

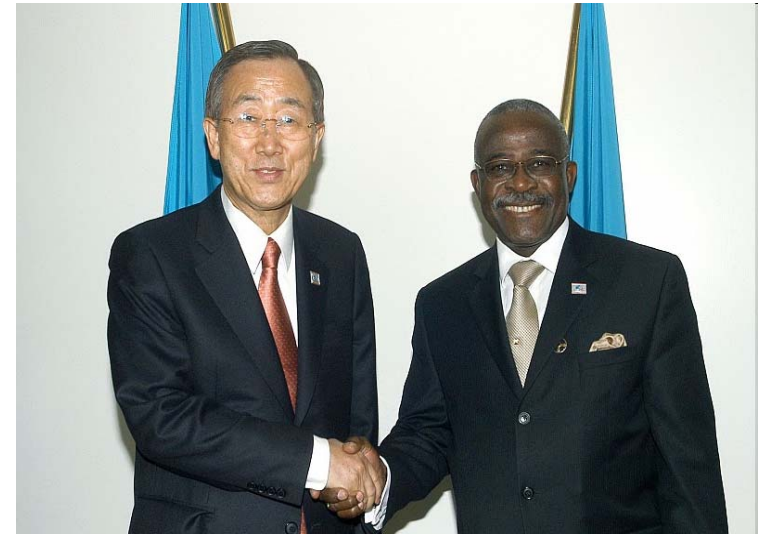


Supporting Smallholder Integration into Agricultural Markets: Lessons from IFAD's Experience

WTO Workshop on Aide for Trade and Agriculture
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International Fund for Agricultural Development (IFAD)

- Established as IFI and specialized UN agency in 1977 as result of 1974 World Food Conference
- Governance: 165 member states
- **Overarching Goal:** Empower poor rural women and men in developing countries to achieve higher income and food security.
- **IFAD's Target Group:** Rural poor/smallholders who account for over 1 billion people, 75% of the global poor and are critical to overall food security – producing as much of 80% of the food in Africa
- Funding: IFAD has invested \$11.3 billion in 829 projects in 117 developing countries, reaching over 350 million people.
- **Partnership and Leverage:** Mobilized over \$18 billion in cofinancing and local contributions including other IFIs, UN agencies, foundations and private sector.



Market Integration – Opportunities for the Rural Poor

- Sustainable poverty reduction requires moving beyond subsistence to commercial sales and employment
- Terms of trade now improving for agriculture
- “Dormant” high return investments in rural enterprises
- Contracting can improve access to inputs and reduce marketing/price risks
- Increased interest in fair trade and organics which can favour smallholders in developing countries
- Rapid urbanization in developing countries creating stronger local and regional market demand
- Improving infrastructure - particularly ICT - and policy conditions in many developing countries
- Human capital improvements reaching rural areas
- Global carbon markets as potential purchasers of “environmental sustainability value-added”

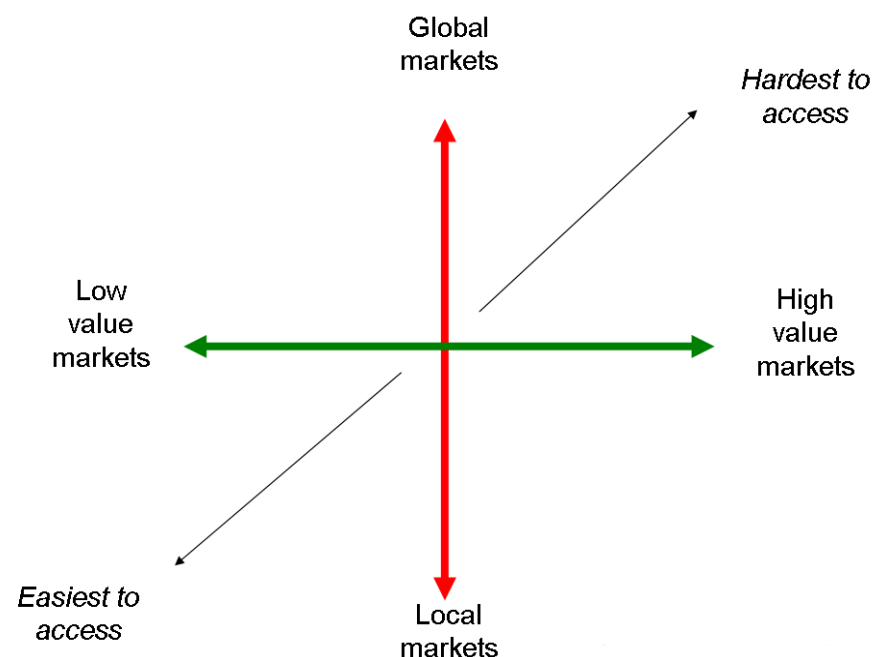


Market Integration – Challenges for the Rural Poor

- **Access** to, and security of, land, water, finance, technology and information remain issues in many countries
- Production oriented approaches can easily result in **oversupply** within limited markets
- In response to consumer demand/standards, **market structures are concentrating** value added increasingly in processing and retailing end of supply chain – limited opportunities for farmers to gain share
- Closer relations between producers and downstream operators improve access but can reduce **bargaining power** of smallholders
- Smallholder **producer organizations often are weak** administratively, have limited knowledge of supply chain requirements and lack “business savvy” and may marginalize youth or women
- Significant **local/regional marketing impediments** – formal and informal
- Not all smallholders can meet requirements for commercial production – often the **poorest and most isolated are excluded**
- Movement to commercial production should **not undermine sustainability** of natural resource use.

Improving Market Integration through Value Chain Upgrading

- Process and product upgrading: improving chain efficiency and product quality
- Functional upgrading: changing functions performed by actors in chain
- Horizontal coordination: development of relationships among actors within groups at same level
- Vertical coordination: developing relationships among actors at different levels
- Chain upgrading: applying existing skills in a new chain
- Enabling environment upgrading: improving “policy” context



IFAD Support to Market Integration

- **Value chain/filière analysis** is critical tool to promote consultation amongst all the chain stakeholders and identify need for partnerships in strengthening chain
- **Half of all IFAD projects** now include market integration elements based on value chain analysis
- Target by focusing on products already **produced by the rural poor** & strengthening inclusiveness of **producer organizations**
- **Innovating financing instruments** to be able to support different needs in value chain – beyond microfinance to warehouse receipts, insurance and possibly equity participation
- **Privately delivered** business development services
- **Broker direct linkages** between smallholder producers and international companies in fair trade and organics
- Integrate transfer of soil and water management technologies to **sustain higher production** levels
- Increasing focus on supporting **corporate social responsibility** amongst agribusinesses and **vocational training** of potential employees which are often the rural poorest.



Example – Facilitating Fair Trade and Organic Cocoa Contract in Sao Tome and Principe

- Cocoa exports dropped from 19,000 MTs in 1920 to 2,800 MTs by 1990
- IFAD supported project carried out value chain analysis which identified organic cocoa opportunities and met with buyers
- Program supported formation in 2004 of STP Organic Cocoa Exporters Cooperative (CECAB) for special requirements of production, post-harvest sorting, storage, pre-processing and bulking of beans
- NGOs Zatona and Adappa assisted producer groups and CIAT assisted with research and quality control aspects
- In 2005 CECAB signed five-year contract with French company, KAOKA which guarantees purchase with price premium and minimum price, and technical support
- Associations tripled production, prices twice local cocoa prices, investing in healthcare support for members.



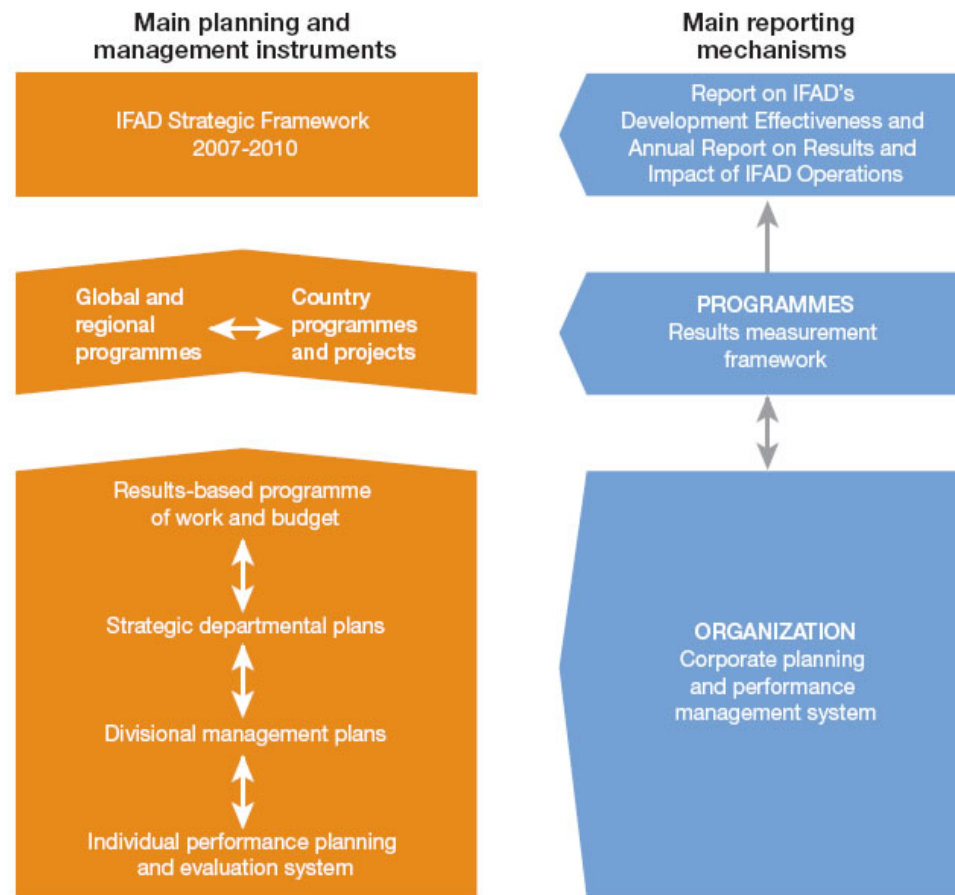
- Average participating farmer income increased from 25% below poverty line to almost 10% above poverty line
- Scaling-up: Another cooperative signed contract for organic cocoa with CafeDirect of UK, and approach is being extended to organic pepper and coffee

Example – Client-Financed Business Advisory Services in Macedonia

- Growing market opportunities in production, trading, processing, but rural poor lacked business skills to access and use financing
- Facility for Farmers' Access to Markets established for financing
- Traditional agricultural extension not sufficiently oriented to exploiting market opportunities beyond basic production
- IFAD project supported development of private business advisory services with training program for business planning, accounting, value chain analysis, EuroGAP standards and certification, consulting firm marketing and management
- Over 1,300 borrowers (of 2,700 total) purchased advisory services
“Advised” rural poor were three times more likely to be loan recipients and had incremental gross margins 4 times higher than non-advised rural poor borrowers.
- Advised businesses generated 910 additional fulltime jobs
- Sustainability: Eight private sector, client-financed consulting companies established and network formed to support basic technical training and standards information.



How IFAD Implements the Development Effectiveness Agenda...



Enabling poor rural people to overcome poverty



...which really means:

- Results-based country strategies (COSOPs) – results management frameworks with clear, measurable indicators prepared with country program management teams
- Strong emphasis on targeting and project/program monitoring and evaluation
- Internal and external evaluations of relevance, effectiveness, efficiency and sustainability
- Increasing focus on supporting and integrating with country-level results monitoring systems and assessments
- Sustainability challenge leading to focus on how to better match innovation and targeting with programs, harmonization and scaling-up

How this is applied to IFAD's support to market integration:

- Most **country program strategies** include strategic objectives and annually monitored indicators which include support for commercially-oriented production, improved marketing and private sector involvement
- **Project indicators**, disaggregated by gender and now youth, measure outreach and performance, including supply chain efficiency gains, increases in smallholder marketed volumes and gross margins, sustainability of marketing facilities and organizations, and qualitative satisfaction with services
- **Office of evaluation** review of market access support in IFAD projects and COSOPs highlighted incompatibility with low-potential areas, insufficiency of partial approaches, and importance of assessing market demand, institutions and stakeholders.
- Assist **government sectoral and PRSP monitoring systems** to integrate market access results indicators into their own sectoral and PRSP monitoring systems, working with other partners.
- **Technical reviews** of experience with scaling up value chain programs across globe to better build in key factors at design of new projects, and increasing capacity to engage in-country policy discussions.

To Summarize Our Experience with Market Integration...

- Use value chain analysis to ensure holistic assessment and facilitate coordinated efforts to improve supply chains, **but** complement with social and environmental analysis to identify opportunities to improve inclusiveness and sustainability
- Opportunities for win-win outcomes depend on strengthening producer organizations and/or brokering ethical trade deals with motivated private sector
- Employment opportunities in market integration need much more attention – particularly for poorest, women and youth
- Market integration is only one part of support to agriculturally-led rural poverty reduction - need food security/safety nets for those unable to participate

**We always try to remember who we are
working for...**



Thank-you!