



Benchmarking the Business of Agriculture

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Snapshot - Access to Markets¹

Access to markets: relevance and main constraints

Market opportunities are the key driver of farm incomes and are vital to the health of the broader non-farm rural economy. In particular, the main factor affecting farm incomes will be the growth in urban demand for food, resulting from population growth, income gains and increasing urbanization.ⁱ Tremendous changes are expected in the volume of demand as populations grow as well as in the mix and quality of agricultural products as consumer become better off and demand more sophisticated products. The marketing channels are in the process of being transformed due to several factors, including the ability to comply with formal standards for food production and the capacity of countries to export and involve smallholder farmers in commercial supply chains.ⁱⁱ In light of this transformation, feeding the needs of an expanding number of urban poor will become more paramount. This will have consequences that policy makers need to adapt to. Particularly in terms of the increased dislocation of producers from future demand in terms of time, space, and culture. Policy makers will need to ensure local producers can have competitive supply capability for domestic and international markets, the ability to support growing domestic urban demand and be able to take advantage of regional demand-supply opportunities through harmonization of regional trade policies.

A review of current literature has identified that the biggest potential for the commercialization of small holder farmers lies in being able to reach urban markets efficiently, domestically but also regionally as borders are often arbitrary and the nearest large market could lie across the border.ⁱⁱⁱ Recent data suggests that increasingly urban demand is being fed by imports and there is a need for a strengthened and market-orientated local production base to push back against this trend and enable the rural households to participate in these market channels as both producers and consumers of agricultural goods.^{iv}

Farmers and agribusinesses face several challenges when trying to reach markets and sell their products. Numerous internal movement controls, for example, add cost and time and may be arbitrarily applied. License, documentation and approvals of agricultural exports and procedures required at the border-post or the port can be burdensome, repetitive and costly, limiting exports and, indirectly, farmer marketing opportunities and prices.^v

One of the main constraints faced by sellers of agricultural products is being able to meet national and private sector set food safety and health standards. Sanitary and phytosanitary policies and standards of importing countries have a dominant effect the ability of firms to sell agricultural goods. An outbreak of an animal disease or evidence of contamination of plant food or processed products can close markets entirely. This generally requires a set of control measures that go well beyond the realm of individual firms or farms. The standards provide important benchmarks that developing countries can use in dialogue and negotiations with trade partners when technical or administrative disputes arise.^{vi} Standards, public or private, mandatory or voluntary, facilitate the coordination of agri-food value chains across space and between producers/firms and, in so doing, transmit credible information on the nature of products and the conditions under which they are produced, processed and/or transported.^{vii} Non-compliance is not an option for those who wish to continue to export.^{viii} But obtaining SPS certificate and testing can be complicated and time-consuming. Mismatch of goods and standards among trading partners can hinder

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regional and international agricultural trade.

Evidence also shows that one effective mechanism to link smallholder farmers to agribusiness firms is through contract farming. Farmers benefit by having a guaranteed buyer for their goods, access to technology, credit for farming inputs, and sometimes extension advice and oversight. Agribusiness firms benefit by ensuring they will be able to meet demand for the goods they want to sell at a reasonable price. Contract farming can be promoted with a favorable investment climate, deregulation of direct transactions between companies and farms, the development of grades and standards, facilitation of farmer organizations to link farmers and firms, cooperation with private firms on provision of extension services, provision of mediation services, and exploration of innovative ways to enforce contracts.^{ix} The extent of agricultural production under contract has been increasing lately. In Brazil, 75% of poultry production is under contracts. In Vietnam, 90% of cotton and fresh milk, 50% of tea, and 40% of rice are being purchased by enterprises through contracts. Policies to promote contracts are being pursued in India, China, Latin America, and several African countries.^x But in many countries there is a lack of legal framework for agricultural contracts, as well as a lack of effective enforcement, mediation and arbitration mechanisms which prevent development of contractual relationships. Farmers are often unaware and unable to enter into contracts because of lack of information and support.

The aim of indicators proposed below is to facilitate governments, policy makers and other institutions working on agribusiness marketing issues to address these constraints by reducing unnecessary regulatory barriers and clarifying and publicizing the existing process faced by firms trying to sell agricultural products. The project will also aim to showcase best practices in regulation and policy which affect the ease at which agricultural goods are able to reach markets efficiently.

Proposed focus of the Access to markets indicators

Doing Business in Agriculture (DBA) indicators and Deep Dives (DD) will complement each other by providing actionable indicators and analysis of broader policy issues related to agricultural marketing.

A key set of indicators will focus on the constraints faced by agribusiness as they try to reach nearby markets. The initial pilot will investigate **domestic urban markets, neighboring country markets and exports to international markets**. Selling agricultural goods both domestically and internationally requires that producers meet a certain set of standards required for food production. A second set of indicators will investigate the constraints faced by agribusiness trying to comply with **health and food safety standards** set for several different types of commodities. Having guaranteed buyers for their products provides an incentive for farmers to grow their goods in the first place and so a final set of indicators will focus on **contract farming** and the mechanisms in place to enter into such contracts as well as ability to enforce them. This topic will also investigate the role of farmer organizations in being able to facilitate this process. Further context will be provided by additional Deep Dive studies of the agricultural marketing and agribusiness enabling environment.

Sub category a. Domestic, regional and international markets:

The pilot phase will consider several case studies featuring different types of commodities (grain, horticultural products)

Doing Business in Agriculture regulatory indicators:

1. Time and motion indicator describing the process faced by agribusinesses trying reach the nearest domestic urban market, such as internal movement controls, local fees and other requirements.
2. Time and motion indicator describing the process for cross-border trade, i.e. exporting agricultural goods a major market in same region through a border post.
3. Time and motion indicator describing the process for exporting agricultural goods by ocean freight to international markets (largest trade partner).

Deep Dive topic areas and indicators:

1. Rationale for and consistency in application of controls.
2. Regional trade agreements & their implementation in practice.

Sub category b. Food safety and health grades and standards (G&S):

The pilot phase will consider several case studies featuring different types of commodities (grain, horticultural goods)

Doing Business in Agriculture regulatory indicators:

1. Time and motion indicator describing the process for

Deep Dive topic areas and indicators:

1. How grades & standards are established; extent of

<p>complying with food safety and health standards (obtaining SPS certificates, testing and inspections necessary for exporting different agricultural goods).</p> <p>2. Legal indicator measuring:</p> <ul style="list-style-type: none"> • <u>Compliance with pre-identified 'international best practices' on SPS</u>: if we determine adopting international norms as best practice, then a series of Yes/No questions could be asked to compare certain key elements of the norm, e.g. Codex or GlobalGAP, with domestic standards, both on the books and in practice for selected commodities. • <u>Establishment of standards mechanisms</u>: questions could be asked if a country has set up a certain type of standards mechanism with its regional and international major trading partners, by signing harmonization/equivalence/mutual recognition agreement. 	<p>private sector input</p> <ol style="list-style-type: none"> 2. How grades & standards are communicated/disseminated 3. Conformity of product grades & standards with trading partners & mutual recognition 4. Number/capacity of labs for testing; inspection practices.
<p>Sub category c. Ease of contract farming:</p>	
<p>Doing Business in Agriculture regulatory indicators:</p> <ol style="list-style-type: none"> 1. Process for enforcing agricultural contracts; 2. Availability and functioning of mediation and arbitration services; 3. Legalization of direct firm-farm contracts. 	<p>Deep Dive topic areas and indicators:</p> <ol style="list-style-type: none"> 1. Extent of use of contract farming (which crops, what % output for those crops) 2. Contractual mechanisms for setting prices paid to producers in different countries and commodity value chains 3. Role of FOs (Farmer Organizations): Aggregation capacity, ability to negotiate and establish contracts (on competitive terms), and input delivery capacity & ability to secure inputs in bulk at competitive prices. 4. Degree of value addition: storage, processing, marketing (actual sales/distribution), branding
<p>Sub category d. Agricultural marketing and the Agribusiness Enabling environment:</p>	
<p style="text-align: center;">Deep Dive topic areas and indicators:</p> <ol style="list-style-type: none"> 1. Role of government in setting agricultural price and margins 2. Trade Policies: Governments may tax leading agricultural exports to generate revenue, but this undercuts the competitiveness of key value chains. Tariffs on imported food crops such as rice increase food costs for low-income consumers, particularly in cities. Exchange rate misalignment may subsidize imports, however. Taxes and subsidies can create incentives or disincentives for producers and other agribusiness system participants. 3. Perception of agribusiness enabling environment and policy stability and consistency 4. Policy advocacy capacity of private sector: Regular, substantive interaction between private sector advocacy organizations and the government is a key component of a favorable agribusiness policy and investment climate. 5. Level and composition of public expenditure on agriculture is one measure of government priorities. Both are expected to change across levels of economic development. 	
<p>Sub category e. Additional topics which may be explored:</p>	
<p>1. Labeling, branding and packaging requirements: Labeling/branding can be a way to enable producers/retailers to benefit from increased value added in their products. This issue is product-specific, and is sensitive to the requirements set by importing countries/the private sector. Further research will be done to look into the general rules and requirements in this regard.</p>	
<p>2. Food-processing/retailing/wholesale sector: The three sectors are growing quickly with strong influence on urban food markets and even rural markets. Policies that enable and provide encouragement to the private sector to invest will be an important factor for the future of food security. Addressing pending policy and regulatory constraints and spurring public investment in hard and soft infrastructure will be crucial to that encouragement.^{xi}</p>	

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- ⁱ World Bank. (2009). *Awakening Africa's Sleeping Giant: Prospects for Commercial Agriculture in the Guinea Savannah Zone and Beyond*. Washington D.C.
- ⁱⁱ World Bank. (2012). *Africa Can Help Feed Africa - Removing barriers to regional trade in food staples*. Washington D.C.
- ⁱⁱⁱ Haggblade, Steven (2013). Unscrambling Africa: Regional Requirements for Achieving Food Security. *Development Policy Review*, 31(2): 149-176
- ^{iv} World Bank (2013). *Growing Africa: Unleashing the potential of agribusiness*. Washington D.C.
- ^v World Bank. (2012). *Africa Can Help Feed Africa - Removing barriers to regional trade in food staples*. Washington D.C.
- ^{vi} World Bank. (2005). *Food Safety and Agricultural Health Standards: Challenges and Opportunities for Developing Country Exports*.
- ^{vii} Henson, S., & Humphrey, J. (2010). Understanding the Complexities of Private Standards in Global Agri-Food Chains as They Impact Developing Countries. *The Journal of Development Studies* , 1628-1646.
- ^{viii} Jaffee, S., & Henson, S. (2004). Standards and Agro-Food Exports from Developing Countries: Rebalancing the Debate. *World Bank Policy Research Working Paper* .
- ^{ix} Minot, N. (2007). *Contract farming in developing countries: patterns, impact, and policy implications*. Ithaca, New York: Cornell University.
- ^x da Silva, C. A. (2005). *The Growing Role of Contract Farming in Agri-food Systems Development: Drivers, Theory and Practice*.
- ^{xi} Reardon, Thomas and Minten, B. (2011). *The Quiet Revolution In India's Food Supply Chains*. IFPRI Discussion Paper 01115, New Delhi