

# 4. Multi-stakeholder collaboration and the scaling of inclusive agri-food markets

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## 4.1 Introduction

For more than a decade now, donors and development organisations have supported a plethora of value chain projects aimed at pro-poor market development. There are many great examples of this work. However, in the final analysis, does all this effort remain ‘islands of success’ or is a real seachange underway?

Along with undeniable successes there have also been many failures in the pro-poor agricultural value chain arena. Markets have not always materialised, farmers have struggled to organise, NGOs have frequently failed to adequately understand and engage with business, donors have found it difficult to finance ‘entrepreneurial’ initiatives, and business is not always willing to participate and invest the necessary pre-commercial costs or in pre-competitive collaboration.

We are now at a critical juncture. Behind us is a wealth of experience, albeit not always very well collated, documented and shared. Before us, the world has woken up to the challenge of global food security (FAO, 2009; FAO/WFP 2010; Foresight Commission 2011; *The Economist*, 2011) and business is looking at the agri-food sector with renewed interest (WBCSD, 2010; WEF, 2010), as the risks to supply and the opportunities of new markets become much more apparent.

This chapter positions the topic of multi-stakeholder collaboration and value chain development in the wider context of ‘inclusive business’ (Ishikawa, 2010; Ishikawa & Ribeiro et al., 2012; Jenkins & Ishikawa et al. 2011), and more specifically the idea of ‘scaling inclusive agri-food market development’ (Woodhill & Guijt et al., 2012). The emphasis here is on how to shift from aid-led value chain development to business-led inclusive agri-food markets. This has significant implications for stakeholder relations and the nature of public-private investments.

This chapter is based heavily on the outcomes of the first phase of the ‘From Islands of Success to Seas of Change Initiative’ (see [www.seasofchange.net](http://www.seasofchange.net)) on scaling inclusive agri-food markets (Woodhill & Guijt et al., 2012). The ‘seas of change’ work aims to spread awareness of how agri-food markets can contribute, at a significant scale, to food security and rural poverty reduction, while building profitable commercial relations. In April 2012, the Seas of Change International Learning Workshop brought together 100 leaders from business, development organisations, government, farmers’ organisations and research, for a dynamic and frank exchange of experiences, innovations and questions. A series of background research studies provided a rich backdrop for the discussions (see [www.seasofchange.net](http://www.seasofchange.net)).

As this chapter will explore, going from ‘islands of success to seas of change’ has much to do with creating effective multi-stakeholder collaboration. Innovation driven by investment

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opportunities and entrepreneurship can be a powerful force for positive change. But this process is far from automatic. Businesses need to see and understand the opportunities presented by more sustainable and inclusive ways of working. Governments need to help create supportive incentives and investment climates. Producer organisations must be effective and efficient business partners, and NGOs and researchers must contribute critically as knowledge providers, brokers and intermediaries.

All these issues are of particular relevance for Africa, for three key reasons. First, Africa will account for nearly half of the global population growth over the coming decades, when its population will double. Second, the continent remains a major agricultural resource base in which the rest of the world is becoming increasingly interested. Third, poverty and hunger in Africa remain stubbornly stuck at very high levels.

## 4.2 The case for scaling inclusive markets

In order to bring together different stakeholders around the challenge of scaling inclusive agri-food markets, it must be clear to them *why* it is important to engage and where the common interest lies.

Global food security has two interconnected dimensions: what is known as a ‘nine-billion future’ and a ‘one-billion problem’. Nine billion is the size of the future global consumer market whose food demands need to be met. The World Business Council for Sustainable Development (WBCSD, 2010), among many other organisations, sees enormous business

opportunities in providing innovations and services that will make it possible to feed so many on a daily basis, and in a sustainable way. At the same time, one billion people go hungry every day, with at least another billion living in marginal economic circumstances (IFAD, 2011). Furthermore, most of the population growth will take place at the bottom of the economic pyramid. By 2050 there will be around four billion people at the BoP; if this group undergoes significant economic development, it represents a massive new market opportunity. Ignore it, and half the world’s population stays poor, goes hungry and creates conditions for global political instability. As Bill Gates pointed out when addressing the Group of Twenty (G20), global instability fuelled by hunger and poverty is in nobody’s interest, least of all those who want to do business.

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It is important to understand the case for inclusive agri-food markets in relation to certain key facts and trends. Of the world’s poor, some 75 per cent live in rural areas, with approximately 2.6 billion people depending on agriculture for their livelihood (IFAD, 2011). The coming decades will see a massive growth in urban populations, with 70 per cent of people living in urban areas by 2050. Large numbers of poor people will, however, continue to live in rural areas, and feeding poorer urban people will become a major ‘inclusive challenge’. There are some 525 million farmers in the world, of whom 90 per cent are smallholders. Around 50 per cent of the world’s population depend on these smallholder producers for their food (Wegner & Zwart, 2011).

The concept of inclusive agri-food market development is based on the premise that private enterprise and public-private partnerships (PPPs) can make a substantial contribution to the delivery of ‘public goods’. So what, then, are the public good issues and the private interest issues, and how do they overlap? Table 4.1 gives six reasons why it is important to focus on inclusive agri-food markets from both a common and a private interest perspective. Reference is made here to common interest as opposed to public good, as these issues are important for business, even if this does not constitute their core responsibility.

**Table 4.1: The common and the private interests of agri-food markets**

Common (public) interest	Private interest
1. Feeding the world: Producing and distributing enough food for nine billion people by 2050, including for the 70 per cent living in urban areas	4. Securing a stable supply base: With rapidly growing demand for agri-food products, businesses will need to stabilise their supply base by using the potential of small-scale producers and processors
2. Tackling hunger and poverty: Developing agricultural production and markets in ways that help to create wealth, jobs and economic opportunity for those at the bottom of the economic pyramid, while providing affordable and healthy food	5. New market opportunities: Generating a positive spiral of wealth with large numbers of people at the base of the economic pyramid, which creates new markets for business
3. Peace and security: Organising and controlling agricultural markets to reduce inequalities that could generate political instability and social unrest, which translates into greater risks for business investment	6. Responsible reputation: Businesses are able to enhance and protect their reputations for social responsibility and ensure a ‘licence to operate’ in the face of growing public scrutiny of business practices and rapid communication technologies

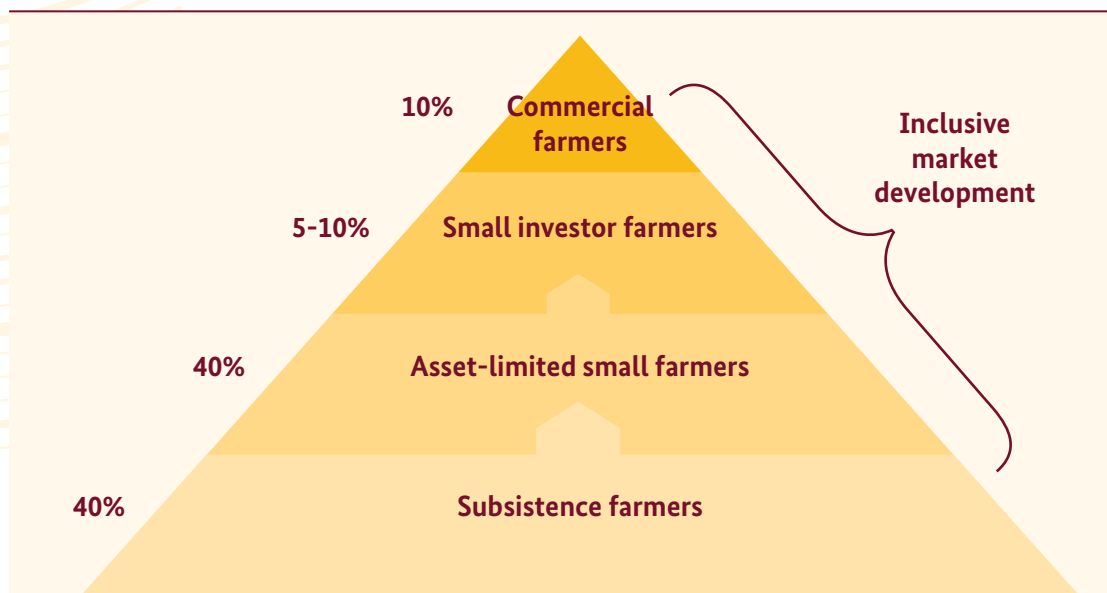
The World Bank development report on agriculture and development (2008) emphasised the importance of agriculture for economic growth in low-income countries and for tackling inequality in emerging economies. While there is continued debate about the importance and the role of small-scale agriculture, moving into the future, a number of ‘realities’ seem patently clear. First, for at least the coming decades small-scale agriculture will be critical for the livelihoods of billions and for meeting the world’s rapidly growing food demands. Second, creating viable and prosperous rural economies is key to poverty alleviation in rural areas, and to slowing urban migration and the potential problems of urban poverty. Third, there will be a transition to more commercially oriented small-scale farming, while many will have to move out of farming to find alternative employment. Fourth, social safety nets will have to be in place for many during the transition period. Prosperous rural economies will have the dual function of reducing the scale of such dependency, while helping to provide countries with the economic capacity to cover the costs of social protection.

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*Creating viable and prosperous rural economies is key to poverty alleviation in rural areas, and to slowing urban migration and urban poverty*

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In relation to Figure 4.1, here is a hypothesis. Inclusive market development is about finding new ways of doing business that make it possible to work with the approximately 40 per cent of asset-limited farmers who have the potential to become commercially viable and who could be drivers of inclusive rural economic growth. If this can be done, a positive cycle of rural investment and entrepreneurship will be created. Here the benefits are derived not only from small-scale farming, but also from SMEs that provide services and are involved in upstream processes and marketing.



**Figure 4.1:** Inclusive market development

*Large national and multinational agri-food companies may end up trying to meet their supply demands through predominantly large-scale agriculture with negative impacts for poor rural communities and exacerbated pressures for land grabbing*

The alternative is that large national and multinational agri-food companies may end up trying to meet their supply demands through predominantly large-scale agriculture with negative impacts for poor rural communities and exacerbated pressures for land grabbing.

However, pushing down this economic pyramid and working with asset-limited small-scale farmers is not automatically profitable or interesting for agri-food companies. Governments, in an attempt to meet the public good interests of an orderly transition in agriculture, tackle poverty and ensure food security, will increasingly have to come to the table and work in partnership with business. This will require making pre-commercial and pre-competitive investments in partnership with business – something which presents a major challenge for multi-stakeholder collaboration.

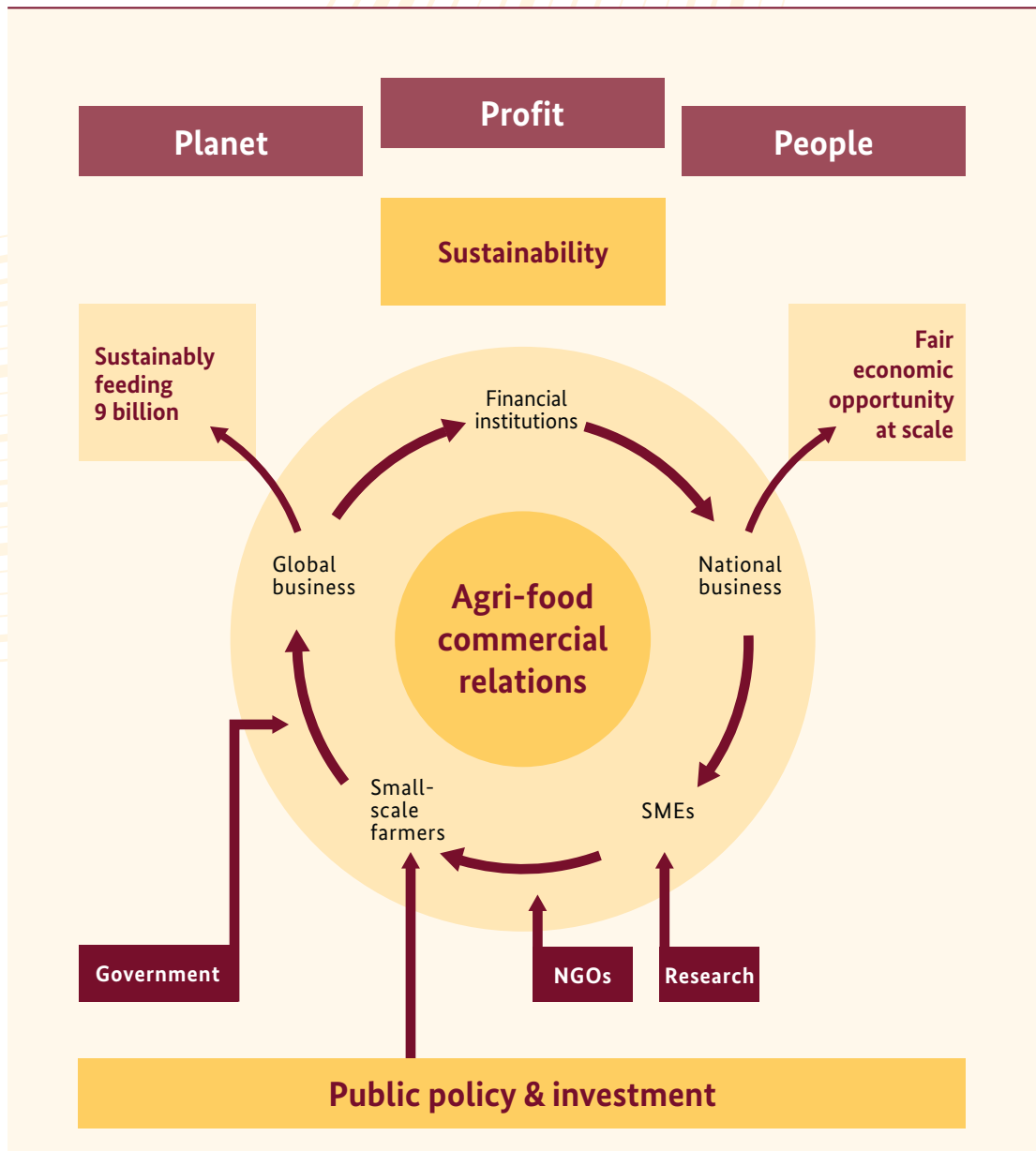
### 4.3 Profitable partnerships

At its core, inclusive business is about managing commercial relations (see Figure 4.2). For the agri-food sector to be inclusive, these relations must contribute to fair economic opportunity at scale, while sustainably feeding the world population. Commercial relations include a wide range of actors – global companies, local business, financial institutions, local entrepreneurs, small-scale farmers and producer organisations. Aligning commercial relations to achieve wider public goods requires partnerships with and support from government agencies, NGOs and research – all within the context of a supportive environment of public policy and public investment.

Herein lie a number of critical messages for development organisations working to scale inclusive agri-food markets through multi-stakeholder engagement. First, non-business players must understand the nature of these commercial relations, and must be able to speak the language of business. Second, non-business players need to recognise their supporting role and be very careful about inserting themselves into actual business operations. Third, businesses often only look at and understand their immediate relations – those they do business with – they do not necessarily have a perspective on the entire value chain and how changes could be made to make it more profitable and more inclusive. Fourth, the sort of multi-stakeholder engagement that the development community is mainly used to – for example, full-day workshops and meetings – often does not work for business. Much more attention needs to be given to short meetings at suitable times, and to bilateral discussions.

Ultimately, partnerships must lead to the development of suitable conditions for the establishment of commercially viable and sustainable business models. The following crucial elements need to be in place:

- Building trust, capacity and long-term relationships within the supply base;
- Creating partnerships and coordination among different actors, e.g. through neutral brokers;
- Sharing risks and rewards equitably;
- Attracting public-private co-financing as well as intermediaries to drive procurement, quality and efficiency; and
- Cost-efficient mechanisms for aggregating inputs from producers, such as outgrower schemes.



**Figure 4.2:** The partnership dynamics of inclusive agri-food markets

The challenge is to find ways for these commercial relations to function so that they contribute optimally to the wider collective interests of food security and economic opportunity for the poor, while remaining profitable. This will only happen with the right incentives, coordination mechanisms and leadership. Partnerships and dialogue are essential to ensure that 'rational' decision-making at individual firm level does not result in 'irrational' outcomes for the entire agri-food system.

#### Box 4.1: Local seed business development in Ethiopia

Quality seeds are critical for small-scale farmers to increase their productivity. Historically, seed supply for small-scale farmers has been dominated by public agencies, often without a great deal of success. The Integrated Seed Sector Development (ISSD) programme has taken a multi-stakeholder approach to developing local, commercially viable, seed businesses. While targeting the creation of commercially viable local seed suppliers, much collaboration is needed with local and national governments, to create an enabling policy framework. The whole programme has been driven by multi-stakeholder innovation and facilitation platforms hosted by local knowledge institutions. Some key lessons from the process include: patience – it has taken seven years to build the credibility of the programme; policy engagement – local successes and pilots have been used to gain wider-scale support from policy-makers for creating a more supportive policy setting; local embedding – making sure that the system is embedded institutionally in local and national structures, and that external structures and inputs are minimised; brokering – the positive impact that committed, neutral brokers, backed by adequate funding, can have (see Bornman et al., 2011).

### 4.4 Key challenges for scaling inclusive agri-food market development

Given the above perspective on inclusive agri-food market development, it is interesting to explore the eight key issues which leading practitioners from business and development organisations identified during the Seas of Change workshop (Woodhill & Guijt et al., 2012). All these issues have much to do with improving the effectiveness of multi-stakeholder processes. They relate to two main challenges: on the one hand, supporting very large numbers of small-scale suppliers in improving their lives and helping them to become viable business partners, and on the other hand, creating incentives and mechanisms for business to work with lower-income groups.

- **Strengthening the intermediary function:** Inclusive business depends on good partnerships and relations. Trusted ‘ethical agents’ and platforms play key roles in brokering such relations and in stimulating innovation. People and organisations that can effectively take on this role are in short supply. They require a special skill set that needs to be developed. Much needs to be learnt about making multi-stakeholder platforms more effective. Questions about how to fund the intermediary function also need to be resolved;
- **Informing and shaping supportive policies:** Policy is critical, yet there are few mechanisms in place to enable business players and policymakers to engage deeply in shaping an enabling business environment and in setting up effective PPPs. Existing public-private funding mechanisms for the development of the agri-food sector are relatively new and need to build in rapid adaptation mechanisms based on quick feedback from the private sector. Regular policy dialogue and responsive shifts in policy settings are essential for ensuring progress on the inclusive agri-food market agenda, and for coping with emerging issues and a rapidly changing context;

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- **Progressing towards a ‘new certification’ agenda:** Certification is a hot topic. Existing mechanisms and assumptions are being questioned even as concerns arise about the hazards of ‘throwing out the only tool we have’. Although certification does not focus explicitly on the wider issues of inclusion, it could be a mechanism for scaling, especially given the fact that a growing number of companies are committing to certification. Key concerns include how to make certification affordable while still remaining reliable at scale, and how to find complementary approaches;
- **Improving mechanisms for collaborative and pre-commercial financing:** Inclusive business in the agri-food sector often requires a kick-start before becoming commercially viable. This applies, in particular, where the intention is to provide economic opportunity at scale. The scenario calls for a fine balance between the public and the philanthropic funding needed to create the right incentives and the right level of risk-sharing to ensure appropriate innovation, while at the same time not subsidising business operations inappropriately. A further challenge is to provide this type of financing in such a way as to drive inclusive entrepreneurship without excessive ‘red tape’;
- **Strengthening agri-cluster and networked business initiatives:** A great deal of attention is being given to single value chains or commodities. Inclusive growth in the agri-food sector, however, also hinges on cluster development in areas where agri-services, processing and logistics can support multiple supply lines and create economies of scale. Many of those types of services are provided by SMEs – critical to economic growth, yet difficult to deal with at scale. This requires strategic coordination and investment on the part of agri-food companies, different levels of government and financiers;
- **Improving mechanisms for joint learning and research between all groups:** There are few mechanisms available for joint learning between the key players in business, government, producer organisations, NGOs and research institutions. New approaches are needed that have the efficiency and the responsiveness which business actors expect;
- **Monitoring and assessing social impact:** Many businesses that have made commitments to working in an inclusive way now feel the pressure to report on the social impact of their operations. At the same time, there is a growing need for a better overall assessment system for sector-wide trends and impacts, and donors are under increasing pressure to show the returns yielded by public investment. Gathering this information is a critical support element in learning and innovation. Finding the right metrics and cost-effective ways of collecting and reporting data are high priorities for all the parties concerned;
- **Deepening understanding and capacity across business, government, producer organisations, knowledge institutes and NGOs:** The inclusive business domain is changing rapidly. Old assumptions and prejudices are collapsing and the notion of shared value is creating a whole new constellation of partnerships. It is often hard for people, be they in business, NGOs or government, to keep up. A shared understanding of the current dynamics is critical and everyone needs new skills and capacities to put inclusive business strategies into practice.

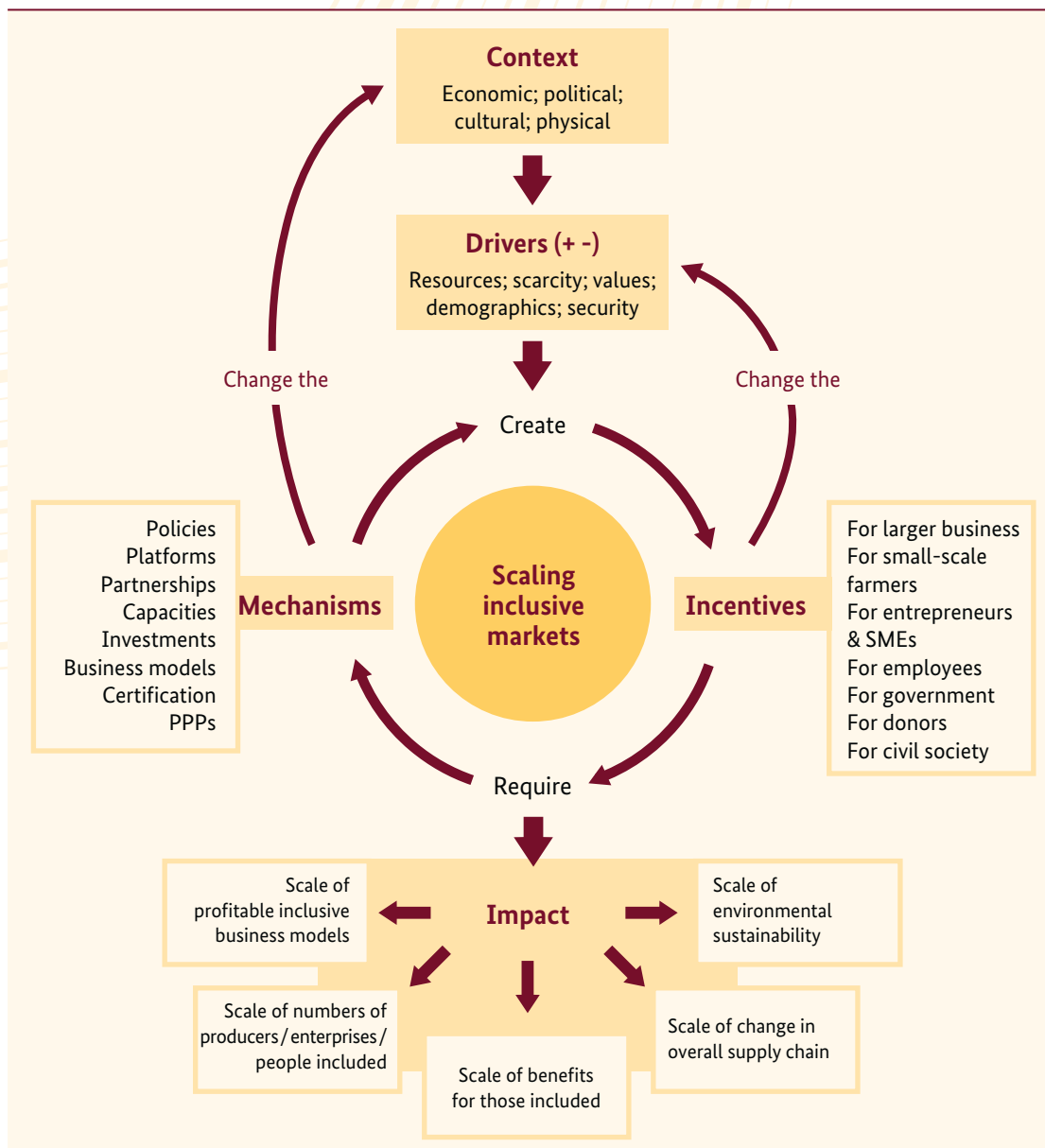


## 4.5 The incentives and mechanisms behind inclusive business models that work

While the ‘why’ or the ‘conceptual win’ for scaling inclusive agri-markets might be clear, there is still a long way to go towards understanding how to make these markets work to meet the parallel objectives of profitable business, poverty reduction and environmental sustainability. As illustrated in Figure 4.3, bringing about change at scale requires a good understanding of the incentives that drive the behaviour of the different actors, and what mechanisms can be used to create the right incentives for inclusive business. Mechanisms are specific interventions that can be developed by a particular stakeholder group in order to shift the incentives of other groups. Examples include government investment in PPPs or legislation requiring schools to purchase local food products; NGOs making supply-chain issues transparent to the wider public or the collective establishment of sector-wide ‘round tables’.

### Box 4.2: Chain-wide learning guide

*Chain-wide learning for inclusive market development – a guide to multi-stakeholder processes for linking small-scale producers to modern markets* was developed as part of the Regoverning Markets programme. It provides an overview of the drivers in modern agri-food markets and outlines a methodology for developing more inclusive value chains, with a particular emphasis on institutional factors such as policies, legal frameworks and cultural factors (Vermeulen & Woodhill et al., 2008).



**Figure 4.3:** Scaling inclusive markets

In the global, regional, national and local contexts there is a set of economic, political, cultural and physical factors that combine to create drivers that either work towards or against inclusive markets. This contextual background is key to understanding what incentives and mechanisms are important for a specific situation.

Ultimately, it is important to be clear on what impacts are being achieved at what scale. Figure 4.3 shows five key impact areas on which to focus monitoring. This framework provides a useful way of analysing case studies by focusing attention on how incentives and

mechanisms interact to achieve (or not) desired impacts. For an individual business this interplay between incentives and mechanisms gives rise to a viable business model. A viable inclusive business model has the right mechanisms in place to create incentives that will lead different actors to collaborate and do business together in ways that are profitable, while delivering on inclusive impacts.

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#### **Box 4.3: The LINK methodology**

To put the ideas of incentives and mechanisms into practice, specific guidance on creating inclusive business models can be a great help. Mark Lundy et al, from the International Centre for Tropical Agriculture (CIAT) developed the *LINK methodology – a participatory guide to business models that link small-holders to markets*. This up-to-date guide captures and integrates ideas and methodologies from a wide range of sources. A particularly valuable section of the guide is its business model canvas approach that looks at all the factors revolving around the key value proposition.

#### **Box 4.4: Business-led oil seed sector development in Uganda**

Through an Oil Seed Sub-Sector Platform in Uganda (OSSUP), oil seed production and the price for local oil seeds have more than tripled. This has become an important substitute for imported oils, while generating significant benefits for 100 000 farmers, with the potential for 400 000 farmers to be involved. At the heart of the multi-stakeholder process has been a lead firm, Mukwano, which signed an agreement to work with SNV, the Netherlands Development Organisation, on inclusive market development. Mechanisms to create the right incentives for business partners include the innovation platform, structuring an efficient outgrower scheme, creating functional producer organisations and restructuring financial support using Stanbic Commercial Bank. Donors have played an important role in providing pre-commercial finance and SNV has been critical in its trusted intermediary function. While developing into a fully commercially viable sub-sector where farmers can now pay for services, none of this would have been possible without the publicly funded stakeholder engagement process (Lundy & Zamierowski et al., 2012).

#### **Box 4.5: Women, incentives and consequences in coffee production**

The right incentives at all levels are critical for scaling inclusive approaches. Since 2006, Ecom Agro-industrial Corp. and Hivos have been creating a smallholder coffee farmer support system built on embedded services within a marketing company, SMS Ltd. Substantial improvements are seen in the viability of 85 000 smallholder coffee farms, and for the marketing company. It appears that training women gives more value per training dollar: They are more precise in implementing what they learn and they share their knowledge wider within their community than men. Yet women are less keen on coffee than men, because of missing incentives. While women must put a lot of work into weeding, harvesting and getting produce to the market, the income generated goes to the men who usually spend it on their own priorities. Consequently, women actively 'sabotage' coffee production: When their husbands buy fertilizer for coffee production, women secretly use substantial amounts for home horticulture, which is their responsibility.



The result? A downward spiral of suboptimal coffee production, yields and incentives for all to invest in that sector. Tackling these issues requires attention at the level of the family farming system, and enabling women and men to work in a better partnership around their overall livelihood strategy. It also illustrates the importance of looking beyond single value chains to understand how a single commodity fits within the wider livelihood, farming and market systems.

## 4.6 Lessons for key stakeholder groups

The five main groups of stakeholders who have a critical role to play in inclusive agri-food market development are government, business, producer organisations, NGOs and knowledge institutions. Below is a summary of the key lessons learnt per stakeholder group, as distilled from the Seas of Change initiative.

### 4.6.1 Government

Commercial interests must ultimately make inclusive agri-food markets the standard mode of operation. Government, however, has an essential role to play in creating an enabling environment by providing policy leadership and by developing appropriate incentive mechanisms. The private sector can do much to reduce poverty and can work fast to achieve this, but governments must create a supportive business environment, and effectively link public and private investment. Key lessons include:

- Ensure leadership and the alignment of stakeholders' interests through creating shared goals and developing platforms for dialogue and PPPs;
- Create incentives for inclusive business through effective and efficient public investment, as well as appropriate regulation;
- Make inclusive business central to agricultural policy and rural development; and
- Tailor policy mechanisms to different categories of farmers – subsistence and landless; small-scale commercial and large-scale commercial.

### 4.6.2 Business

The market potential of inclusive business models in the agri-food sector is illustrated by the number of companies, large and small, that are now testing out and working with new approaches. Clearly, a significant shift is occurring – one in which inclusiveness is less CSR-driven and where former philanthropic activities are becoming part of the core business strategy. This has major implications for business in terms of how inclusive strategies are analysed, invested in, and executed. Key lessons include:

- Look for market opportunities for inclusive business that will deliver medium- and longer-term opportunities;
- Create a clear strategy around inclusiveness and effectively communicate this with clients, partners and investors;

- Embed inclusiveness into core operations and organisational culture, and be clear about the business benefits; and
- Invest in effective partnerships with other businesses, NGOs, investors and knowledge institutions, especially around pre-commercial and pre-competitive activities.

### 4.6.3 Producer organisations

Finding efficient and cost-effective ways of working with large numbers of small-scale producers is a fundamental challenge to creating viable, inclusive agri-food markets. Producer organisations can play a critical role at the interface of production and markets, by helping to ensure the aggregation of product and the development of market linkages. In addition, producer organisations need to reach out to members by offering services, providing sound agricultural practices, and representing their interests. It can be a challenge for producer organisations to balance business efficiency with collective decision-making processes. In addition, they often find themselves having to take on a diversity and complexity of roles and functions that require good internal systems and management. Key lessons include:

- Ensure efficient and transparent business operations;
- Assist members in improving productivity and product quality;
- Monitor social and livelihood impacts;
- Support innovation in risk management on the part of members; and
- Engage in policy dialogue with government and business.

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*Business is increasingly interested in partnering with reliable and effective NGOs. Therefore, NGOs must find their place in the partnering role while continuing to effectively juggle their advocacy function*

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### 4.6.4 NGOs

The question as to the role and effectiveness of NGOs, when it comes to supporting inclusive business operations, has generated major debate. The discussion comprises a polarised field of stories relating inspiring success as well as dismal failure. Business is, however, increasingly interested in partnering with reliable and effective NGOs. Therefore, NGOs must find their place in the partnering role while continuing to effectively juggle their advocacy function. Key lessons include:

- Make business viability a priority concern and avoid unsustainable subsidising of enterprises;
- Support intermediary functions and pre-commercial activities;
- Adapt roles and functions as the partnership evolves and plan exit strategies;
- Recognise the local pioneering role of NGOs in the pre-commercial phase, which business may later build on; and
- Maintain a 'watchdog' function (which business regards as important) and avoid being 'silenced' because of business partnerships and funding.

#### 4.6.5 Knowledge institutions

The Seas of Change event highlighted the extensive and very interesting innovation and learning agenda which exists at present. There is a relative dearth of cross-case study analyses and a major need for progress monitoring and analysis. Businesses, NGOs, producer organisations and policymakers are hankering after insights that could render their investments more effective. Changes are, however, occurring at a rapid rate and markets are highly dynamic; businesses need ‘information today about what happened yesterday to make decisions tomorrow’. This calls for different types of research and much closer engagement between researchers and knowledge users. Key lessons include:

- Develop applied research programmes with a strong outreach component;
- Work in partnership and use interactive and action research approaches;
- Foster and facilitate innovation networks;
- Integrate inclusive business in teaching curricula; and
- Support education capacity development at local levels, because this is where the skills are needed to make change happen.

#### 4.7 Conclusion

*The time has come for a much smarter coupling of public and private investment strategies*

Much has been learnt about multi-stakeholder collaboration for value chain development over the past decade. However, major challenges remain in achieving a scale of inclusive agri-food market development that will have a significant impact on poverty and global food security. Historically, business and donor investments in the agri-food sector have occurred in almost parallel worlds. The time has come for a much smarter coupling of public and private investment strategies. To succeed, this will require greater sophistication in terms of multi-stakeholder collaboration – something we are only just beginning to understand. As Vincent Lokin, Director Cooperatives and Governance of Rabobank Netherlands, said in addressing the Seas of Change workshop: “There is a huge challenge ahead; many interests are at stake. To beat this challenge, collaboration is key. The good news is that almost without exception all parties admit this – it’s in the air. The exact form still needs elaboration and that is exactly why we are here.”

### Notes

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- 1 This chapter draws heavily on 'From islands of success to seas of change: A report on scaling inclusive agri-food markets' co-authored by Jim Woodhill, Joost Guijt, Lucia Wegner and Monika Sopov.
- 2 Affiliation when the chapter was written. As from January 2013, Jim Woodhill will be the Principal Sector Specialist for Food Security and Rural Development with AusAID.

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