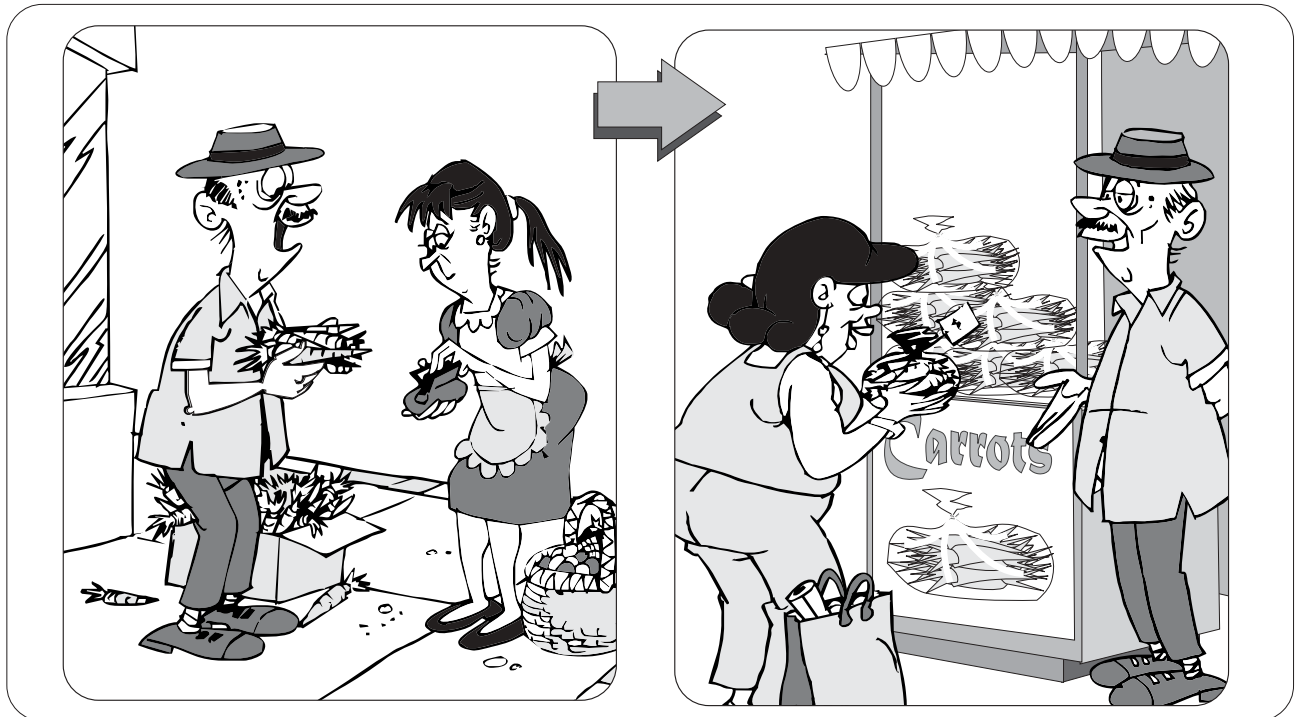


# **THE THEORY**

## SECTION 1

# An Area-based Approach to Rural Enterprise Development



### Guiding questions

1. Why is being competitive in the marketplace more important today than 20 years ago?
2. Why have rural development approaches oriented towards agricultural productivity failed to improve rural family income?
3. What are the elements of an area approach for rural enterprise development?
4. Who are the local actors that participate in this approach?
5. Why is the formation of a local group for inter-institutional work important for facilitating processes of rural enterprise development?
6. Why is diversification a useful option for small-scale farmers?

### Introduction

Traditionally farmers have made decisions on what they should grow, what they should keep for home consumption, and what they are able to sell at the marketplace. In former times sales would have centered on local markets and it would have been rare for a farmer to venture far afield in search of new market opportunities or to consider developing new, higher value products. This traditional form of agriculture starts to change as communities and nations begin to modernize. Through processes of

urbanization, generally fostered by industrialization, demand for food from urban dwellers becomes dependent upon more sophisticated arrangements that require aggregation of farm produce, transportation, storage, wholesaling, processing, and retailing. As cities expand, food supply systems develop into increasingly longer and more complex market chains with many market channels and specialization of roles in the market chain based on product type, levels of added value and market segmentation.

In most cases marketing system work well, however problems can occur in the food supply system when there are shocks, such as severe drought, floods, major disease outbreaks or civil unrest which can disrupt market supplies. In the case of agricultural markets, problems also occur due to seasonal effects, which can be exacerbated by the lag time between farmers observing a price trend or opportunity and being able to respond, after making decisions to plant, grow, and harvest a specific crop or to rear animals. Consequently, changes in market supply conditions in one year can lead to major swings in the supply and demand of agricultural goods in subsequent years. This is sometimes referred to as boom to bust marketing cycles.

In an attempt to avoid problems in food supplies and reduce price volatility within the agricultural marketplace, governments in many countries have taken it upon themselves to regulate the market, setting up support measures such as subsidies, floor prices, and quotas for specific commodities in an attempt to match demand with supply.

In the 1940-1950's period, many countries in the developed and developing world managed food systems through subsidies to support agricultural production. During this time governments set prices, assisted with cooperative development, and invested in public storage and transport systems. This era of government support was good for farmers, as the government shared the business risk and farmers were able to plan production based on a known price. Unfortunately most governments were unable to adapt to changing times. Procurement agencies became weighed down by poor management which led to uneconomic internal price structures. Over time, farmers in developing countries were unable to compete on international markets and maintaining high domestic support prices led to massive internal debts. When internal debts could no longer be paid, the International Monetary Fund (IMF) and World Bank were required to renegotiate loans. As a result, many developing countries had to adopt reform packages known as the Structural Adjustment Programs (SAPs).

The reform programs meant that governments withdrew from agricultural markets and in the last 20 years, markets in most developing countries have been increasingly liberalized.

Prices are no longer controlled by governments but are subject to the laws of supply and demand. The role of government has reduced to regulation while the operations of the market are left to the devices of many individuals, companies, and associations that make up the private sector. For many small-scale farmers, their position has changed over the past 40 years from being a free local agent, to a virtual government contractor and most recently to an agent that has to compete with countries across the globe, even to supply local markets. Farmers regardless of size must assume the full risk of doing business in this new trading environment many smallholders have to competing against farmers who receive subsidies.

A large percentage of the rural population in the developing world therefore finds itself facing a crossroads, on the one hand, traditional products are steadily losing value in a rapidly globalizing market, and on the other hand, their natural resource base is being eroded due to pressures that place today's food and income ahead of care for tomorrow's resources. As a result, many families face an increasingly difficult future in agriculture and increasing numbers of people are abandoning the countryside in search of alternative options in cities and even abroad, without achieving or being able to contribute towards dignified livelihoods for their family members.

Confronting this reality are governments, donors, and development organizations that aim to support rural development projects with an increasing focus on raising incomes. Unfortunately, many development projects and development practitioners only look at one part of the market chain, on-farm production, and these projects often have limited effectiveness on livelihood issues.

### **Food Security versus Income Security**

A focus on production is often justified by the concept that smallholder producers should focus their efforts on having sufficient food to provide for the family first and thereafter base their marketing strategies on surplus production. The ability of a community to avoid famine is clearly a sensible approach and food security is a basic tenet in the development pathway. Unfortunately, the food security approach has tended to dominate

agricultural interventions for the past 30-40 years, meaning that development projects, regardless of market access issues, have remained focused on increasing production of low value, staple food rather than taking on a broader concept of economic security. This approach takes advantage of a more diversified approach to farm incomes based on local opportunities, local assets, and the competitive advantages of the community in which the project is located. Major development projects are all too often based on macro economic analyses that attempt to achieve growth through improving traditional food security cropping systems and, by doing so, subject many thousands of communities to a limited economic outlook, based on a national perspective. In this scenario, countries that are maize-based work on maize production, countries that are rice-based produce more rice. The first result of food security is achieved, but the communities are often unable to gain the skills to take on the second step of finding and developing other supplementary income streams.

An alternative “market driven” approach, as outlined in this series of guides, aims to empower rural communities with basic marketing skills that will enhance their ability to engage with markets in a more sustainable and stable manner. To achieve the shift from a production to a market orientation means that farmers need to be more organized. They must acquire new skills in financial and business management and be able to respond to changes in dynamic markets. Acquiring these skills also means that service providers, involved in providing agricultural advice, also need to gain new skills to assist local communities to plan and sell their goods and services based on market demand, and to work on sustainability through markets rather than on handouts.

The approach to rural agroenterprise development begins with participatory processes to ensure the full involvement of community members. The conceptual thinking starts from the marketplace but planning for the market is undertaken with a clear understanding of the needs, capacities, and desires of the clients, i.e., the rural families being targeted by a specific development intervention.

Working with a specific community, the service provider<sup>1</sup> can build a clear understanding of local marketing conditions and how best to work with farmers to resolve critical points in a particular market chain. Developing this knowledge with farmers is a key element in developing sustainable and competitive agroenterprises. Before investing in a sector the service provider and for example, a lead farmer group, should evaluate the likely effects that changes such as (i) increasing productivity, (ii) improving quality, and (iii) increasing volume of sale, will have on their target market. Our view is that projects designed with adequate market information can improve the sustainability of development efforts and that increased incomes are essential if rural producers are to complement the resources provided by development actors.

Most importantly, by taking a market or enterprise approach, the end point in the development process changes from a short-term physical goal, i.e., increasing the amount of maize that is produced by a farm family, to a longer term social goal in which people learn skills that will enable them to adapt continually in a changing environment, that is to be able to innovate in the face of change.

### **Area-based Approach to Rural Enterprise Development**

To address these issues, CIAT’s Rural Agroenterprise Development Project (RAeD) has developed methodologies that aim to respond to the entrepreneurial needs of rural development organizations. The overall process is entitled “A Participatory and Area-based Approach to Rural Agroenterprise Development” (Ferris et al., 2006), which has been developed and tested with partners in Latin America, Africa, and Southeast Asia. The approach comprises a series of interconnected methodological steps that seek to improve local capacity in linking farmers to markets. Within each element, there are sub-steps that guide the service provider and community towards agroenterprise selection and market engagement: The key steps in the process are shown in Figure 1.

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1. Service provider in this context refers to the agency or group of actors that take on the mandate or role of coordinating a development project or interventions to support a community. The service provider could also be referred to as the “change agent”.

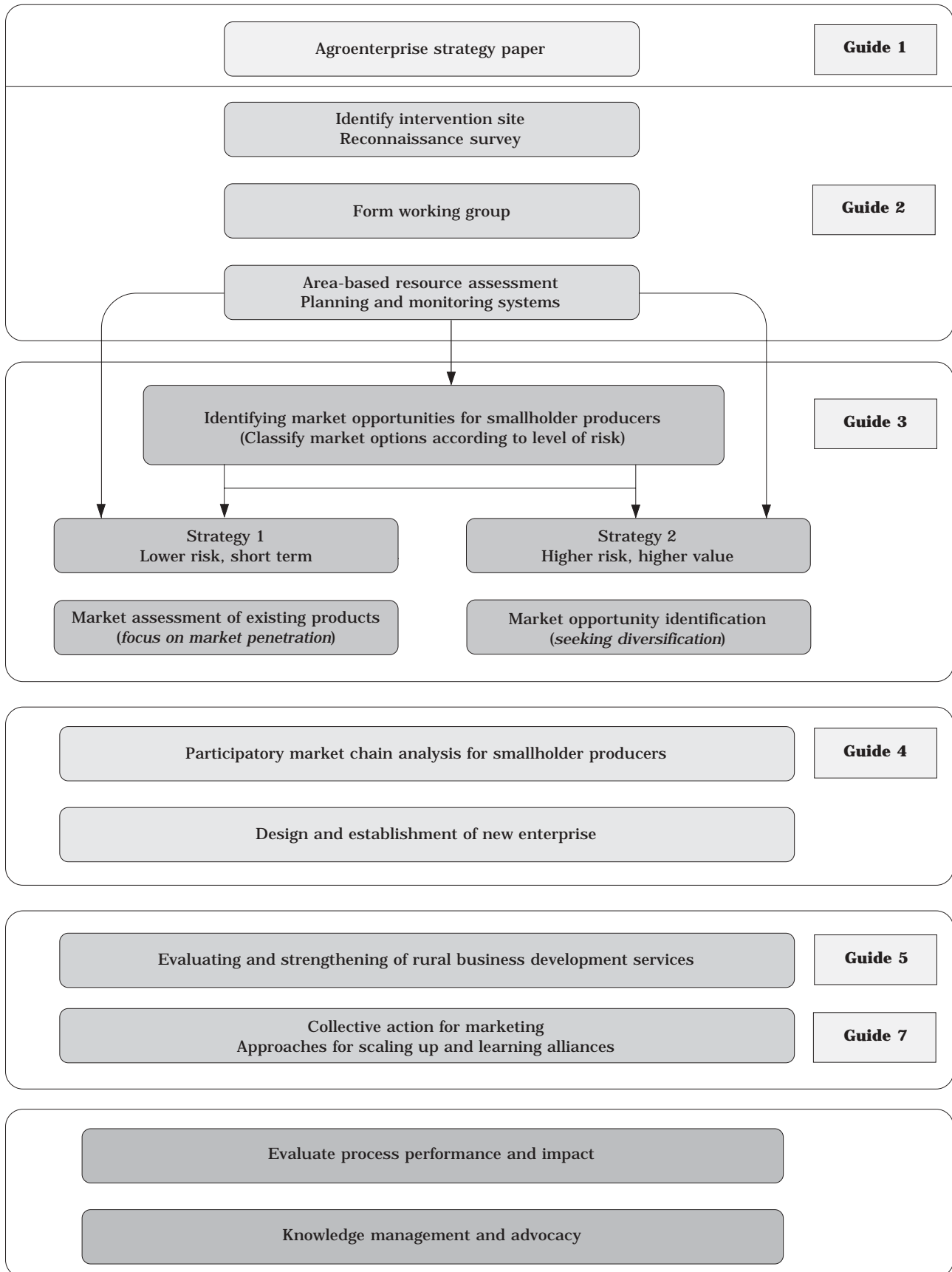


Figure 1. Flow chart of key stages in the participatory agroenterprise development approach. Please note that Guide 6: “The Market Facilitator’s Guide” is a summary of Guides 2-5.

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

At the end of these four stages in the process, participants will have established an

agroenterprise development team composed of various organizations and local actors with skills and capacity to:

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

Table 1. Planning, organization, and timing for rural agroenterprise development.

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

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

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

### **Agroenterprise as a Catalyst for Enabling Rural Innovation**

Although there is a growing consensus that agroenterprise development is a robust process that offers many small farm families in Africa, Latin America, and Southeast Asia a ladder out of poverty, there are a number of challenges that must be met in order to make this happen. These include:

1. Building the skills base and social capital of farmers to enable them to gain a better understanding of markets and how to respond to dynamic market needs.
2. Enabling small farmers to diversify their outputs so that their efforts can benefit from high value market opportunities as well support low value staple food systems and thus take advantage of market opportunities profitably.
3. Providing farmers with basic methods and tools for group formation so that the many millions of small-scale farmers can benefit from economies of scale where it is appropriate through collective action processes that are locally owned.
4. Building the capacity of development oriented service providers to support agroenterprise within a defined project area

and facilitate farmers' access to local business support services.

5. Transforming research from generators of new knowledge and technologies to service providers for enterprise customers—government, NGOs, private sector, and farmer organizations.

The ability of smallholders in developing countries to address these issues is important as they face an increasing imperative to incorporate themselves into the market economy in order to generate cash income that will allow them to meet their basic needs, and thereby improve their livelihoods. These smallholders have been accustomed primarily to producing basic food staples for their own subsistence, with a little surplus to buy essentials. Many of the products that are produced by small-scale farmers are of low value and even the so-called "cash crops" have experienced severe price declines in their real terms over the past 2 to 3 decades. The increasingly harsh or competitive marketing reality within the agricultural sector is the result of the trade liberalization process, globalization, improved production efficiency of medium to large-scale producers, and oversupply of the major commodity markets,

Among the options that smallholders have for confronting this situation are:

- Improving the competitiveness of the products they grow.
- Diversification, by incorporating into their production system higher value crops or livestock that have an identified market demand.
- Adding value to and/or achieving economies of scale through collective action for both production and marketing of their traditional crops and livestock products.
- Entering new and more equitable trading arrangements with larger buyers through mechanisms such as fair trade and labeling based on method of production such as organic or by "mark of origin"<sup>2</sup> appellation systems.

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2. Mark of origin or "appellation" is a method used by which producers and processors to differentiate their produce and protect price premiums by legally registering their products such that no other producers or processors can this name, title or logo, unless they produce the product within a legally recognized area or territory and use a specific and or traditional method of production and/or processing.

There are many simple ways in which farmers can add value to their produce, such as use of improved uniform seed, bulking and grading products, and in many cases by working in marketing groups. Farmers can diversify their production and use part of their land for higher value crops and in some cases farmers can sell their produce into higher value marketplaces. All of these methods aim to take advantage of the rapidly changing market environment being led by urban consumers, who have more sophisticated market needs such as organic and fair-trade markets.

In order to take advantage of these potential options, farmers, however, must be able to understand market opportunities and being able to respond to changing market needs. Farmers must also provide products and services at a price that is competitive with rival suppliers and there is increasing social

pressure to ensure that production systems are environmentally sustainable. To achieve desired levels of competitiveness, farmers and their service providers need to build strategies that incorporate the following elements:

- A clear market orientation, producing the right product for the right buyer at the right time and price.
- The establishment of production systems that makes efficient use of existing financial, human, and natural resources.
- The incorporation of necessary post-harvest handling and processing techniques.
- Appropriate business and marketing skills and organizational schemes which lead to economies of scale by reducing costs and increasing marketable volumes of produce.
- Improved links among market chain actors and flows of both market-based information and new production technologies.