PRODUCTIVE ALLIANCES:
Including Small Farmers in Market-Driven Development

JOBS DIAGNOSTICS AND STRATEGIES

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Content

Jobs and Economic Transformation in the Agri-Food System

Jobs Constraints and Observed Symptoms

The Productive Alliance (PA) Model

PA Results and How PA addresses Job Constraints

Common Pitfalls from PA Experience

Success Indicators for the PA Model
Agri-Food System in LICs, MICs and HICs

Low Income Countries
• Agri-food system accounts for >70% of all jobs
• Food accounts for high share of consumption: lower food prices → extra purchasing power & economic transformation

Middle Income Countries
• Agri-food system accounts for ~30% of all jobs
• Manufacturing and services start providing more employment

High Income Countries:
• Agri-food system accounts for up to ~ 10% of all jobs
• Significant portion of jobs in food services
Jobs move up the Agri-Food System as countries develop

<table>
<thead>
<tr>
<th>Low Income: e.g. African countries</th>
<th>Middle Income: e.g. Brazil</th>
<th>High Income: e.g. US</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farming 91%</td>
<td>Farming 49%</td>
<td>Farming 21%</td>
</tr>
<tr>
<td>Food services 6%</td>
<td>Food services 26%</td>
<td>Food services 66%</td>
</tr>
<tr>
<td>Food manuf./industry 3%</td>
<td>Food manuf./industry 25%</td>
<td>Food manuf./industry 13%</td>
</tr>
</tbody>
</table>

≈ 70% of all jobs
≈ 30% of all jobs.
≈ 10% of all jobs

Agroindustry grows ten times more than agriculture

<table>
<thead>
<tr>
<th></th>
<th>Share of GDP in Low Income Country</th>
<th>Value per person per year ($)</th>
<th>Share of GDP in High Income Country</th>
<th>Value per person per year ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>20%</td>
<td>300</td>
<td>4%</td>
<td>2000</td>
</tr>
<tr>
<td>Agroindustry</td>
<td>5%</td>
<td>75</td>
<td>12%</td>
<td>6000</td>
</tr>
</tbody>
</table>
Transformation within the Agri-Food System

Urbanization and a growing middle-class lead to dietary change

- Food demand changes from staples to animal products, veggies & fruits
- Processed food becomes more important, food retailing grows quickly
- The food system extends from the farm to the village and the town

Income Shares of Consumer Demand for Food Products

Source: Merotto and Casanovas (forthcoming)
Transformation within the Agri-Food System

In response to the changing food demand, farmers need to change their farming system

• Produce sufficient quantity and of demanded quality
• Invest in (new crops and) post-harvest systems
• Develop their marketing and logistic skills

To do so, farmers are constrained by the need for new skills, new money and new contacts
Transformation within the Agri-Food System

Productive Alliances allow farmers to overcome these constraints

- Organizing farmers
- Providing technical assistance
- Attracting investments in labor-intensive production
- Promoting branding and marketing
- Linking them to markets
Transformation with more & better Jobs

Land + water + seed + transport + marketing

Agri-business

Processing

Refrigeration

Transport Logistics

Nutritional value + convenience + price
Jobs Constraints/Syndromes that PA can address

Jobs problem: Transformation of work into commercial farming and out of agriculture is slow, although a small modern sector often co-exists in geographic space with smallholders and subsistence farmers.

Observed symptoms: Dualism in agriculture, slow econ. transformation:

- High and persistent shares of labor in subsistence agriculture
- High share of youth underemployed, or operating as unpaid family workers
- Yield gaps between small, medium and large farmers
- Large (and increasing) gaps in earnings between modern and traditional farms
- These gaps co-exist within locations close to markets
- Skewed farm size distribution
- Business data reveals several large agriculture companies (commercial farms)
Country example: Co-existence in Uganda

Earning gaps co-exist within locations close to markets in Uganda

Subsistence Farmers and Food Processing firms

Commercial Farmers and Food Processing firms
Productive Alliances address different Market Failures

**Economic dualism**
- PA have the potential to offset the dualism of modern, capitalized and traditional, labor-based farms

**Coordination failures**
- PA bring economies of scale, enhancing profitability of investments

**Information asymmetries**
- PA provide (smallholder) farmers with knowledge of quality control, marketing, distribution, and pricing

**Imperfect Markets**
- By organizing small farmers in associations, PA enable them to obtain stronger negotiation power and a better profit share in the value chain
Productive Alliances address different Market Failures

Productive Alliances

• Address unequal market power
• Raise smallholder productivity
• Expand total production and change the product mix
• Achieve economies of scale, especially post-harvest
• Diversify household labor in off-farm work
The Productive Alliance (PA) Model

A PA involves three core agents:

- **Producers**
  - Collective Action (Horizontal Alliance)
    - Common goods
    - Shared capacity-building
    - Financial accountability

- **Business Plan**
  - Productive Investments
    - Production inputs
    - Small infrastructure
  - Technical Assistance
    - Extension services
    - Technology transfer
  - Business Development
    - Management
    - Accounting

- **Public Sector**

- **Commercial agreement (Vertical Alliance)**
  - Product specifications
  - Quantity of product
  - Quality requirements
  - Price arrangements
  - Delivery specifications
  - Duration of alliance
  - Support goods and services

- **Buyer(s)**

Matching grants
The Productive Alliance Model

A PA supports four types of activities:

1. Organizing farmers
2. Linking them with a market
3. Technical assistance
4. Investments in production and marketing
The Productive Alliance Model

PA implementation is flexible and diverse:

- **Wide range of products** (e.g. horticulture, livestock, coffee, cacao, etc.)

- **Different buyers** (e.g. brokers, traders, exporters, wholesalers, supermarkets, specialized distributers, etc.)

- **Various markets** (e.g. domestic, export, private, institutional)

- **Different levels of commercial requirements** (e.g. high-end exports, niche markets, etc.)

2002-2018: 27 projects, >4,500 subprojects; >US$ 1.5 billion; >1.4 million farmers
The Productive Alliance Model

PA implementation is flexible and diverse:

Beneficiaries
- Majority at stage of unorganized to organized producers (need for organizational capacity, improved productivity, quality standards and market access)
- Few organized producers with well-established services (need for product upgrading/differentiation, SPS standards, sophisticated marketing and logistics)

Markets
- Mostly commercial buyers (e.g. wholesalers, food processors, supermarkets)
- Brazil links to institutional markets (e.g. school feeding programs, hospital food supply)
- Typically serving informal to high-end domestic markets (Jaffee et al.’s Level 1 to 3)

The Productive Alliance Model

PA attacks several issues in an integrated approach:

- Lack of negotiation power of small farmers
- Lack of knowledge
- Lack of money
- Lack of market access

PA benefit farmers who:

- Are able to organize themselves
- Can rely on their land for their income
- Are sufficiently close to the market
Results from PA Projects (Economic)

Scope
- Projects generally exceed target number of alliances
- Support per beneficiary are considerable, but vary greatly

Socio-economic effects
- Increasing evidence of significant positive impacts in income and employment
- Generate spillovers to indirect beneficiaries
## Country example: Income Growth Bolivia’s PA (2008-16)

<table>
<thead>
<tr>
<th></th>
<th>No. of alliances</th>
<th>Net income of families outside project</th>
<th>Net income of families inside project</th>
<th>Net income increase (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>146</td>
<td>900</td>
<td>3400</td>
<td>301%</td>
</tr>
<tr>
<td>Livestock</td>
<td>140</td>
<td>350</td>
<td>1600</td>
<td>380%</td>
</tr>
<tr>
<td>Others</td>
<td>34</td>
<td>720</td>
<td>2100</td>
<td>194%</td>
</tr>
<tr>
<td>Total</td>
<td>320</td>
<td>640</td>
<td>2350</td>
<td>275%</td>
</tr>
</tbody>
</table>

Average increases: Production: 474%; Sales: 461%; Price: 79%
Results from PA Projects (Social and Sustainability)

Social inclusion

- Women’s participation in PA is high
- Youth stimulated to engage in agriculture and off-farm activities (e.g. eco-tourism)
- Other vulnerable groups (e.g. indigenous peoples, post-conflict areas) benefit on a par with non-vulnerable producers

Sustainability

- Some evidence of long-term alliances between producers and buyers
- Prospects for sustainability better with strong cohesion within POs
Country example: Women’ Inclusion in Colombia’s PA

Mujeres Productoras Agropecuarias del Departamento del Cauca (AMACA)

- Started in 2008, in El Tambo, an area affected by the violence
- Specialty coffee for export
- Technical upgrades production systems; links with export company of specialty coffees
- Association established a still functioning revolving fund
- More time to dedicate to their homes and children; Diversification into other activities
- Political visibility in the village – “Somos las héroes del pueblo; el alcalde nos escucha!”
Lessons of Good Practice

- Identifying promising value chains early on helps ensure effectiveness and sustainability.
- Assessment criteria for buyers and monitoring of producer-buyer relationships reduce risk of elite capture.
- Requiring cash contributions from producers ensures stronger buy-in.
- A deliberate engagement of the financial sector helps to leverage financing and ensure growth of alliances.
Success Factors of PA

• Strength of the producer organization
• Commitment of the buyer
• Depth of the feasibility study
• Quality of Technical Assistance
• Limited political interference
Vulnerabilities / Pitfalls of the PA Model

- Target beneficiaries
- Evaluation and impact
- Operating costs
Targeting the right beneficiary farmers

Geographic and producer targeting
• Generally based on defined socio-economic; market and economic density criteria

Some value chain targeting
• Focus often on high-value crops
• Several engage in non-farm activities (e.g. eco-tourism, arts crafts)

Buyer targeting
• Eligibility criteria for buyers are usually loose
Common Pitfalls in Targeting

Targeting the very bottom of the pyramid
- The very poor often lack productive assets and basic skills
- Better addressed in livelihoods programs

Operating in low density areas away from the market
- Farmer groups become costly to run
- Marketing costs too high; and market intelligence too low

Insufficient preparation of the alliance
- Business plans and alliance contracts need to be solid and based on evidence

Skipping technical assistance
- Achieving agreed quality standards is key to the success of the alliance
- The market does not like variable quality, so it is essential that all group members meet the same standards
<table>
<thead>
<tr>
<th>Indicator</th>
<th>Expected state</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural unemployment/underemployment</td>
<td>High</td>
<td>Specify by gender/age</td>
</tr>
<tr>
<td>Market potential</td>
<td>High</td>
<td>What is the nearby urban market? Income growth of domestic consumers</td>
</tr>
<tr>
<td>Transaction costs (organization/distance)</td>
<td>Low</td>
<td>Farm groups should be easy to organize and to run, distance to markets should be low</td>
</tr>
<tr>
<td>Sparks of success</td>
<td>Here and there</td>
<td>If some entrepreneurs have made it work, others may do as well</td>
</tr>
</tbody>
</table>
Why clients like the PA Model

• It combines investment, modern concept of innovation and access to market
• It helps to reduce poverty in rural areas
• It gives political visibility
For more information, see PA assessment:
https://openknowledge.worldbank.org/handle/10986/25752
Contacts for PA Model

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