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An inclusive business approach for sustainable urban food chains

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In 2020, when COVID-19 transport restrictions hampered global food distribution channels, the world rediscovered the value of localised food systems and many consumers were forced to rush to their local food providers to get their weekly supply of fresh food. While it is unclear whether this local food trend will last in the new normal, it is evident that many local authorities are looking into how they can promote and strengthen local food supply chains as part of their resilience strategies.

Inclusive business models that implement a rights-based approach

The role of local authorities in creating a favourable environment for local healthy and sustainable food chains to blossom is increasingly being documented. However, they cannot do this alone. While they can create strong

incentives for change through obligations, restrictions, taxes and subsidies, economic actors such as retailers, institutional buyers and other food companies also have powerful cards to play thanks to the power of their purse.

For healthier and more sustainable food to reach urban markets, there needs to be incentives for all actors in the chain to modify their behaviour. Without a good and profitable business model that works for everyone, and especially smallholder farmers and buyers, sustainable food chains are unlikely to be scaled up. As such, inclusive business relationships involving urban buyers, processors and rural, peri-urban and urban producers can be a powerful enabling factor in the transition towards sustainable food systems in cities and beyond.

However, in many cases, the efforts by the private sector and authorities are disconnected. Collaborations take place on an ad hoc basis depending on specific opportunities, often without a long-term strategic vision. To maximise the impact and create change on a large scale, more synergies are needed, which require more connections and dialogue. This is why it is essential for public authorities to establish strategic frameworks to guide private sector investors towards more inclusive business models that contribute to realising both citizens' right to food and producers' right to decent work, and also create transparent and accountable spaces where public and private actors can work together to develop new ways of bringing more sustainable and equitable local food to citizens' tables. One area where this type of collaboration is needed is at the level of traditional markets. In many parts of the world, these are citizens' preferred shopping places, where they can find fresh foods close by and at an affordable price. These markets are essential to ensuring food security and healthy diets, but their produce rarely offers any traceability or quality guarantee. Any initiative that would seek to upgrade these markets to increase food safety, traceability and the provision of locally produced quality food would require close collaboration between private and public actors, guided by a shared vision and an innovative governance mechanism.

To date, inclusive business approaches have mostly been used in the context of global value chains such as coffee or cocoa, and less so in the context of local or urban food supply chains. At Rikolto, one of our priorities is to explore and test how inclusive business principles can be integrated into the food sourcing models of key urban buyers: supermarkets, institutional kitchens, e-commerce platforms and, of course, also traditional markets (although we are acutely aware that untangling supply networks will be an incredible challenge).

When combined with efficiency-enhancing measures to help cut additional costs throughout the food chain (e.g. from intermediation, food losses or expensive inputs), inclusive business models have the potential to bring the rights-based approach to life by guaranteeing decent work and income for producers, while enabling consumers to exercise their right to safe, healthy and affordable food.

What is inclusive business?

According to the World Business Council for Sustainable Development, an inclusive business is an economically profitable, environmentally friendly and socially responsible entrepreneurial initiative that integrates low-income communities in its value chain for the mutual benefits of both the company and the community (SNV & WBCSD, 2011). Profitability for all actors is a condition for sustainability and is necessary for healthy and sustainable urban food chains to function autonomously. At Rikolto, we use the [LINK methodology](#)¹ developed by the International Centre for Tropical Agriculture (CIAT) and other organisations within the Sustainable Food Lab to guide our efforts to foster more inclusive food chains and

business models. The methodology is usually applied by all chain actors with the support of an external facilitator and is underpinned by six principles:

- 1. Chain-wide collaboration:** cooperation between all chain actors with a **common goal**. To be successful, there needs to be added value for everyone. In many cases, a good price is considered one of the most important values, but it is not the only one: stability and market security are sometimes as attractive as money.
- 2. Effective market linkages:** new relationships between all the chain actors leading to a **stable and profitable market** for farmers and a reliable supply for buyers. These relationships must be underpinned by strong feelings of trust and can sometimes be translated through formal agreements. In any event, there should be a commitment to solve problems together. As side-selling is often a major hurdle, this requires strong local actors (such as a farmer organisation, a company or a government-sponsored food hub) to establish an attractive business offer that farmers will accept. In addition to price, a strong offer can include direct payments, training or access to capital.
- 3. A fair and transparent sourcing policy:** defining and applying clear and consistent quality standards to meet consumers' increasingly high expectations and making commitments to buy and sell set quantities at certain times. Recognising the mutual interdependency between chain actors, inclusive business requires an equitable risk management process.
- 4. Equitable access to services** including credit, technical support, business development support and market information. These are essential to boost productivity, quality and food safety and to reduce the negative impacts on the environment. This is especially critical when local banking systems do not offer affordable loans to farmers and other small chain actors. These services can be provided by the buyer directly, or by an actor from the wider environment (such as government or civil society).
- 5. Inclusive innovation:** not "for" but "with" farmers so they remain competitive and improve the commercial value of their produce. For example, young people can be supported to set up business units around the innovative techniques or practices developed in the chain such as organic fertiliser or digital data management for traceability and quality assurance. The process itself can also be innovative such as by developing step-by-step plans to make the chain more inclusive.
- 6. Measurable results:** the incorporation of tailor-made indicators and monitoring plans to measure the effectiveness of the business model on an ongoing basis and share the results openly with chain actors. Decisions on how to improve should be made cooperatively. This can inspire others to follow suit.

The box on the next page provides an illustration of these principles being put into practice.

¹ https://cgspace.cgiar.org/bitstream/handle/10568/49606/LINK_Methodology.pdf

Shortening the road between farmer and consumer in Tanzania

East Africa Fruits is a social enterprise whose mission is to improve smallholder farmers' access to urban markets by modernising the supply chain and demand logistics. Focusing on the market in Dar Es Salaam, the company has put in place various inclusive business strategies and is working with 5,000 banana, onion and tomato farmers from the Kilimanjaro region. First, it set up several collection centres close to farmers, directly picking up their produce and bringing it to these collection centres, and investing in upgrading farm infrastructure. Second, it mobilised the collection centres to organise training to improve farmers' productivity, produce quality and production sustainability. Third, having removed middlemen from its own supply chain, East Africa Fruits directly supplies market vendors and other buyers from its main storage and distribution facility in Dar Es Salaam. This saves them valuable time compared to when they had to source from wholesale markets and ensures that the produce is traceable and safe. Fourth, it meticulously tracks data from farmer to vendor, providing them with evidence of the viability of their businesses, which can then be used to apply for loans to expand their activities. Fifth, the company supports farmers in planning their crop production to align with market demand. Finally, it has agreed a minimum fair price for onion producers, factoring in production and maintenance costs along with a 20% profit for farmers. In 2020, 6,500 tonnes of produce were collected from smallholder farmers despite challenges in ensuring a consistent supply.



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Entry points for more inclusive urban food chains

In line with the six principles above, several entry points can be identified to make urban food supply chains more inclusive. After 40+ years of experience in sustainable food and agriculture, one of our main lessons is that **competitive farmer organisations** play a critical role in organising efficient collective marketing, optimising logistics and minimising losses, running effective quality assurance mechanisms, negotiating good prices for farmers and offering quality services to their members. Nevertheless, in order for these farmer organisations to grow, they need better access to **affordable finance**. This is often a challenge due to the perception of high risk and low return by capital providers. There is consequently a large gap to fill when it comes to offering financial products that suit the needs of farmer organisations oriented towards domestic urban markets. Finally, **short chain platforms and food hubs**, especially those organised by farmers themselves, can rationalise logistics and paperwork while putting farmers in a price-setting position. In Leuven, Belgium, a group of organisations including the Municipality of Leuven, Circular Flanders, EIT-Food, Rikolto, the financial cooperative CERA, the Innovation Support Centre (*Innovatiesteunpunt*) and Linked.Farm, a cooperative dedicated to supporting short food supply chain initiatives in Belgium, set up the local food distribution system "Kort'om Leuven" to support farmers in achieving a decent income and improve the sustainability of the food consumed in the city. Based on a business-to-business model, it currently serves 13 supermarkets and 19 buyers from the hospitality sector. While achieving a fair price is still a struggle in the face of fierce competition from mainstream channels, the logistics have proven to work, and the cooperative is close to breaking even after less than two years of operation. Kort'om Leuven directly contributes to the city's food strategy: "[Leuven Connects](#)" whose vision calls for a wide mix of high-performance distribution channels for products from the region and aspires to professionalise short chain operations while reducing their logistical costs. A recent [study](#) conservatively demonstrated a return-on-investment of 1.86 euro for every euro invested in the platform. The ratio goes up to 3.11 when incorporating health benefits.



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The way forward: inclusive business for urban supply chains

Although it is never that easy, applying the six principles of inclusive business is easier in collaboration with institutionalised and relatively large urban buyers such as supermarkets, public kitchens and processing companies. The main challenge lies in bringing these principles to life in more informal settings where farmers, intermediaries and vendors are entangled in a constellation of criss-crossing business relationships often characterised by power and information asymmetries. As mentioned above, creating the incentives for producers and other urban food chain actors to adopt more sustainable practices requires buyers to offer them a better deal: one where they can make a decent living from their work. Although urban markets are increasingly concerned about sustainability, safety and fairness, relying on consumer demand alone is not enough. This is why inclusive business practices must go hand-in-hand with ambitious, well-resourced local food policies and innovative governance mechanisms in which a diverse and representative group of actors work together to develop inclusive business models for supplying cities.

In this light, an ongoing project in Lima (Peru) and Quito (Ecuador), jointly implemented by Ecosad, Funsad, RUAF

and Rikolto, with the support of Canada's International Development Research Centre, will seek to understand how food hubs, which bring healthy locally produced food to urban citizens through neighbourhood markets, can be established around inclusive business principles and following a rights-based approach.

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More information

- SNV and the World Business Council for Sustainable Development (WBCSD). (2011). Inclusive Business: Creating Value in Latin America. <https://docs.wbcsd.org/2011/05/InclusiveBusinessCreatingValueLatinAmerica.pdf> [Accessed 11 August 2021]

Find out more on Rikolto's website:

Food Smart Cities:

<https://www.rikolto.org/en/focus-areas/food-smart-cities>

Inclusive business:

<https://www.rikolto.org/en/inclusive-business-insights>