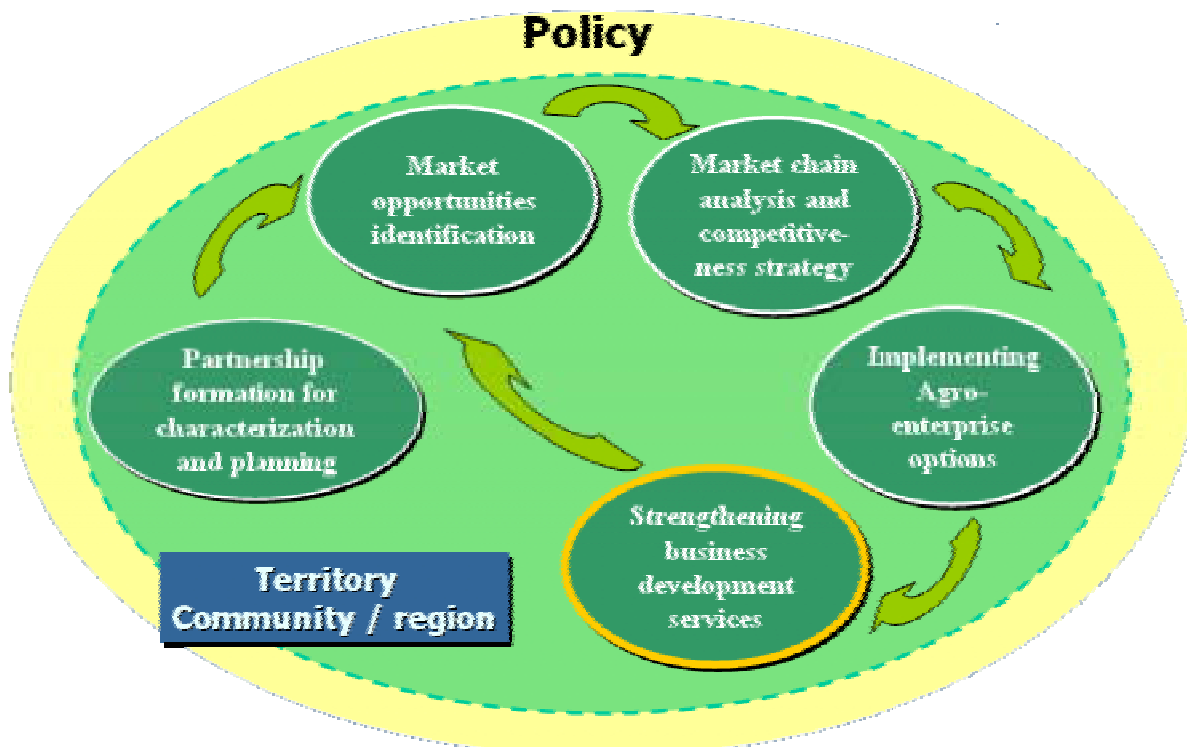


# A Territorial based Approach to Agro-Enterprise Development

Strategy Paper: Territorial Approach to Rural Agro-enterprise Development:



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# **A Community based Approach to Agro-Enterprise Development**

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Seventy percent of people living in extreme poverty are located in rural areas of developing countries. Despite their production potential, small-scale rural producers (SRPs) confront serious constraints in profiting from their resources due to lack of basic infrastructure, limited access to services for production, finance and business development and limited ability to influence favourable policy. Major global trends are rapidly changing the rural environment and communities need to devise ever more innovative ways of using their labour, resources and skills to take advantage of new business opportunities. In many cases, current trends will continue to marginalize increasing numbers of small-scale rural producers with particularly negative effects on those that are least organized and distant from markets. To address these changes rural communities are adopting various strategies, including agricultural extensification, intensification, diversification, mixed on / off-farm income streams and increasingly, urban migration. Unfortunately, some options can have serious negative effects on natural resources, especially in fragile ecosystems, where communities have no incentives to practice sustainable management practices. Similarly urban centres benefit little with increasing numbers of poor, unskilled and unemployed youth. In our view, the prospects for rural communities that receive a diet of production based development support are bleak. This paper sets out a strategy to address the current climate and to support rural communities in agriculture through a Territorial Approach to Rural Business Development and support to pro-poor policies that work towards enabling rural innovation with greater equity in the marketplace.

## **Introduction**

This paper describes a strategy developed by CIAT's Rural Agro-enterprise Development Project (RAeD), to address the entrepreneurial development needs of institutions that support rural communities. The methods, tools and learning approaches described here, were the result of many projects undertaken over the past 10 years in collaboration with partners from research, development and the private sector in Latin America, Africa and South East Asia. These participatory methods focus on realising new business opportunities for rural communities and can be used for:-

- (i) Developing partnerships, territorial diagnosis and joint planning,
- (ii) Identifying market opportunities for small rural producers,
- (iii) Analysing market chains and designing new business opportunities,
- (iv) Strengthening Business Development Services (BDS), and
- (v) Advocating for improved marketing and trade policies

Together, these methods make up the component parts of what is termed 'a territorial approach to rural business development' (TA-RBD). The approach was initially developed in response to

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<sup>1</sup> Commodity marketing Information Services, London, NW 5.

demands from partners requiring a methodical process for shifting from a focus on increasing production and often commodity specific production to a greater emphasis on identifying and responding to market demands. Subsequently methods were also required to facilitate a systematic method for shifting upwards in value from one product to another, and to tackle the problems associated with scaling up production of particular commodities in a competitive manner.

Although simple in nature, these problems pose serious challenges to resource poor farming communities that have been accustomed to producing basic food staples. Typically these communities produce low value commodities which have experienced declining real prices over the past decades and increasing competition from medium to large-scale producers. As such, the majority of smallholder families are stuck in a production “treadmill” whereby many producers all produce the same undifferentiated commodities, using traditional, low input systems. Inevitably these farmers are price takers in the market. There are few examples of smallholders from developing countries escaping this treadmill with undifferentiated commodities and they rarely produce sufficient profit to invest in higher value options. Among the options that smallholders have for confronting this situation are:

1. Improving the competitiveness of production for local products,
2. Achieving economies of scale through collective action for production and marketing,
3. Diversification, into improved or higher value crops or livestock linked to identified market demand.
4. Adding value to products, by changing farming practices to access higher income markets, by identifying alternative higher priced markets, by enhancing product quality and incorporating processing activities that meet client needs.
5. Entering new types of contractual agreements, based on forward sales or “marques of origin” that help to “lock in” buyers over longer time periods at advantageous rates.

In order to take advantage of these options, however, new activities must be competitive, sustainable and equitable in the share of benefits. The methods developed by RAeD and its partners have incorporated these basic marketing and business principles in a stepwise processes that facilitates market engagement. The approach is singularly non-commodity specific and supports collective action, diversification and value added as means out of poverty. It is our view that production based food security approaches to rural development are unlikely to succeed in poverty alleviation in today’s market driven environment and that ignoring the marketing element is perilous even in achieving sustainable food security.

However, the approach is not a formula and success with the approach is only possible when the method is applied with both effort and due professionalism. Enterprise activities are complicated social activities that need to be facilitated by skilled staff with motivated partners. In all cases the approach requires that methods and institutional arrangements are adapted to local conditions; that roles and responsibilities are agreed at the outset and that performance is critically observed and that consensus regarding the vision are client led.

Our experience shows that for these approaches to be effective, service providers and farmers need to acquire new skills and different ways of doing business. This change requires time and finances, which is why we recommend the approach is first introduced with a long term capacity building programme, typically over a 2 year period. CIAT has developed a “learning alliance” approach to facilitate this skills development, so that the partners can learn and adapt the

methods in flexible manner. In certain locations, such as areas suffering from civil insecurity or chronic food insecurity, it should also be clear that this method may not be appropriate.

As with markets, the “territorial approach” is a dynamic, organic approach and refinements are made routinely made, based on feedback from partners. Currently we are placing fresh emphasis on the issues of social organisation and the policies affecting market access and trade opportunities for developing countries. Unfortunately, despite the many successes from agricultural research, prices of primary commodities have fallen to a 40 year low and are unlikely to change unless more equitable trading agreements can be forged between rich and poor countries. For agencies involved in rural development, the existing marketing structure poses a challenge of gigantic proportions, and we need to understand this situation more clearly in order to assist advocate for a more equitable marketing system and also to find strategies and services to assist our clients in making sound business decisions and maintaining sustainable business ventures. The first part of this paper, seeks to outline broader picture, which has resulted from the current global marketing system.

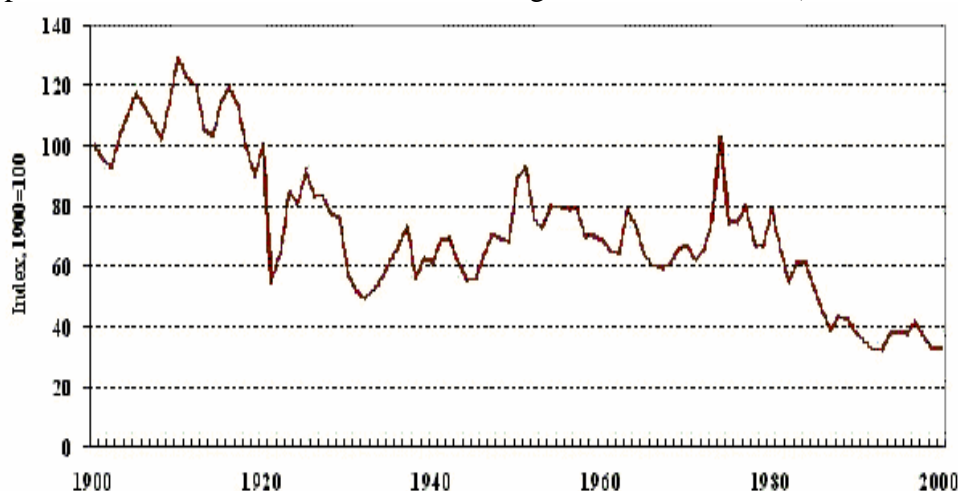
**Global trends and local rural development:** The global shift away from socialism since the 1960’s, followed by the collapse of communism in the 1980’s has led to today’s highly liberalized, free trade political framework. For many developing countries, these changes have led to radical shifts in how growth and development pathways are perceived and in the relationships between rich and poor nations. There is growing consensus among development economist that growth is positively linked to export oriented trade and that a robust private sector is the only viable vehicle for long-run prosperity. For many development institutions this has led to the conclusion that even the basic tenets of social support such as food security are not longer considered a supply problem, but the result of underdeveloped markets. As such these market problems should be addressed through market solutions. The changing socio-economic environment has triggered many trends that offer both new opportunities and threats to the many millions of SRPs in regard to market access. These trends include:-

**Market integration:** The effects of market liberalization and globalization fuelled by innovations in finance, communications and transport are having profound effects on how business is being conducted within the agricultural and food sectors. These changes have significantly increased competition around the world as new market opportunities have become open to trade. For farmers in developing countries, the level of liberalisation has been profound and nowadays, farmers are not only competing with their neighbours but with farmers from neighbouring countries and further afield. The situation is complicated by the fact that some farmers receive subsidies and have greater levels of tariff protections than others and yet all compete in a general marketplace. To remain competitive within this new environment actors along the market chain are adopting strategies to increase their economies of scale, through collective action, concentration of ownership and vertical integration. These developments generally do not favour resource poor farmers.

**Market concentration:** one of the consequences of these changes has been a rapid concentration of market power away from producers into the hands of a limited number of trade and retail companies Vorley, (2004). In many cases, major supply chains are now dominated by 4-5 transnational trading companies and their market share is growing. As a result, the negotiating power within agricultural chains, over the past 20 years has moved rapidly away from the producer end of the market chain to the trade and retail sectors, with the advent of trade houses such as ADM and retail stores such as Wal-Mart, Tesco’s and Carrefour. This situation means

that even when farmers aggregate, quality goods, and sell collectively, they still have insufficient volumes of sale to negotiate effectively with four to five giant corporations. There is increasing concern that lack of competition in the marketplace is having seriously negative social effects on agricultural producers and clearly the most vulnerable are poorly organised, resource poor farmers in developing nations. This is an issue of major political concern and solutions other than breaking up large organisations, such as happened to standard oil in the United States, are unclear. The other sticky problem is that whereas, Standard Oil was under the final jurisdiction of the United States Government, it is not clear who a trans-national finally report too?

**Secular decline in commodity prices:** Despite Malthusian predictions, agricultural productivity has continued to outstrip demand. However, due to the effects of the Pretisch / Singer hypothesis, which proposes that prices of inelastic goods will fall relative to elastic goods over time, the real prices of primary agricultural commodities have steadily declined over the past 100 years. This downward trend was partially arrested during the 1970-80's through International Commodity Agreements (ICA's), but prices then accelerated downwards with the collapse of the commodity agreements at the end of 1980's, when support for these agreements was withdrawn by Governments from OECD countries. Lack of regulation, the effects of recession and overproduction has led to commodities trading at an all time low, (Grilli and Lang, 2004).



**Figure 1. Long Term Trends of Non Oil Commodity prices.**

Source. D. Giovannucci, 2002.

**Table 1. Changes in Commodity prices US\$ / MT between 1980 and 2002.**

Commodity	1980	Adjusted	2002	% value
Palm Oil	617	1345	312	23.8
Sugar	254	553	126	22.8
Cocoa	2832	6174	1190	19.2
Coffee	3989	8696	1234	14.2
Rubber	1430	3117	650	20.9

Goods bought for \$1 in 1980 would cost \$2.18 in 2002, Bank of Minneapolis  
Source. Robbins Stolen Fruit, (2004).

The effect of falling prices of primary agricultural commodities has had a seriously negative impact on economic growth in many developing countries, particularly those most dependent on the trade of a narrow range of primary commodities, such as coffee, tea, rubber, rice and milk. On average, current prices of tropical products (taking dollar inflation into account) are only about one seventh of those prevailing in 1980 (UN General Assembly), see **Table 1**. Much the problems are based on over supplied markets. Economists call this phenomenon the *fallacy of composition* - less income is earned as more commodities are produced. This situation is serious because once markets are oversupplied, a 1 % additional increase in production does not cause a 1% loss in value, as prices in oversupplied situations fall to the highest bid price, which can be significantly lower and in the worst cases sales prices fall below production costs.

**Dimensions of the marketing problem.** Until very recently, economists did not agree that there was a secular decline in commodity prices, however, recent analyses by UNCTAD, World Bank and the IMF, have shown there is a structural problem in the marketplace and that commodity prices are falling. Figures on the level of losses are being debated and much depends on the assumptions used in a calculation. A conservative estimate from UNCTAD places foreign exchange losses for key commodities of 67 countries between 1995- 2000, at approximately \$40 Billion. According to Robbins, taking 1980 prices against 2002 prices, for the top 10 traded commodities, the foreign exchange losses are valued at nearly \$250 billion dollars, in one year alone. In either case, these are not trivial sums of money and the effects on economies and farm incomes are significant.

**World trade negotiations.** GATT and the WTO have done little to improve the prospects for rural producers in the developing world, in terms of opening new markets and reducing tariffs to value added markets in developed countries. Trade talks have been unable to redress the imbalance in subsidies provided to farmers in developing countries, although developing countries have been persuaded / coerced into removing subsidies for their farming sectors. Attempts in the 1980's to develop commodity agreements through UNCTAD failed when importing countries opted out of these protocols. Alternative channels such as Fair Trade have been slow to emerge and some attempts have transformed into mainstream businesses. New initiatives such as EBA<sup>2</sup> and AGOA<sup>3</sup>, are attempts to redress the tariff issue for least developed countries, although most of these countries lack the finances to access these new market options.

**Value addition somewhere else?** Although, value addition to primary goods would offer a major income opportunity for many developing countries, lack of progress in multi-lateral trade negotiations has meant that tariff barriers prevent exports of processed goods. Consequently, most value to agricultural and agro-industrial products takes place in the importing country. As indicated in Figure 2, although prices of primary commodities have fallen dramatically over the past 20 years, the value of processed goods has continued to rise in the retail market. Unfortunately, much of the growing differences between raw material and retail prices is being accumulated as profit to large multinational companies who dominate the trading of processed goods. As shown in the coffee sector, producing countries continue to face price levels, which in some cases fall below production costs, whereas, profits for the four major coffee processors has increased. The information in **Table 2** shows the billion dollar profit levels of the top four coffee

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<sup>2</sup> EBA – EU - Everything But Arms initiative, waives tariffs for virtually all products for least developed countries

<sup>3</sup> AGOA – African Growth and Opportunities Agreement, offers tax exemption for fibre products into US markets

houses in the world compared with the loss in income gained from coffee sales in Uganda, over the past 10 years, which is the 8<sup>th</sup> largest global producer.

**Table 2. Profit levels of the top four coffee trading and processing multi-nationals**

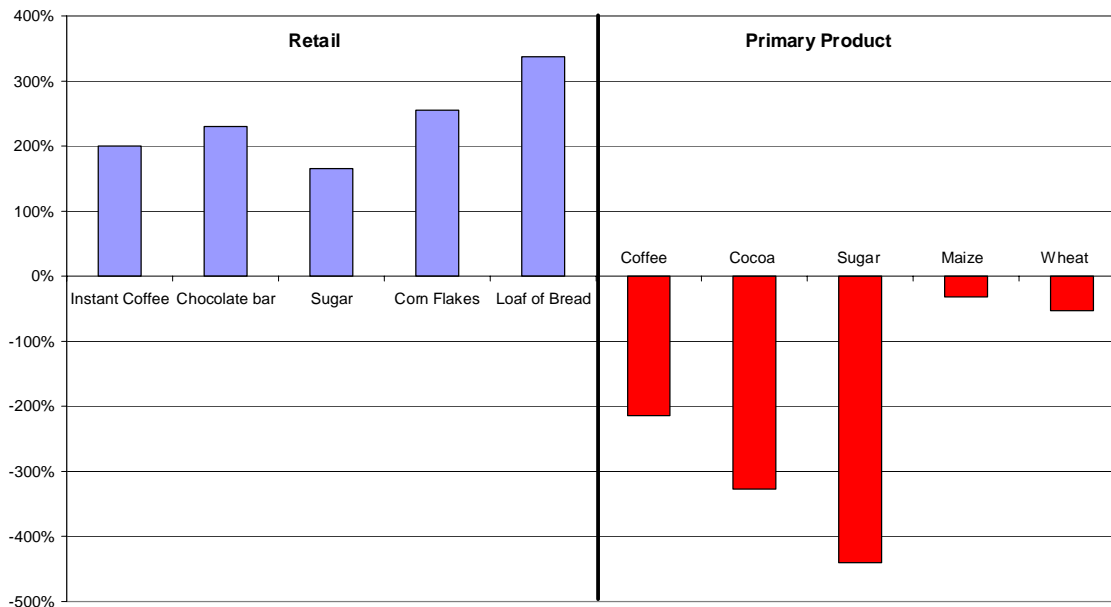
Multi-national	Proctor and Gamble	Nestlé	Sara Lee	Kraft
<b>Profit</b>	\$ 3 Bn	\$ 4 Bn	\$ 2.3 Bn	\$ 5 Bn
<b>Income 2002</b>	Uganda \$80M			
<b>Income 1995</b>	Uganda \$450M			

Source: Independent Newspaper 18<sup>th</sup> Sept, 2002.

It is argued that much of the difference in primary and processed goods are absorbed with the increasing costs of marketing, which includes advertising, branding, packaging and retailing in order to make a product appeals to increasingly discerning customers in developed countries. Whilst this is possible, virtually all of these components of the retail price are accrued in the consuming countries, which indicate the types of gain that could benefit developing countries if processing was conducted at source.

Lack of access for value added goods into export markets has meant to some extent that entrepreneurs in many developing countries have not invested for sales of processed products in their national and regional markets. The consequence has been that a large % of processed goods based on agricultural products are imported. Clearly this is another lost opportunity and with the rapid rise in retailing, through supermarkets, in all developing countries, new markets are opening for higher quality processed goods, which could be made in situ.

**Figure 2. Percentage Price changes of key commodities between 1980 and 2000.**



Source: Robbins, 2000.

This opportunity should be realized, as it is a first step in gaining the knowledge and competence to produce higher value goods, that will initially provide export substitution and later lead to

more distant market options. Even within developing countries, (80%) of value addition is generated off-farm, due to lack of know how, infrastructure and market access and this provides a real opportunity for rural producers to engage in simple value adding methods so that they can capture a higher % of the final market price.

**Public sector reform:** at the developing nations level, reforms in the public sector, often termed structural adjustment, have resulted in privatization, decentralization and a greater participation of the private sector and grassroots groups in decision making and processes of reform. Consequently, public support to the agricultural sector has declined relative to other sectors such as health and education and Governments have pulled out of direct support to farmers, which has meant that subsidies for inputs have ceased and state marketing boards have been dissolved. It was assumed that these roles supported by the public sector would be replaced by a more agile private sector. Unfortunately, in many developing nations the vacuum left by the State, has not been replaced due to the high transaction costs needed to provide support services to SRPs. These costs are high due to rural population dispersion, poverty and deficiencies in basic rural infrastructure such as, roads and communication. Therefore rather than gaining through the process of public sector reform, many farmers are now poorer, with fewer services than before.

**Other market trends, health, food safety, specialization:** In addition to the market policy changes, there are numerous market trends being led by consumers and processors who are increasingly demanding agricultural products with greater quality, safety, and traceability. Demands for “healthy lifestyle” foods, particularly fruits and vegetables, are increasing and the market for organic products continues to show growth, above 20% per annum. There is also rapid growth in areas such as medicinal plants, cosmetic applications and growing demand for more specialized products such as herbs, spices, essential oils and products that can support biodegradable fabrics and packaging materials. However, trends even in these markets indicate that mainstream producers are increasing their production size to supply larger wholesale and retail markets. Traceability issues offer some producers with an opportunity to protect particular genetic, location or process based products, but there can be considerable cost implications to such identification systems.

**Strategies to support Rural Business Development (RBD).** The analysis of macro-trends and policy changes in agriculture and rural development indicate that we are working in an ever more complex environment and this suggests that new approaches need to be taken to support communities through Rural Business Development. In addition to business development support measures also require a facilitating environment with appropriate policy at the macro, mesa and micro levels. Our focus is the promotion of effective rural enterprises linked to emerging market opportunities and to support this approach to RBD, the following methodology was developed.

## **The Territorial Approach to Rural Business Development (TA-RBD)**

To address this complicated and evolving market situation, CIAT’s Rural Agro-enterprise Development (RAeD) Project has developed a conceptual framework of interconnected methods and tools to facilitate the design and execution of a flexible yet robust RBD strategy. The approach is guided by the following principles:

- ∄ A business and market-oriented focus;
- ∄ The promotion of product diversification, added value and market chain competitiveness;
- ∄ Participatory decision-making with partners;
- ∄ A focus on strengthening existing local skills as well as building new ones;
- ∄ A search for consensus among multiple actors;
- ∄ Equal access to opportunities for participating groups, and;
- ∄ Social, economic and environmental sustainability.

The approach has five components, each containing a number of discreet activities:

### ***1. Territorial selection and partnership development***

- i) Selection of territory,
- ii) Establishment of agro-enterprise working group,
- iii) Bio-physical and socio-economic diagnostic of territory
- iv) Profiling of beneficiary groups and risk analysis
- v) Group organisation and plans for collective action
- vi) 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 and can be produced under existing biophysical conditions and are of interest to local producers.

### ***3. Enterprise design and implementation***

- (i) Detailed participatory market chain analysis,
- (ii) Evaluation of critical points in the market chain,
- (iii) Development of a business plan to design and implement 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.

### ***5. Advocacy for pro-poor marketing and trade policy at the micro, meso and macro levels***

- (i) Assessment of impact of current marketing and trade policy on income prospects
- (ii) Support to advocacy groups targeting pro-poor policy options
- (iii) Studies to evaluate the effects of new trade policy options

To date, the RAeD project has developed guides for three components of the TA-RBD, and the fourth method on BDS is in preparation. In addition, an on-line tool kit is under development which incorporates a set of supplementary tools, methods and information resources that can be used with one or more of the guides. Most of these tools can be used by service providers, and are described in the following sections. Policy analysis is being undertaken through specialist studies and membership of pro-poor policy advocacy groups.

## ***Step 1. Territorial diagnoses and partnership development***

The first stage in this process is to select a territory of operation and then to initiate a process of partnership development. The approach begins with a territory, this allows the research and development teams to understand the bio-physical and social opportunities more clearly and to be in a position to monitor changes over a set timeframe, within a defined area. The size of the territory is usually defined by resources and experience, some interventions focussing on a community; others will choose to work at a district or even cluster of districts level. This process was designed to work at a sub-national level, however, it can be stretched to a national level with some modifications. Whilst the territory defines the client operating area, it does not limit the reach of the market chain, which may go beyond the territory that is being supported. Having decided upon a territory, the next activity is to develop a network of partners that can assist in the planning and implementation of market based interventions over a planned time period.

***Formation of a local interest group:*** Building partnerships starts with the formation of an “interest group” for RBD. In our experience, this interest group usually comprises strong representation from SRP organizations and NGOs with somewhat lesser participation by public and private sector actors. Membership of the working group and the organizational form are decided by the participants, as is the demarcation of the territory in which the group seeks to work. The working group can be considered as an umbrella committee that includes long term and short term partners. As such the formation of the working group is an iterative process and the composition will vary over time and according to the size of the territory, the number of organizations present in the area, previous experiences and the needs of the local population. The purpose of this group is to provide technical, political and financial support to the community development process.

The interest group initiates an intervention with three main activities:-

- (i) Characterisation of the territory
- (ii) Selection and evaluation of client or enterprise teams
- (iii) Development of a joint action plan

The territory is characterised by gathering information related to the following categories-

- § Boundaries of the territory (this should delimit the client group)
- § Bio-physical assets, (rainfall, soils, temperature, land use, seasons etc)
- § Client groups (gender, age, structure, organisation, history, aims)
- § Infrastructure, (roads, schools, communications, markets, rivers)
- § Political structures if relevant; (parties, affiliation, benefits)
- § Productive assets, (income based crops / livestock, land area, equipment, labour,)
- § Financial assets, (savings, medical schemes, insurance)
- § Social assets, (age of group, community, land tenure, tribes,
- § Organizational assets, (groups, collective activities, links to other SPs and groups)
- § Institutional assets, (church, local government, NGOs, hospitals, etc)

Survey information is gathered using secondary data sources and thereafter gaps are filled using participatory rural appraisal tools, such as focus groups. To make this a rapid process, emphasis is placed on the use of key informants from the territory, in addition to more routine visits to major employers, local administrators and lead NGOs. This study should not take more than 2 weeks in the field and 2-3 weeks to write up. The report, some 20 - 30 pages, is written in a

simple language with a clear focus on information that will be useful for subsequent agro-enterprise development.

The collection and analysis of this information provides an arena for consensus building and eventually decision-making among the interest group members and subsequently with the enterprise teams, (i.e., those actors and their direct service providers who will implement activities at the enterprise level). At this stage, the working group should start to formulate ideas through a process of debate and negotiation, including discussion of the following topics:-

- š market orientation (producing what can be sold as opposed to selling what we produce),
- š market trends and drivers,
- š being entrepreneurial,
- š collective marketing,
- š group participation, membership and
- š business alliances.
- š rules of operation

Based on the information gained an action plan is developed which includes a shared vision, mission and values, organizational structure, rules of operation and an initial action plan. This process allows group members to discuss and analyse past experiences and decide on what types of actions are appropriate in the future. Once the diagnostic survey is completed and an action plan approved, the next step is to articulate this process at the farmer / enterprise level.

**Formation of enterprise teams:** The selection of enterprise teams is dependent upon the location and culture in which the service provider is working. For example in some Latin American countries, groups already exist, are well organised and may have layers of social structure, such as farmers groups, linked to associations of groups and national apex bodies. In many African countries, the dissolution of Government co-operatives has left few farmer associations intact and service providers may need to initiate a process of group formation. Existing groups are often production oriented, such as those from farmer field schools, or have other motives such as those groups that have self associated for their mutual benefit for savings or insurance schemes. In many cases the process of introducing a market orientation will raise new concepts and issues which need to be debated in the same fashion as done with the interest group.

From the outset enterprise groups should be evaluated in terms of their:-

- š differentiated livelihood options, (gender, on/off farm incomes, education, age)
- š economic assets: (skills, land, business links, business records)
- š interest in adopted a new business plans with shared responsibilities and risks.

Once groups are identified, issues such as group size and heterogeneity need to be addressed. Group size and uniformity in wealth or culture is a much more critical issue considering that these individuals will commit time, land labour and especially finances into a business situation. Whereas production based groups can number up to 100 farmers, our experience and based on recommendations from other agencies is that enterprise groups, should have a limited membership, the preferred number being approximately 20 members.

The enterprise team should elect key positions such as a chairperson, treasurer, secretary and marketing officer. The service provider should initially take the lead in discussions about market orientation and business development and work with this group in developing the outlines of business plan and how the group will fit into the overall development process being undertaken.

More details on how to develop enterprise teams are given in a manual entitled *Collective Marketing for Small Scale Farmers* (Robbins et al, 2004).

The final step in this stage is the design of a simple, needs based monitoring, evaluation and learning system. The manual *Formation of Working and Enterprise Groups for Rural business development Processes* (Lundy et al., 2004) provides a guide on how to approach this component.

## ***Step 2 Identification and management of market opportunities***

This stage provides the service provider and enterprise teams with methods to evaluate market options and to initiate the process of market engagement. The activities at this stage include:-

- (i) Evaluating group experience and aims in marketing
- (ii) Making decisions on pilot projects to gain experience or maintain momentum
- (iii) Identification of the most appropriate market opportunities and
- (iv) Management of on-going market intelligence.

Two of the marketing principles that CIAT aims to promote through the TA-RBD approach are (i) achieving economies of scale through collective action and (ii) diversification, based on identified demand. These two are considered to be vital components in organising atomised farmers and in assisting them in making more informed decisions on business options. In many development projects, these steps are bypassed with the assumptions that farmers will self associate and the market options will be addressed by increasing volumes of the main food security crops, such as maize, beans and sorghum in the project site or by focussing on the major cash crop, such as cotton, coffee, rubber.

The RAeD approach does not take these assumptions and time is invested in strengthening organisation of the enterprise groups and evaluating a broader range of marketing options by ascertaining which products are in highest demand and can provide the best income generating opportunities for an identified community, within the selected territory. Taking time to gather this information will enable the service provider to tailor the process to specific segments of a community, (i.e., poorest, women, youth, established farmers etc) and also to develop capacity in the community to understand and engage in future markets more effectively.

Depending on the experience of the service provider in developing enterprise options and the ambition or experience of the enterprise teams, the actors can start their marketing activities by undertaking a pilot study to (i) learn how to market an existing product collectively, or (ii) to evaluate a narrow range of novel market opportunities, on a limited scale, to learn more about the benefits and risks of diversification. In both cases the enterprise teams also learn about record keeping and financial analysis, two key elements to future business planning and sustainability.

**Gaining experience and momentum through pilot projects:** Examples pilot projects include:

1. In Kenya, a CIAT - NRM focussed team wanted to integrate participatory research within an enterprise context. The group also wanted to start their marketing engagement, immediately after a rapid territorial diagnosis, by introducing collective marketing for an existing product. Product selection in this case was made using participatory tools to prioritise a product that was (i) already being produced for income, (ii) was being produced by the majority of group

members, (iii) was in strong market demand, and (iv) could be sold to an identified buyer in a market that was accessible to the enterprise team. This selection process was simple to organise and enabled the service providers and enterprise team to progress rapidly from the diagnoses stage into an enterprise activity. The process involved both on-farm negotiations amongst group members and market visits to verify demand for the products, price trends and to identify buyers. The pilot project fulfilled two basic aims, (i) to expose the group to business approaches for collective marketing and (ii) to maintain momentum, farmers are busy and have a limited attention span, if markets are to play an important role in an agricultural intervention, partners must be engaged in this process on a continuous basis.

2. On another occasion, in Madagascar, the service provider, decided to test the market opportunities method, which promotes diversification at a pilot level, during a short off-season window before applying the process to a wider area. This use of a pilot project enabled the field staff to gain practical experience in how to evaluate products based on demand and also test the use of other market chain methods in a 3-4 month period. The teams were able to observe the limitations of the process and also gain a better understanding of the types of criteria that farmers use to assess new crop options and how to negotiate with new buyers.

To address the issue of collective marketing, CIAT in partnership with FOODNET and NRI have developed a manual on *Collective Marketing for small-scale producers* (Robbins et al, 2004), to address the question of how to select a new product that is in highest demand and evaluate prospects for diversification, CIAT has developed a manual on *Identifying and Assessing Market Opportunities for Small Rural Producers* (Ostertag et al, 2004). The second manual provides methods to respond to three main questions:

- (i) what products, either existing or novel, show strong market demand in terms of increasing volumes and prices;
- (ii) which of these products can be produced in the region given the biophysical characteristics, infrastructure, access to productive resources and existing livelihood strategies; and,
- (iii) of those products identified in (a) and (b), smallholders make a final decision on which products are of interest most interest for investment. The end result is a portfolio of options, which respond favourably to the three questions. The size and diversity of this portfolio varies depending on market conditions, biophysical and social feasibility and both farmer interest and ability to invest or take risks.

The market identification method is a rigorous process used to evaluate the market potential of a broad basket of products via a series of filters based on technical, marketing and financial criteria. The process may start with an evaluation of more than 40 products, but careful analysis will reduce this number down to manageable number from five to fifteen possibilities which are then evaluated by the enterprise teams. The steps in this process are shown in **Table 3**.

The result of a market opportunity identification study is a basket of possible options for development in the selected territory. At this stage, the working group presents these options to farmer representatives of diverse livelihood strategies who prioritize these options based on local criteria in a participatory fashion. In the past, local selection criteria have included:- strength of market demand, investment required, product profitability, environmental impact, perceived ex

ante development impact, time to first income and organizations interested in the product. These criteria vary by region and livelihood group. Using local criteria the market options are ranked and a decision made on which option(s) to pursue first.

**Table 3. Steps used by the RAeD Market Opportunities Identification process to select a market chain for further analysis**

Steps	Action	Result
Step 1	Conduct a rapid market survey to determine a range of products have high market demand	A “long list” of market options, this can be a list of products often up to 40 – 50 products.
Step 2	<b>Obvious discards</b> 1. Can the product be produced in the territory 2. Does the product require high investment	Remove all products that are not feasible for the target group based on their assets, the first cut should be based on obvious problems, e.g., remove products that :- <ul style="list-style-type: none"> <li>€ cannot be grown in the area,</li> <li>€ require high investment</li> <li>€ are not profitable in the territory, not comparative advantage</li> <li>€ have a high market risk for the target group</li> <li>€ require many years to produce first yields.</li> </ul>
Step 3a	Agronomic analysis	Review production conditions required
Step 3b	Financial analysis	Review profitability and investment needs
Step 3c	Marketing analysis	Review market type, buying conditions, client group, packaging and quality aspects.
Step 4	<b>Selection of prioritized product.</b> Based on the analysis of the three matrices, the service providers and farmer groups prioritize products which they will analysis in greater detail.	Prioritized products that farmers are willing to invest into and to evaluate in more detail with market chain actors.

**Risk assessment:** One of the more difficult criteria to assess is an appropriate level of risk that a client group should take on. Tools such as the Ansoff matrix, see Table 4, can be used to categorise risk options, with types of products and markets, with risk increasing from numbers 1-4. Analyses of products based on demand, often biases opportunities towards higher risk options.

**Table 4. Using the Ansoff matrix for risk assessment**

	Existing products	New products
Existing markets	1. Market penetration	3. Product development
New markets	2. Market development	4. Diversification

Using this tool, the facilitator can guide groups towards a sensible level of risk based on their experience and track record. In this case, facilitators may advise newly formed farmer groups to select options that are based on market penetration and market development, with the view that farmers should test new markets in a stepwise manner starting with test plots and market trials before engaging in larger scale supply. For groups with more experience in marketing, higher risk

strategies are likely to be more acceptable. See **Table 5**, for an experience, in Vietnam, of different types of farmer / production groups dealing with a range of risk options.

In Vietnam, the agro-enterprise project is working with remote tribes in hillside areas, in an attempt to introduce a more commercial approach to the development work. The level of commercial engagement varies considerably across the farming groups and therefore the project is evaluating the ability of these different groups to tackle an increasing level of risk. The facilitator therefore has to adjust the process to each of these clients needs. The decision to take on the four levels of risk is so that the facilitator can in the future have a better idea of the types of methodologies that these different client types will need.

**Table 5 – Using the Ansoff matrix to assess product risk profile**

	Existing products	New products
Existing markets	<b>1. Market Penetration</b> Increasing sales of water cress into local market	<b>3. Product development</b> Changing cassava production from sweet types to bitter industrial cassava for starch production
New markets	<b>2. Market development / expansion</b> Taking existing product, chopsticks from bamboo and selling these into a new market area	<b>4. Diversification</b> Introducing a new type of mushroom with medicinal properties and developing a new market for this product in the district.

Source: D. Peters, SADU annual report, 2004.

### Gathering market information

At several points in the agro-enterprise approach information is gathered from marketplace in order to make more informed decisions. As part of the process CIAT seeks to build local capacity to generate, manage and disseminate key market information on a permanent basis. This capacity involves not only direct market visits by interest group members but strategic alliances with national market information system programs and the elaboration of dissemination tools appropriate to the rural context. The range of tools being developed by CIAT in this area is shown in **Table 6**.

**Tools:** in addition to the tools mentioned in Table 5, **Rentagro** is a software that helps users with little computer or financial background to develop profitability models for production and agro-industrial projects. **Rentagro** functions as an inter-phase between the user and an electronic worksheet and helps calculate working capital, interest payment, many financial parameters and facilitates sensitivity analysis. This financial tool can be used by SRP organizations or BDS providers.

**Tradenet** is a software system designed for use by specialized market information service providers. This software is scaleable in the sense that it can provide information for produce at a district level, or at a national level. This software is currently being tested by the Ugandan National market information service.

**Table 6. Market Opportunity Identification and Market Intelligence Tools**

Aspects	Tools				
	Pilot project (optional)	Market Opportunity Identification	Rapid Market Study	Market Visits	Local market information / intelligence systems
Duration	3-5 months	3-5 months	1-2 months	1-4 weeks	3-4 months start-up
Frequency	Once	Periodic	Periodic	Periodic	Permanent
Thoroughness (1-5)	4-5	4 – 5	2 – 3	2	2 – 4
Complexity (1-5)	2-3	4 – 5	2 – 3	1 – 2	2 – 4
Local capacity versus external facilitation (%)	20-80	30/70	50/50	70/30	Initially 20/80, then 50/50
Focus on new products (1-5)	0	4 – 5	3	2	3 – 4

Source: CIAT Agro-enterprise Development Project

### ***Step 3 Designing and implementing Integrated Agro-enterprise Projects***

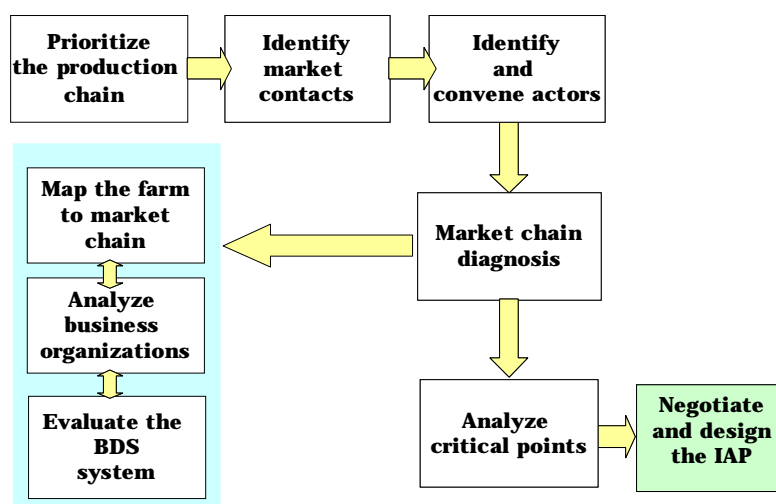
At this stage, the working group moves onto the participatory analysis of one or more selected production chains using the methods and tools outlined in the guide entitled ***Strategies to Improve Chain Competitiveness with Smallholders field guide developed by CIAT (Lundy et al., 2004)***. This method facilitates the analysis of a selected product within a market chain context with the analysis being conducted by the actors involved. Through this process, the members generate collectively-owned information and a consensus for action. The scope of this analysis is broader than a sub-sector analysis as the evaluation includes not only the farm-to-market chain as such (production, post-harvest/processing and marketing) but also two important cross-cutting areas: business organization and the provision of BDS. Understanding the business organization and support services present in a farm-to- market chain are key devising options for improving market chain performance. The result of this process is a business plan.

The method starts with the identification of specific market contacts, within the selected chain and the gathering of information about market contacts (name, address, phone and others) and product purchasing conditions (quantity, quality, frequency, price and presentation). This is complemented by a broader identification of relevant actors along the chain links, such as production, post-harvest and/or transformation, marketing and BDS providers.

Information is gathered on the farm-to-market chain with representatives from the different links using participatory tools, such as focus groups and semi-structured interviews. Initially, participants at each stage of the market chain are interviewed separately or in small groups in an

effort to avoid undue influence by relatively better-informed actors. The information is reviewed by the actors, who identify and analyse critical points and propose solutions. At the end of the process, facilitated consensus-building workshops are held where all information is shared and discussed with the various actors with the goal of identifying positive synergies among actors, common interests and critical points where strategic investments can achieve high returns. **Figure 3** shows the steps used in this analysis.

**Figure 3. Steps in the IAP method**



After the process of negotiation with actors, an action plan is drafted which includes both research and development activities in the short, medium and long term. For example, a development activity can involve the strengthening of the business orientation and skills of SRP organizations. The goal of this action plan is to improve the competitiveness and sustainability of the chain through the development of a common business development vision among various actors. Once a common vision has been established, specific development or research activities may be disaggregated into discrete projects depending on funding opportunities and donor interest while conserving a clear idea of where everything fits together. For the small-scale farmer groups, their role will be to select the best marketing option and then develop a business plan to supply an identified buyer. The longer term aim of this work is to work from a production chain perspective towards a value chain approach in which all players in the selected market chain are working co-operatively so as to increase the performance of their chain to the benefit of all actors involved.

### **Implementation of the agro-enterprise intervention:**

At this stage in the process the diagnosis and planning is complete and the group need to make the plunge into their new business venture. As with all planning implementation often leads to arrival of unexpected challenges that need to be dealt with by the enterprise team and the facilitator. Success at this stage will demand much on the leadership of the group and the commitment of the enterprise team to take on these new challenges.

### **What to do after the first transactions**

Having made the first transaction, the team need to evaluate whether their ambitions were achieved and if they did make an overall gain. Based on the degree of success, the group then needs to plan for the next market opportunity and sharpen their skills in the marketplace. Initial failure, or lack of startling economic results should be regarded as normal. Developing business

skills is not a simple process and virtually all business operators will have examples of what went well and what did not go well. These experiences need to be discussed within the group with the view to improving the business plan and working towards better results. In some cases this will include revisiting previous steps such as the market opportunity identification process to select an alternative option for the next endeavour.

### **The importance of record keeping**

As part of the ongoing activities of the group, keeping regular records of production costs, labour use, cash flow and income are essential elements of good business practise. There are many good and simple texts available on how to undertake book keeping for small scale enterprises and learning this skill should be part of the process of maintaining momentum within the group.

## ***Step 4 Provision of appropriate and sustainable Business Development Services***

The fourth stage in the RAeD approach is the provision of appropriate and sustainable Business Development Services or BDS. Based on the needs identified in the product-specific farm-to-market chain analysis, a fifth CIAT methodology is currently in development to promote the provision of effective BDS in rural communities. This focus covers financial, non-financial, formal and informal services and seeks to build functional markets for BDS that link specific demands with suppliers either at the local, district<sup>4</sup> or national level. By using the farm-to-market chain as a framework, the BDS services selected for strengthening or implementation can be clearly identified, quantified and their efficacy and impact measured. Fieldwork to test and formulate this process is currently on-going in Honduras and Colombia but the basic outline is shown in **Figure 4**.

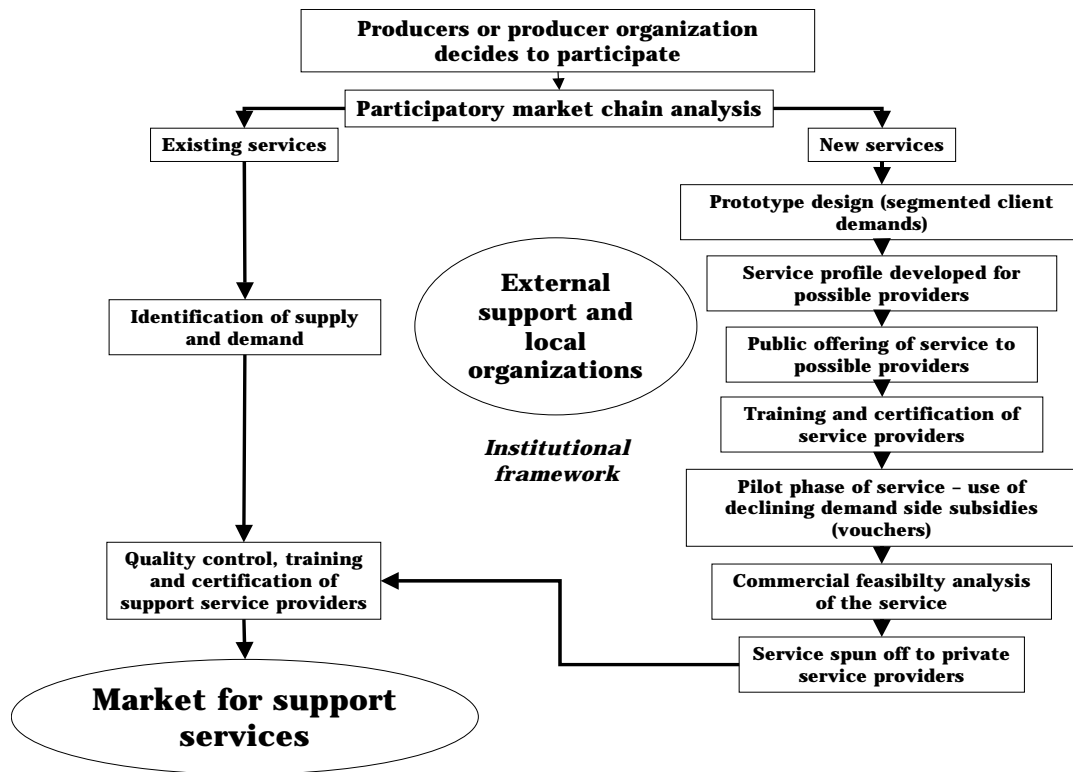
Some critical points in the area of BDS are the following:

- § BDS should be seen as a for-profit activity that complements on and off-farm employment. Potentially, functional BDS markets could not only increase local economic competitiveness but also provide important opportunities for semi-technical employment in rural areas.
- § Identification and inclusion of informal service providers (producer experts in technical assistance, for example) as well as formal (technicians and extensionists) in market and product demand development. An effective local BDS market will probably consist of many informal actors supported and complemented by a lesser number of formal ones.
- § Need to improve the effectiveness of BDS, both formal and informal, with the goal of increased competitiveness and sustainability. BDS should help facilitate positive gains in competitiveness rather than maintain the status quo.
- § Use of partial and targeted subsidies to promote innovative services. Subsidies should be focused on partially covering start-up costs (market studies, capacity building, promotion, etc.) and assessing and disseminating the impact of the services rather than subsidizing their direct provision. Services should strive for profitability but some may require on-going support given their strategic nature.

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<sup>4</sup> District, refers to a political boundary above the country or prefecture level. In some countries this is referred to as the regional level. We are using district to avoid confusion with regional that refers to clusters of countries.

**Figure 4. Creating markets for BDS in rural communities: methodology**



**Tools:** Most of the RAeD Project’s tools are useful for BDS providers and are described below.

**Training Material on Basic Business Concepts:** a portfolio of manuals and PowerPoint presentations targeted to rural development practitioners and managers that encompasses basic business theory and planning titles such as: “Basics of the Business and Market Orientation”; “Marketing Basics for Agro-Enterprises”; “Business Plans”, “Marketing Strategies”, “New Product Development”, and “Development of Financial Profitability Models”.

**Agro-industrial Innovation Groups:** this method explains how to involve groups of local actors in action research and co-innovation focused on one or more links in the production chain, including primary production, post-harvest handling, processing, marketing and/or new product development.

**Public: private partnerships:** This methodology is specifically aimed at developing a set of tools that will enable working relations between public research teams, often supporting small-scale producer groups to work more effectively with larger private sector business operators. This approach is currently being developed in Latin America in partnership with IFPRI. This method is another important method to scale up investments in enterprise and agricultural business development and is particularly useful to align diverse partners into a common market oriented vision.

**RBD Information System:** this prototype explains how to develop an Internet-based RBD information system from the bottom-up, and how to establish local community networks.

**Learning Alliances for Institutional Change and achieving scale:** Learning alliances, are a flexible action-oriented learning-by-doing capacity building and action-research scheme that is being used for both capacity building a scaling up activities for enhancing rural innovation through agro-enterprise development. Learning alliances were developed to replace one off training programmes that gained poor results. Depending on the goals, a learning alliances is designed jointly by researchers, service provider and clients and is executed in thematic modules, over a 1-2 year period. This allows for cycles of learning, doing, appraisal, reflection and evaluation. For Agro-enterprise development, this scheme provides coaching that strengthens the integration of new business and marketing skills and stimulates innovation, that is adapted to diverse local situations. The learning alliance approach is the main method used by RAeD to scale up the use of the agro-enterprise methodology and CIAT is currently working with several international NGO's and national research organizations to promote agro-enterprise approaches through this learning by doing, capacity building partnership.

### ***Step 5. Pro-poor policy development***

In undertaking the development of the first four steps in this methodology, the importance of a facilitating policy environment has become increasingly apparent. All too often sound business development plans are made obsolete by lack of supportive policy and it is also recognized that governments and local administrators need to develop effective policy frameworks if they are to steer investments towards building a conducive business environment.

Given that policy is an all embracing concept, CIAT is aiming to develop partnerships with specialist agencies that contribute towards policy development in support of enterprise and business options for small-scale rural producers. The role of CIAT in this case is to identify specific pieces of strategic research that highlight areas of policy inequity and also to show the impact of current policy on the prospects of SRPs in the developing countries in which we operate. These approaches are being developed to add weight and objective analysis to ongoing initiatives that are advocating for change in the current trading environment.

Some of the areas that groups such as IFPRI, Oxfam, CAFOD, Comms-1, Tradecraft, the Institute for Trade Policy, UNCTAD and most recently the G21, are lobbying for are listed in the section below. These recommendations form the basis of many research activities and it is apparent from this list that many of the aspects between macro, mesa and micro levels of operation are highly interdependent. The current interest by CIAT in the policy area related to agro-enterprise development has been stimulated by the ongoing commodity crisis. Our particular area of most interest is the meso to micro area as it is these policy decisions that most immediately affects our clients, however we are keenly aware of the linkage between these levels of trade policy and that we can contribute to specific studies at the macro level where a need has been identified:-

#### **Recommendations at the macro policy level include:-**

- (i) eliminate export subsidies of agricultural commodities from developing nations.

- (ii) reduce internal agricultural subsidies to selected agricultural commodities in developed nations, starting with products where temperate producing countries have no comparative advantage, such as rice, milk and sugar.
- (iii) reduce or eliminate escalating tariffs on processed agricultural goods supplied from developing nations into OECD countries, as indicated by EBA.
- (iv) manage the supply of basic commodities to avoid overproduction,
- (v) evaluate market effects when support agencies consider large scale investments in production based support programs;
- (vi) invest in value adding enterprises to increase income and reduce exports of primary goods.

**Recommendations at the national / meso level in developing countries include:-**

- (i) promote alliances between the private sector and SRP organizations in value chains, contract farming and other possibilities within the Fair Trade segment;
- (ii) develop long-term processes with SRPs, including improved access to natural resources, basic infrastructure and services, plus support for exit strategies when needed,
- (iii) strengthen the rural business environment through the support of business development services (BDS), involving temporary subsidies;
- (iv) strengthen the human capital of international, national and local rural development agencies to implement business oriented rural projects.

**Recommendations at the micro-level to support rural enterprise development include:-**

- (i) promote participatory methods that directly involve local chain actors in decision-making and develop local capacity;
- (ii) stimulate collective action and organization of rural economic organizations with a solid business and market orientation;
- (iii) encourage on-farm intensification, diversification and adding value locally in rural areas, as opposed to extensification;
- (iv) strengthen the market for BDS and its coordination;
- (v) retrain public sector support services to deliver a business product to the rural community.
- (vi) generate and promote technologies related to small-scale agricultural production, including information and communications systems, low-external-input-sustainable-agriculture (LEISA), and other value adding intensification , rural electrification, irrigation and water management
- (vii) promote appropriate forms of diversification with SRPs based on their level of market access and asset base, including local income generating possibilities and higher value options such as:- tropical fruits, vegetables, livestock, handicrafts and eco-tourism.

**Conclusion:** Given the dilemma between increasing populations, increasing wealth and the declining nature of the international agricultural sector, it is important that agricultural Research and Development organisations, in partnership with international investors, consider new strategies that will provide a more optimistic economic outlook for the many millions of small-scale farmers in developing countries. Currently, there are too many countries producing too narrow a range of goods. Markets are also unregulated in terms of supply, such that farmers and Governments in developing countries are essentially locked into poverty, whilst producing the goods that developed countries both want and need.

For the Governments in developed countries, that have access to primary goods that are falling in price, the trade situation is attractive. The private sector is able to make considerable profits and there are few incentives, particularly for the large trans-national trading companies for change.

Therefore if new support measures and methods are to emerge, it will require a more equitable thinking in the minds of OECD countries and greater support from agencies such as the WTO. For change to be crafted that is acceptable between rich and poor countries, it will require that both public and private sector communities integrate their ideas and activities to develop new policy instruments. These ideas will need to be co-developed with Governments and agricultural support agencies from the developing world. Although the WTO was designed to achieve exactly these results, the impasse defined at the Cancun, round of WTO talks in 2003, shows the problems in addressing the most pressing problems in the global market place. Resolving the problems outlined by the G21 countries at Cancun will require courage and skill from member country to effect an environment which is more equitable, more competitive at a global level and provides real access to markets for both rich and poor farming communities. This is clearly a long term goal.

These are important events, as demand from agricultural countries and the development of value adding sectors requires significantly higher levels of investment, at the national and regional levels. This will only be possible if local actors and companies have access to higher value markets.

In the meantime, future works of development agencies working in collaboration with local Governments and administrations, should seek to build the business capacity and competence of small-scale farmers. The methodology outlined in this paper is one such approach. There are many others and these need to be assessed and tailored to the needs of specific client groups.

The pressing need for better support services is also evident. At present most farmers in developing countries have almost no access to the types of information and financial support services that can assist in linking them to local, national, regional and in the future to international markets. Market information and intelligence services are relatively cheap to develop and yet this has not been done for many millions of farmers.

Having access to information is not meaningful unless the associated knowledge can be applied by the various development organisations that aim to support small-scale farmers and entrepreneurs. Service providers need to incorporate a market / trade based approach in all their future work to enhance the ability of the farming communities to produce a diversified range of quality products, to supply identified market opportunities.

To avoid the oversupply of markets, support agencies also need to develop marketing intelligence systems that enable producers to self regulate the supply of goods and services on the market to retain prices within annually agreed marketing margins. Whilst this may appear to be a utopian goal, this very issue is already being achieved by a small number of trans-national companies and therefore, if managed well, could be used to support small-scale growers, if they were given the required skills and support services. OPEC is a good example of a loose association of producers, known to be highly factionated and ill disciplined can collectively control the price and supply of the world's major energy resource.

In a small way, methodologies such as the territorial approach to rural business development is one of a number of methodologies that can assist service providers to gain competence in the

field of agricultural marketing and pass on this capacity to their beneficiaries. The approach is relatively simple, and although it takes time to pass all of the required skills onto a target client group, the skills learnt are exactly those required to engage a dynamic market environment.

## **Frequently asked questions about the Territorial Approach:**

**What level of participation should be used?** Each of these processes can be undertaken by an expert team or by the target community. Our approach promotes the participation of both the target community and lead service provider(s) in gathering information, and thereafter in designing and implementing interventions based on their experience and knowledge gained in the process. The focus on participation is to build capacity within the local community to be able to undertake the marketing work when the service providers have gone.

**What is the best entry point?** When starting on a process of rural innovation, we suggest the most appropriate entry point for implementation of enterprise development is the identification of a defined local territory and consolidation of a local interest or working group, followed by establishment of focussed enterprise groups. These groups will support the process, from design through implementation. The aim of developing these groups is to develop an inclusive element to the process from the outset and to gain from group interactions and experience. The advantage of starting the process through a defined geographic area is that it enables the lead service provider to work within an agreed spatial reference and to support local administration and social support groups, within their context. The spatial approach also lends itself well to monitoring and evaluation processes.

**Are there alternative entry points?** We fully recognise that different agencies operate from different perspectives and that initiating a process from a defined target zone, and thereafter developing a working group may not be part of a contractual or agency approach. It is therefore possible to omit this stage, or have a territorial analysis not conducted in a participatory manner but done through local consultants. Agencies that operate at a sub-sector level with pre-determined client groups could also start an agro-enterprise approach at Stage 3 in this methodology, which is at the market chain level. However, these entry points generally need a higher level of experience as the learning options are more limited.

**At what scale can the methodology be applied?** The size of the working group should be a practical number that is appropriate for ongoing activities in the territory selected. At a village or localised community level, the working group may comprise 3-5 people who will be actively involved in supporting the process, whereas at a district level the size of the working group may increase to 10-15 members, who will represent a number of organisations active in the territory. For the enterprise teams, i.e., those members who will formulate the production unit / processing unit, it is suggested that this group include 20 - 25 committed members. Expansion of the enterprise groups should be based around increasing the number of groups and not on increasing membership within groups.

**Does cultural context make a difference?** There are many factors that affect the way in which an agro-enterprise approach can be implemented, including, culture, but also wealth, distance from market, infrastructure and education are all important factors that will affect the type and scale of change to be proposed. Given the myriad of contexts that development and research agencies operate, we suggest that the Territorial approach to rural business development should not be used in an inflexible, recipe approach. The partners in the interest group, need to absorb the ideas contained in the approach and use the tools provided in the manuals in a flexible, adaptive manner. The key points are to enable rural innovation through processes that are a proactive, systematic and participatory.

### *Some results from the territorial approach*

The comparative strength of the CIAT's TA-RBD is its holistic nature, or the sum of its parts. This integrated approach reduces the risk inherent in the execution of business activities, especially with SRPs. Many organizations, both research and development, are working on specific areas such as markets, sub-sector analysis or the provision of BDS, but few have developed a clear idea about how these areas link together in a given geographic area. To illustrate this point, three brief examples have been included.

**Milk cooperative in Versalles, Southwestern Colombia:** Through a two-year Action Alliance scheme, the RAeD Project provided business training and coaching to members of CooVersalles, a small dairy cooperative in Versalles. This process was stimulated when the cooperative received funding in mid-2.002 from the Colombian government to establish a 5.000 liter milk-cooling plant. After 1.5 years of operations selling cooled milk, in January 2.004 CooVersalles has daily sales of 3.000 liters and exhibits the following impact:

- € has increased its membership from 50 to 70 members, despite an increase in the membership fee from US\$50 to US\$200
- € it generates an additional US\$150.000 per annum in income due to a 100% increase in the milk's sales price and a 130% increase in sales volume. A great proportion of this income goes to coop members and also trickles down to farm employees, and the rest covers the coop's margin and fixed costs, plus transportation.

The trend suggests that income will continue to increase and that multiplier effects in the community will be significant. Currently, CooVersalles is developing new Business Plans related to meat and cheese production plus local retailing of meat and agricultural inputs.

**Black pepper in Pucallpa, Peru:** Black pepper was identified as having a substantial market demand in Peru, which was confirmed by the application of the IAP method. Farmers learned that the prices they received locally for their product was only a small part of the value in Lima. Price differences of between 600% and 1,000% were found in this chain. Based on this information, 45 small producers formed a private business (Piper S.A.) and implemented the IAP. In the first six months they improved and homogenized their local post-harvest practices through a horizontal (farmer-to-farmer) process and entered into negotiations with an industrial buyer in the city of Huancayo. As a result of the first process, participating producers differentiated their product, achieving 20% more for each kilo of pepper than non-participants. In addition, Piper S.A. sold 1.5 MT (approximately 10% of the local harvest) to the buyer in Huancayo in two lots. The price paid for the first lot was 58% above local market price while for the second lot a 30% increase was achieved. After the second sale, imports from Ecuador depressed prices limiting further sales. Piper S.A. has purchased technical and marketing assistance from CRESE S.A., a private for profit applying CIAT's territorial approach.

**Cut flowers in Cauca, Colombia:** The production of cut flowers – anthuriums – has traditionally been a women's concern in the Department of Cauca, Colombia. When good market opportunities appeared for this product, an IAP was facilitated by CORPTUNIA, a local NGO, with three groups of women. The analysis of the farm-to-market chain revealed that flower shops in Popayán largely captured profits, while the producers themselves were barely covering costs. Armed with this information, a negotiating session occurred between representatives of the women's groups and possible buyers. This process resulted in a 24% price

increase for producers and, in return, they agreed to sort, grade and pack the flowers based on their customers needs. More important that this initial gain, however, is the business vision which the women's groups have developed that involves the establishment of a direct sales point in the city and, in the long run, the sale not of cut flowers but of floral arrangements.

**Coffee in Yorito, Honduras:** Despite the depressed market situation, a group of twelve producers in Yorito, Honduras has found a way to make their coffee more profitable. The elaboration of an IAP for coffee seemed far-fetched as coffee prices plummeted but the Agro industry Committee of CLODEST moved ahead anyway and identified an exporter in San Pedro Sula as a potential client. Initial negotiations led to a 16% price premium for their product over local buyers if they maintained strict controls that guaranteed high quality coffee to the buyer. This agreement was honored for three shipments and 227 quintales (11,350 kilos) of coffee were sold. Due to declining world prices, however, the buyer in San Pedro Sula backed out of the arrangement but, by that time, a local buyer offered the same conditions provided that the coffee is sold to him. An initial installment of 50 quintales has been sold to him. Since November 2001 when this process started, local coffee prices have continued to decline for producers who are not associated with the agroenterprise project. Currently the twelve participating producers are receiving 50 Lempiras (US \$3.13) per quintal while non-participants are being paid 25 Lempiras (US \$ 1.56) per quintal. Seeing as export price for a quintal of Honduran coffee is US \$45, much improvement can still be made in these prices.

As a result of improved market knowledge, a larger group of producers (approximately 45) have initiated moves toward ecological and organic coffee production. With the support of the Agro industry Committee of CLODEST, they have been certified as transition coffee and plan to achieve additional certification in the coming years. Negotiations are underway with a coffee cooperative, which currently exports organic beans for the German market, to purchase the transition coffee at a premium.

**Potatoes in Uganda:** Potato producers in the highlands of South Western Uganda found they were unable to find a reliable market for their high quality potato seed. The problem being that market sales of ware potatoes were too low to create sufficient demand for the seed. To overcome this problem, seed producers undertook a market survey to identify higher value markets. A business opportunity was identified to supply Nandos, a large fast food restaurant, in the capital city of Kampala, some 450 km away from the farming community. The farmers decided to opt for this high value, high risk market opportunity. The service providers, Africare, NARO and CIAT worked with the production group to develop a business plan, for year round supply of potatoes. From July 2003 to April 2004 the Nyabyumba Farmers' Group has consistently delivered potatoes to Nandos, reaching a volume of 100 mt. The farmers' group has received a total gross income of US\$ 24,052,000, (approx US\$ 15,000). December shows the highest income from the sale of potatoes. In the same month also the farmers harvested the best quality potatoes having adapted to the stringent quality requirements of Nandos. The business relationship between the farmers group and Nandos is improving with time and Africare is working with these actors to refine the business plan and build the trust that will be required to make this a long term sustainable enterprise.

**Pyrethum in Uganda:** Farmers in the highlands of Kabale, Uganda were seeking a crop that could be grown on the highly degraded hilltop areas that were underutilised. Pyrethrum is a high value crop which provides regular income from the cut and dried flowers, and is particularly suited to high altitudes where it produces flowers of high quality. With support from the

Africare, an NGO, farmers identified Agromanagement a firm that was buying flowers from other farmers in the region. In addition Agromanagement provided farmers with extension services and planting materials. Farmers earned approximately US\$ 1.6 from a kilogram of dried flowers. Although this market opportunity started well, a short term fall in European demand, led to the closure of Agromanagement. The farmers were left unable to sell their produce as the company was a monopoly buyer. The response from farmers was mixed; some farmers sought other opportunities of trading their pyrethrum to a factory in near by Rwanda, whereas other abandoned the product. Discussions with the farmers after this experience, was however, surprisingly positive, in that although the final income was not as sustained as expected, the farmers considered that they had learnt a great deal through this process and with their new skills could apply the process to other market opportunities.

**Peanuts in Laos.** A participatory market chain analysis conducted with local farmers and service providers, in Vientiane, the capital city of Lao Peoples' Democratic Republic was a growing demand for peanut. The major constraint to the supply of peanuts in the province of Xieng Khouang, where the project farmers were based, some 400 kms from Vientiane, was a lack of production, low quality of nuts and lack of access to shelling equipment. An evaluation of the production systems, revealed that farmers only produced peanuts during 1 year in three due to low soil fertility. Therefore peanut fertilizer trials were conducted to develop a low input management system that would provide annual production. In experiments with local traders, the buyers consistently gave higher prices to peanuts from fertilized plots due to their larger and more uniform size. The combination of higher unit prices and higher yield resulted in a higher net profit of 24 million kip/ha versus 17 million kip/ha without fertilizer. This represents a 41% of increase in profit. The increased production led to analysis of the handling methods as hand shelling was no longer viable when production increases. Locally made shelling machines were introduced from another province and this appropriate technology increased the speed of shelling by 684%, or 7.8 times faster by hand. Rather than expecting each farmer to purchase or build a sheller, the new technology was introduced as a new local business service, which provided off-farm employment.

### **Institutional Change through the learning alliance: Catholic Relief Services' experience to date using the Learning Alliance concept**

A Learning Alliance process was undertaken by CRS-East African Regional Office (CRS-EARO) and CIAT-Foodnet in E Africa and CRS-CIAT in Latin America is proving to be a highly successful partnership in terms of introducing and implementing new skills, but also in providing CRS management and staff with a new insight into how CRS can best manage the process of learning and applying new strategies into their working environment.

One of the main aims of the Learning Alliance is to provide CRS staff with the capacity, and a tailor made "kit" of methods and tools, for tackling the challenge of improving rural livelihoods within a dynamic marketing environment. The process focused on enabling the participants to acquire the skills that will enable them to make the shift from a traditional production-led approach to a market-led enterprise strategy.

The most advanced Learning Alliance in which CRS is involved is that established between the CRS-EARO, CIAT and Foodnet in 2002. The idea was born during a regional FAO-Global Fund on Agriculture Research (GFAR)-Foodnet meeting in September 2001. Planning took place

between January and August 2002, with the first workshop held in Nairobi in September 2002. Over a period of twenty months three additional workshops were held. **Table 7** summarizes the content and participating countries of the four workshops.

**Table 7. Details of the four workshops held in the CRS – CIAT-Foodnet Learning Alliance on Agro-enterprise Development**

Workshop venue and dates	Areas covered	Countries
1. Nairobi, Kenya. 15-19 Sept. 2002	Territorial approach, Interest group formation and characterization of the territory, Rapid market study	Ethiopia, S. Sudan, Kenya, Tanzania, Uganda, Madagascar
2. Limuru, Kenya. 10-14 March 2003	Catch-up session for new countries. Review and analysis of progress, Rapid market study, Characterization of market opportunities and selection of enterprise options	Ethiopia, S. Sudan, Kenya, Tanzania, Uganda, Madagascar, Rwanda, Burundi, Malawi
3. Thika, Kenya. 10-14 Nov. 2003	Review and analysis of progress, Recap on rapid market survey, Characterization of options and selection of enterprise options, Integrated agro-enterprise projects design, Farmer organization.	Ethiopia, S. Sudan, Kenya, Tanzania, Uganda, Madagascar, Rwanda, Burundi, Malawi
4. Limuru, Kenya. 10-14 May 2004	Review and analysis of progress, Recap on Integrated agro-enterprise projects design, Strengthening of Rural Enterprise Development Services	Ethiopia, S. Sudan, Kenya, Tanzania, Uganda, Madagascar, Rwanda, Burundi, Malawi

### What have been the outcomes for CRS?

From CRS's standpoint, the CIAT-CRS Learning Alliance has had three significant outcomes – Approach, Integration and Process.

- € **Firstly**, the participatory approach to agro-enterprise that addresses the challenge of changing both knowledge and attitudes in order to change practice has resonated at CRS. Agro-enterprise has entered the CRS lexicon and the shift from an emphasis on production to markets is complete across participating countries.
- € **Secondly**, agro-enterprise has forced CRS to confront persistent challenges and embrace integration. Most notably has been the need to support communities in playing an effective role in agro-enterprise. This includes understanding how farm communities organize themselves, supporting organization change and development and providing business development support services. Concurrent with the recognition of the need to support community groups has come the need to recognize the opportunity of integrating agro-enterprise and microfinance.
- € **And, lastly**, CRS has embraced the learning alliance concept – across a wide range of sectors and partnerships, recognizing the need to work closely with research and technical partners in addition to our national implementing partners and to move from a series of one' off contractual, project-based agreements to a strategic and sustained commitment to co-learning and participation in innovation processes. The agro-enterprise approach has proved to be fully compatible with CRS values - that include assisting rural families and communities

living in extreme poverty, supporting the role of women in agriculture and protecting the natural resource base that sustains rural communities

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