

issues paper

THE 2009 ANNUAL REPORT ON RESULTS AND IMPACT OF IFAD OPERATIONS (ARRI)

MARKET ACCESS

1. INTRODUCTION

1.1. The Annual Report on the Results and Impact of IFAD Operations (ARRI) evaluated by the Office of Evaluation (OE) in 2007 identified impact on market access as an area in which IFAD-supported projects and programmes need to be improved. This view is also echoed by the Programme Management Department's 2007-2008 Annual Review of Portfolio Performance. In order to contribute to ongoing learning and reflection on this theme, this year's ARRI will therefore include a specific section devoted to the subject of market access. This paper provides a brief overview of key issues and will serve as the basis for discussions with IFAD staff during a "Market Access Workshop". This will be held on 28th May and will help shape the contents of the ARRI's market access section.

1.2. The findings of this paper are based upon the review of 30 OE project and country programme evaluations, a selection of recent country strategy and project design documents¹, and selected literature from other international development organisations. The findings are also guided by consultations with staff in the Programme Management Department and other organisational units within IFAD, as well as from discussions with FAO staff. The paper is produced in collaboration with the Trade and Markets Division of FAO.

1.3. The development of, and access to, markets requires a complex set of conditions involving not only farm production technology and transport infrastructure, but also (especially in agriculture) the coordination of many different activities and services, including rural finance, input supply, assembly and distribution, grading, processing and retailing. In much of the world, these activities need to be sustained within the context of markets that are often volatile and unpredictable, in countries where the law cannot be trusted to uphold contracts, and in cultures where business trust is often heavily dependent upon personal relationships or kinship ties. Because of these challenges as well as the usual risks and uncertainties associated with agricultural production itself the private sector is often reluctant to invest in the complementary goods and services needed to link rural producers with urban markets. In places where private agribusiness is more developed, poor producers often face unfavourable prices due to a lack of bargaining power, high transaction costs, and difficulties meeting quality standards. Despite an increasing recognition of these challenges by many development actors, including IFAD, the practical difficulties of overcoming the obstacles to market access remain considerable.

2. DEFINITIONS AND CONTEXT

2.1. Facilitating access to markets is one of IFAD's strategic objectives. Specifically IFAD aims to ensure that the rural poor have better and sustainable access to: "transparent and competitive agricultural input and produce markets, with which they profitably engage"; "a broad range of financial services, which they use for productive and household needs"; and "opportunities for rural off-farm employment and enterprise

¹ A new feature of this year's issues paper involves consideration of IFAD's current portfolio in order to discern the evolving approaches and activities being undertaken to promote market access in IFAD operations.

development, which they profitably exploit². The main focus of this paper is on agricultural output markets, although it recognises that access to these depends upon access to input markets and rural finance, and it acknowledges that in more urbanised economies where the potential for rural manufacturing is greater, other markets are also important.

2.2. Markets exist at many **different levels** (village, small urban, major urban, regional, international). In terms of distance, cost, competitiveness, and the ability to meet the necessary quality standards, local markets (village or small urban) are clearly more accessible than larger more distant urban or regional and international markets. However, access to larger markets offers potentially greater rewards and can act as a driver of growth in the local economy through multiplier effects.

2.3. The existing and potential access of the rural poor to markets depends upon the **context**: specifically on the areas in which the poor live and how these areas relate economically and geographically to the wider economy. It also depends upon the wider economy itself – the level of national income, the degree of urbanisation and rural infrastructure development, literacy rates, links with the global economy, the government's role in the economy, and the extent to which formal and informal institutions create an enabling environment for private sector investment. Spatial integration through improved communications and institutional infrastructure is also fundamental, as is highlighted in the World Bank's 2009 World Development Report (Reshaping Economic Geography). The places in which IFAD's target beneficiaries live vary enormously in relation to all of the above criteria.

3. OE EVALUATION FINDINGS

3.1. Market access is an area in which the impact of IFAD operations has been identified as being relatively weak by both OE and PMD. Of the projects evaluated and rated for market access between 2002-2007 only 54 percent were rated as moderately satisfactory or better³. PMD's project completion reports provide a similar picture with 55 percent of projects completed from 2007-2008 receiving this rating⁴. These figures compare unfavourably with all other impact domains apart from the environment.

3.2. Many of the evaluated projects failed to significantly improve market access because they were located in **low-potential areas** where **basic food security** rather than market access is arguably the primary objective. In these areas the focus was mainly on production, with project designs giving little explicit attention to marketing.

Food security versus marketing in Mali

The Country Programme Evaluation (CPE) for Mali notes that "production interventions were not always supported by adequate efforts to improve access to upstream and downstream markets". However, in its summary of recommendations agreed by partners the report states that "considering that IFAD's intervention areas in Mali suffer from structural food deficits, interventions must be oriented first of all to putting in place production infrastructure that will reactivate production and meet food needs, and then lay the groundwork for a more economic approach by promoting value chains that take into account activities upstream and downstream of production (inputs, equipment, processing, marketing and consultative frameworks)."⁵

3.3. The rural poor face many constraints to market access. Of those projects that did explicitly address marketing issues, many only addressed some of the constraints, either through lack of insight or lack of resources. This **partial approach** to market access seems to explain the poor performance of many of the evaluated projects. In many production-orientated projects there is also little evidence of serious attempts at the project design stage to analyse the **potential demand** for production surpluses, who would buy them, and which markets would absorb them. When projects have succeeded in generating surpluses, this has created problems with oversupply, as illustrated in the box below.

² IFAD; 2005; Strategic Framework, 2007-2010; page 5.

³ IFAD, ARRI 2008, page 22.

⁴ IFAD, Report on IFAD's Development Effectiveness, 2008, page 11.

⁵ Mali CPE, 2007, pages xxxii and xxxiii.

Surplus supply in Nigeria

In Phase II of the Nigerian Roots and Tubers Expansion programme the commercial viability of small-scale processing under the existing project design has been questioned. Despite its market orientation, the design failed to address other marketing constraints including the need to link small cassava producers and processors with bigger actors further along the supply chain and involve private sector financial service providers. This led to a glut of cassava in local markets and a collapse in prices that made processing and production uneconomical.

3.4. Investment in **roads** (mostly in feeder roads rather than major trunk roads) have long been a feature of IFAD projects, and the number of kilometres of roads constructed or rehabilitated is often used as an indicator of project impact in relation to market access. The Joint Africa Evaluation shows that an impediment to private sector development and to access to market is the extremely high transportation costs – something that can be mitigated by construction of rural roads. In some cases roads alone are enough to create a significantly positive impact on market access, particularly in situations where the underlying supply and demand conditions are favourable, as is illustrated in the box below.

Roads in China and Madagascar

The Qinling Mountain Area Poverty Alleviation Project (QMAPAP) in China and Phase II of the Upper Mandraré Basin Development Project in Madagascar both had a major impact on market access, primarily as a result of project-funded roads that dramatically cut the time and cost associated with travelling between agricultural production zones and the market. In both cases market access was helped by favourable demand conditions. In Madagascar this related to the demand created by a foreign mining development outside the project area that helped push up urban food prices. In China it was connected to high population densities and remittances from the rapidly growing urban-industrial sector that not only fuelled demand but also provided resources for agricultural investment.

3.5. The Madagascar example also offers a note of caution. It has been suggested that the market access facilitated by the Madagascar project may have been to the detriment of poor communities outside the project area, who prior to the road rehabilitation were relatively better connected to the same urban market via an alternative route. This example illustrates a wider risk associated with efforts to improve market access (whether through roads or other means) – the risk that better access for some is less access for others.

3.6. Roads are not the only marketing constraint. For many primary agricultural commodities substantial processing is needed to gain access to markets. A number of the evaluated projects helped to support **processing** – typically focusing on small-scale facilities. As illustrated by the Nigeria example given earlier and Guatemala's Rural Development Programme for Las Verapaces (PRODEVER), success depended upon whether or not processors could profitably supply more distant markets. In Guatemala IFAD investments in small-scale cacao processing (combined with support for producer organisations and links established with urban buyers) succeeded in providing smallholders with access to the domestic market in the national capital (4 hours away by road).

3.7. For many agricultural commodities the efficiency and competitiveness of value chains depends upon **economies of scale** in processing (and elsewhere in the value chain). IFAD's support for relatively large dairy processors in Romania's Apuseni Development project gave market access to local dairy farmers, many of whom were poor, and generated employment both directly and through a rural multiplier effect (although the latter turned out to be less than originally projected). Direct support for larger scale agro-processing is less evident in the evaluations from other regions.

3.8. Support for self-help groups has long been a feature of IFAD projects and with the shift towards more commercially orientated projects increasing emphasis is being given to **producer organisations**. These can help create economies of scale in smallholder marketing, especially when they have a specific commodity focus, providing farmers with greater bargaining power and more favourable input and output prices. The evaluations suggest that these organisations have often been an important ingredient for improved market access in those projects that did achieve this outcome – most notably in Latin America.

3.9. A number of projects were criticised for failing to support better **market information**. However, telephone-based market information services were found to be valuable in Peru's Development of the Puno-Cusco Corridor Project, whilst radio-based services were superseded by mobile phones in the

Cordillera Highland Agricultural Resource Management Project in the Philippines. Market information is only valuable, though, if producers have the technology and resources to respond to it and if farm-gate prices for inputs and outputs are attractive enough for commercial production.

3.10. Rural **financial services** are a very important factor in shaping market access and support for them was a sizeable component in the majority of evaluated projects, with microfinance being the focus of most of this support. Although it has undoubtedly helped some beneficiaries invest in microenterprise, much of the borrowing is for consumption and other non-commercial purposes, and it is unclear how much of it has helped support commercially orientated agricultural production. Because demand for farm inputs is very seasonal, traditional microcredit schemes are not always the best vehicle for addressing associated financing constraints. Moreover, it does not solve the financing constraints faced by larger operators in the value chain whose activities poor people may depend upon for **farm inputs**, such as seeds and fertilisers, and for marketing and processing services – amongst the evaluated projects, the Romania example mentioned earlier was unusual in this respect.

3.11. **Business Development Services** (BDS) are also a feature of many market-orientated development projects, but were absent in most of the evaluated projects. Notable exceptions include the successful Peruvian Puno-Cusco Corridor project mentioned earlier and Colombia's Rural Micro-entrepreneur Development Programme where they played a valuable role. Outside middle income countries the human capital needed to deliver BDS is usually scarce, especially in rural areas, and a project's ability to develop it may be rather limited.

3.12. Although large numbers of projects have given relatively little attention to marketing issues, as compared to production issues, some projects have adopted a more comprehensive **value chain/market linkages approach**, giving much greater attention to market demand, and the institutions and stakeholders needed to link producers with the market. In the case of Colombia's largely successful Rural Microenterprise Development Programme (PADEMÉR), for example, the evaluation noted "the importance of changing the mentality of the RMEs and their organizations, which have moved away from a historically "productivist" orientation. RMEs now examine the market before embarking on any production activity in order to improve their chances of success and sustainability. They are also adopting business practices that will enable them to compete on the market."⁶

3.13. It is perhaps not surprising that the more market orientated projects have generally had more impact on market access than those focusing exclusively on food security and basic livelihood assets. However, the differential impact also needs to be understood in terms of the **country context**. Thus, the more market orientated projects are concentrated in regions with larger, more accessible domestic markets and where basic livelihood assets are already more developed (eg in Latin America and parts of Eastern and Central Europe). The least market-orientated projects are evident in countries where markets are thinnest and where food security is more precarious (eg in the countries of the Sahel.)

3.14. Amongst the projects evaluated, **successful** application of value chain/market linkage approaches was mostly, but not entirely, limited to Latin America and Eastern Europe. For example, in Uganda's District Development Support Programme some districts have benefited from relatively successful initiatives to provide market information, establish linkages between farmers and traders, and develop agricultural zoning systems that prioritise particular commodities to help improve economies of scale in marketing. These initiatives are now being replicated in a number of other districts. Some success was also reported in the promotion of linkages between farmers and traders in India's North Eastern Region Community Resource Management Project for Upland Areas.

3.15. **Sharing knowledge** and experience of market access initiatives with development partners is important. It is something that the Network of IFAD-supported Projects in Latin America and the Caribbean (FIDAMERICA) has been commended for.

3.16. In **summary**, the lessons of evaluation are that country context is critical in determining market access; that short term food security goals may conflict with longer term commercialisation goals in more disadvantaged regions; and that better access to markets depends upon adopting a more comprehensive and integrated approach to production and marketing – one that focuses on demand as well as supply and involves private sector intermediaries from the outset.

⁶ IFAD, PADEMÉR, Completion Evaluation, 2007, page xxxv.

4. WIDER EVALUATION EXPERIENCE

4.1. Country context is all important in determining the sorts of market opportunities the poor are likely to have available to them. The World Bank's 2008 World Development Report (Agriculture for Development) divides the countries of the developing world into three broad categories, one agriculture-based, one transforming, and one urbanised. In **agricultural-based economies** that include most of Sub-Saharan Africa, access to markets depends above all on a 'productivity revolution in smallholder production'. In the **transforming economies** which include most of South and East Asia, the Middle East and North Africa it depends upon 'shifting to high value agriculture, decentralizing nonfarm economic activity to rural areas, and providing assistance to help move people out of agriculture'. In the **urbanised economies** which include most of Latin America and much of Europe and Central Asia, 'agriculture can help reduce the remaining rural poverty if smallholders become direct suppliers in modern food markets, good jobs are created in agriculture and agroindustry, and markets for environmental services are introduced'.⁷

4.2. The challenges are undoubtedly greatest in Sub-Saharan Africa where infrastructure and market institutions are least developed. In evaluating the effectiveness of the World Bank's support for agriculture in the region the IEG (Independent Evaluation Group) identifies inadequate **transport infrastructure** as "perhaps the most critical of the remaining barriers to market access" which Governments, the Bank and other donors still need to address.⁸

4.3. Aside from building roads, there are many additional approaches to addressing market access constraints. However, following market liberalisation and the demise of **parastatal marketing**, the attention of donors shifted away from marketing which was now seen as the preserve of the private sector which donors had little experience of working with. The result is that, whilst the lapsed support for marketing is beginning to be addressed, formal evaluation evidence on the impact and effectiveness of more recent initiatives is still not very well synthesised.

4.4. **Sustainable livelihoods** approaches which have been popular with donors since liberalisation help tackle some of the most basic constraints to market access (food security, health, education etc) but have been criticised for giving insufficient attention to the gaps left by the state following its withdrawal from marketing⁹ and for failing to engage with private sector agribusiness and being too focused on supply rather than demand.¹⁰ In recognition of this problem, many donors, including IFAD, have recently begun to adopt a **value chain/market linkages** approach to intervention.

4.5. Experience with projects funded by DFID's Crop Post-Harvest Programme in various parts of South Asia and Sub-Saharan Africa suggest that success in providing rural producers with access to markets depends upon attention to the following activities.

- "Building linkages and enhancing trust between small-scale rural producers, buyers in growing markets, and suppliers of critical inputs
- Supporting small-scale producers to associate, collaborate and coordinate so as to achieve economies of scale in their transactions with buyers (or suppliers)
- Making channels of information and market intelligence (e.g. about product specifications and market prices) accessible to rural producers
- Enabling rural producers to understand and better satisfy the product, process or delivery standards required by buyers"¹¹

4.6. These are challenging tasks, especially when dealing with the **resource poor** in disadvantaged areas. The agribusiness sector usually prefers to work with more progressive farmers and there is evidence to

⁷ World Bank (2008) World Development Report 2008: Agriculture for Development, page 1 and 2.

⁸ World Bank, Independent Evaluation Group (2007) World Bank Assistance to Agriculture in Sub-Saharan Africa, page 17.

⁹ Dorward, A., N.Poole, J.Morrisson, J.Kydd and I.Urey (2003). *Markets, Institutions and Technology: Missing Links in Livelihoods Analysis*. Development Policy Review, 2003, 21(3): 319-332.

¹⁰ Heierli, U (2008) Market Approaches that work for development: how the private sector can contribute to poverty reduction.

¹¹ Almond, F.R. and Hainsworth, S.D (Eds) (2005). Beyond Agriculture – making markets work for the poor: proceedings of an international seminar. Crop Post-Harvest Programme, Natural Resources International Limited, page 4.

suggest that whilst farmer organisations can facilitate market access and commercial agricultural development they face many challenges. One study suggests that farmer organisations are “unlikely to succeed in directly helping the poor in more difficult environments” since successful participation and membership typically requires resources and skills that the poor in these areas typically lack¹². Moreover, in a review of experience with value Caribbean Basin, Donovan and Poole (2008) note that “while value chain approaches to smallholder inclusion are notching up successes in the region and elsewhere, the poverty reduction impacts at community and household levels cannot be assumed”.¹³

4.7. Nevertheless, **linking farmers to markets** by organising them into groups to supply identified markets is a common approach to market access problems. An FAO review of experiences with this approach to date includes the following recommendations¹⁴.

1. Improve coordination, communication and collaboration between development agencies in implementation and with regards to experience and associated lessons; and learn from and support the private sector’s own initiatives.
2. Conduct thorough analysis of value chain constraints and give proper consideration to domestic markets (as opposed to export markets)
3. Develop appropriate institutions for agribusiness support, such as those relating to finance, market information, agricultural research and extension, certification, and farm management and agribusiness training
4. Consider the extent to which particular initiatives can be scaled up to include larger numbers of farmers and consider the cost-effectiveness of different approaches to market access in terms of the numbers of farmers reached.

4.8. This last point highlights a controversial issue regarding the potential trade-off in donor resource allocation between working directly with specific groups of producers and focusing more on the broader **enabling environment** required for the private sector to undertake initiatives of its own.

5. MOVING FORWARD

5.1. Based upon its **policy and strategy documents**, IFAD appears to be taking market access and the lessons learned from past experience very seriously, particularly in relation to working with the private sector. The influential 2005 **Private Sector Development and Partnership Strategy** states that IFAD will “support or partner with those private-sector operators that can provide improved income-generating opportunities for IFAD’s target group”. For commodities that are important to small farmers, it highlights a commitment to addressing constraints throughout the value chain and not just those at the farmer end; and in working with farmers, it commits IFAD to developing the skills and capacity that farmers and their organisations need in order to pursue a more commercially-orientated and demand-led approach to production. Additionally, IFAD’s most recent **Rural Finance Policy** provides scope for addressing the financial constraints along value chains (and not just at the farm level), although some within IFAD question the extent to which this is happening in practice and there seem to be mixed feelings within IFAD about the extent to which resources should be used to support the enterprises of actors who are not poor.

5.2. Support for more commercially orientated production, improved marketing, and private sector involvement is identified as a strategic object in most of the **COSOPs** (Country Strategy Opportunities Programmes) produced over the last 2 or 3 years, although the emphasis varies somewhat between countries.

¹² Chirwa, E., Dorward, A. et al; (2005) *Walking Tighropes: Supporting Farmer Organisations for Market Access*; ODI, Natural Resource Perspectives 99.

¹³ Donovan, J; Poole, N (2008) *Linking smallholders to markets for non-traditional agricultural exports: a review of experiences in the Caribbean Basin*, Inputs for strategy formulation by ‘EU-ACP All Agricultural Commodities Programme’, page 2.

¹⁴ A. Shepherd (2007) *Approaches to linking producers to markets: a review of experience to date*; Agricultural Management, Marketing and Finance, Occasional Paper 13, FAO Rural Infrastructure and Agro-Industries Division.

5.3. To what extent corporate policy commitments and strategic objectives at the country level are reflected in the design of IFAD's **current portfolio of projects** is hard to judge conclusively without a comprehensive analysis of the design of individual projects. However, PMD's 2007-2008 Annual Review of Portfolio performance states that 'some value chain element' is now present in a half of all projects, and discussions with staff in the Programme Management Division also suggest that a significant shift towards more market-orientated projects has been taking place over the last few years. An examination of IFAD's **Project and Portfolio Management System** (PPMS) lends some support to this. It points to a steady increase (especially since about 2000) in the presence of the following sub-components in newly approved projects: "marketing:inputs/outputs", "market information/studies", "market infrastructure", and "business development"; and from 2007 value-chain and market linkage activities suddenly became very visible in the PPMS. However, many marketing initiatives also take place on an ad hoc basis – reflecting to some extent the Community Driven Development approach of many of IFAD's projects – and have in the past been subsumed within project components or sub-components (notably the credit sub-component) that are not specifically dedicated to market access. This makes it difficult to analyse the evolution of the portfolio over time. As an earlier more comprehensive review of IFAD's experience in market access (undertaken as part of IFAD's 2005 Initiative for Mainstreaming Innovation (IMI))¹⁵ pointed out, it also makes it hard to evaluate a project's performance in relation to market access and can inhibit the replication and scaling up of marketing activities. However, the more descriptive and focused labelling of subcomponents in recent years suggests that this situation may now be improving.

5.4. In what the World Bank classifies as the **agriculture-based economies**, a number of IFAD projects now focus specifically on increasing the commercial competitiveness of the specific agricultural sub-sectors that smallholders are involved in (eg. Uganda's Vegetable Oil Development Program, the Smallholder Horticulture Marketing and the Smallholder Dairy Commercialization Programmes in Kenya, and the Regional Cassava Processing and Marketing Initiative (RCPMI) in Benin, Cameroon, Congo, Ghana and Nigeria). In some projects innovative approaches to dealing with value chain constraints are also evident. Although their 'effectiveness', 'efficiency' and 'impact' cannot be judged here, they clearly illustrate a 'relevant' response to some of the criticisms raised by past evaluations. For example, in seeking to overcome some of the limitations of microfinance and in an effort to foster the development of medium-sized agribusiness as well as supporting small farmers and traders, Tanzania's Agricultural Marketing Systems Development Programme is working with commercial banks to support inventory credit and a trader/processor loan guarantee system. It is also supporting the development of and linkages between producer organisations and traders/processors associations to help build trust and sustainable business relationships between these two groups. Similar innovations are evident in other projects, such as Zambia's Smallholder Enterprise and Marketing Programme.

5.5. In the **middle-income countries** the challenges are different and IFAD's support for market-orientated activities is more advanced. Nevertheless, there is undoubtedly still scope for building on the lessons already learned as well as learning new ones. Of particular relevance to these countries are the outputs of the programme on Promoting Market Access for small-scale producers funded by IMI grant¹⁶. These include a market access manual for smallholders, as well as guidance on business development centres, participation in trade-fairs, and e-commerce.

5.6. The constraints to improving access to markets for the rural poor are enormous and there are no quick-fixes. Whilst this review suggests that IFAD may be moving in the right direction IFAD's **resources** are limited and it and other donors as well as the Governments face the difficult job of selecting which constraints to focus on and determining whether there is an optimal sequence for addressing them. To some extent the solution to donor and government resource constraints lies in better coordination between donors, effective leveraging of private sector finance, and better partnerships with government and other local organisations.¹⁷ With different actors/partners specialising in the parts of the value chain with which they have greatest experience, synergies may be achieved that will reduce the cost of achieving specific market access outcomes. However, as the 2007-2008 Annual Review of Portfolio Performance acknowledges a focus on market access in the face of resource constraints can create difficult trade-offs in terms of **targeting**, with the development of value chains in higher potential areas competing against a need to tackle poverty in areas with very limited potential for accessing markets. Similar trade-offs exist between focusing on the immediate needs of the most deprived members of a particular community and the

¹⁵ Eleonora Canigiani (2005) Taking Stock on IFAD experience in market access; IFAD/IMI.

¹⁶ IFAD (2005), Developing Marketing Chains from Producers to Consumers: Lessons and Opportunities for Innovation.

¹⁷ World Bank (2008) World Development Report 2008: Agriculture for Development, page 15.

needs of those whose greater commercial potential may in the longer term contribute more to the development of the local economy and associated **multiplier effects**.

6. ISSUES FOR DISCUSSION

1. Is IFAD moving in the right direction with its current approach to market access? What is it doing right and what is it doing wrong?
2. Which market access constraints are the hardest ones for IFAD to address? How might these influence project design and IFAD's broader development strategy?
3. Is there a trade-off between current approaches to market access and meeting the needs of the poorest people or the most disadvantaged areas? If so how should this trade-off be dealt with?