Empower the farmers organisationally (including information systems for improved bargaining).

- Facilitate chain cooperation with the buyer (exchange of information, bargaining, joint action plans based on shared interests, etc.)
- Promote the representation of farmers' organisations in chain platforms.

3. Adding value through vertical integration

Similar to farmers seeking to develop chain partnerships, farmers considering vertical integration are also production specialists, with an attractive product, skills and a willingness to innovate. However, these farmers see that at the end of the chain the consumer pays a price that is five to twenty times higher than they receive. They see that other players further down the chain make money by grading the product, cleaning it, processing it, packaging it, and making it ready for use by the consumer. They want a larger share of these revenues. They may also want to reduce the losses and price fluctuations associated with perishable and seasonal fresh produce.

The focus of interventions here is therefore to:

- Develop market outlets.
- Invest in facilities for storage, processing, packing, marketing and distribution
- Invest in the development of professional staff, with more complex managerial and administrative skills.
- Design and implement management systems (operational procedures, logistics management).
- Promote farmer cooperatives with joint processing and marketing, etc; develop organisational trust and discipline.

4. Developing co-ownership over the chain

The goal of this intervention strategy is similar to vertical integration, but goes further in that it implies that farmers organise themselves in recognized, visible business organisations, capable of penetrating existing markets, developing new products or markets, or diversifying their activities. It also means they can conduct a dialogue with consumers to identify demand and hence improve the product. Such farmers' organisations can negotiate lucrative prices and take a fair share from the chain.

- Enter into joint ventures downstream in the chain for the development of new consumer product lines
- Develop and market branded consumer products
- Develop farmer groups into business cooperatives, in co-ownership with processors and retailers, that can initiate or negotiate research and development initiatives for the benefit of the entire value chain.

4 Comparison of RAED, CASE and Chain Empowerment

There are many similarities between the three approaches described in this learning resource:

- All approaches represent more of a flexible approach, rather than a rigid recipe or stepwise procedure.
- All approaches have a strong emphasis on marketing (or "value") chains. CASE, perhaps because of its origins with the International Fertilizer Development Company unsurprisingly also emphasizes the need for improving supplier/

production input chains (although RAED includes this aspect under “business support services”).

- All approaches focus on facilitating the interaction of a range of stakeholders; RAED at the “territory” and CASE at a similar “cluster” level. CASE places more emphasis on the need to include interaction with stakeholders at the higher strategic levels - national and even international, and the need to “build capacity to build capacity”.
- All approaches stress the ownership of processes by the actors themselves, through linking stakeholders at different organizational levels, improving information flow, facilitating effective participation and joint control of processes.
- The RAED and CASE approaches seek to empower actors through assisting farmers and local traders to lobby for more information, better services, improvement of their rights and transparency at all levels of policy making. The chain empowerment approach seeks to specifically improve the position of farmers, relative to other stakeholders.
- All approaches depend on a worldview or reference framework that favours economic development based on competitiveness, agribusiness development, added value, forward integration in commodity value chains and multiplier effects. This is in contrast to economic development strategies that in many countries have been based almost exclusively on comparative advantages based on low labour costs and exports of primary products. Influencing such development paradigms and reference frameworks amongst decision makers at all levels forms an integral and vital part of the approaches, especially in RAED and CASE.

5 Acknowledgements

This learning resource was based on:

- “The Territorial Approach to Rural Agro-entreprise Development”, by Mark Lundy, Carlos Felipe Ostertag, María Verónica Gottret, Rupert Best and Shaun Ferris of the Rural Agro-entreprise Project of CIAT; available at: http://www.ciat.cgiar.org/agroempresas/pdf/CIAT_Agro_Enterprise_Strategy_Paper.pdf;
- Draft material from the International Training Program on Competitive Agricultural Systems and Enterprises (CASE), Ghana by Arno Maatman of IFDC; and
- “Chain empowerment: Supporting African farmers to develop markets”, edited by H. Verkuijl and published by KIT, Faida MaLi and IIRR, and available online at <http://smartsite.kit.nl/smartsite.shtml?id=SINGLEPUBLICATION&ItemID=1952&ch=FAB>

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– Thank you!

