PROMOTING MARKET ACCESS

for the Rural Poor in Order to Achieve the Millennium Development Goals

DISCUSSION PAPER

IFAD 1978–2003

Origins

The agreement to establish IFAD in 1976 resulted from the 1974 World Food Conference organized by the international community in response to the persistence of widespread hunger and malnutrition in the world. The conference recognized that hunger and food insecurity should not be associated solely with shortfalls in food production and supply at national or international levels. Rather, they should be understood as products of deep-seated structural problems associated with underdevelopment and poverty, especially as these affect rural poor people. IFAD approved its first loan for a project in 1978.

Mandate

Thus the Fund's mandate – *to combat hunger and rural poverty in developing countries, especially low-income, food-deficit countries, and to improve the livelihoods of rural poor people on a sustainable basis* – defines hunger not just as a food production and supply issue, but also as a livelihood issue.

Emergence of a Specific Role

In responding to this mandate, IFAD has realized that rural poor people can enhance their food security and increase their incomes only if project designs and activities are built upon their production systems and livelihood strategies, and resources allocated accordingly. To be effective, therefore, investments to reduce poverty must be linked to a proper understanding of poverty processes and how they affect different groups of poor people, and women as compared with men.

To this end, IFAD has increasingly collaborated with local stakeholders in developing its operations. It has designed and implemented projects and programmes in a wide range of natural, socio-economic and cultural environments, in remote regions and with the poorest and most marginalized sectors of rural populations. Through its experience, the Fund has acquired a wealth of knowledge of the processes that contribute to the generation and perpetuation of poverty. It has also gained valuable insights about what works or does not work to foster the conditions in which the rural poor can enhance their productivity, output and incomes.

IFAD's Contribution

IFAD's contribution to rural poverty reduction has long been based on its recognition that the economic empowerment of rural poor people will not happen simply as a result of the 'trickle-down' effect of macro or sectoral investments. Action must address the obstacles faced by rural poor men and women and facilitate their opportunities, in their different and specific circumstances and activities. In addition, since in many low-income countries the majority of the poor and extremely poor (those with incomes below one dollar a day) live in

HISTORICAL AREAS OF INTERVENTION

- access to productive resources (especially land and water)
- sustainable agricultural production, including fisheries and livestock
- water management and irrigation (mainly small-scale)
- rural financial services, including microfinance
- rural microenterprises
- storage/processing of agricultural produce
- marketing and access to markets
- research/extension/training
- small-scale rural infrastructure (feeder roads, etc.)
- capacity-building for small producer groups and organizations

VOLUME OF OPERATIONS

Number of projects:	628 in 115 countries and territories
Total IFAD investment:	USD 7.7 billion
Domestic resources mobilized:	USD 7.9 billion
Cofinancing mobilized:	USD 6.6 billion
Total value of projects:	USD 22.2 billion
Beneficiaries:	an estimated 250 million

rural areas, helping poor producers to increase their output is often the most effective, and in some cases the only, way to bring about more rapid overall growth. IFAD has therefore advocated for broad-based economic growth, built upon an explicit focus on the initiative and capacity of poor rural producers. Such an approach acknowledges the consumption needs of the poor, but it also emphasizes to their social capital and their economic potential as *producers and working people*. This, in turn, has necessitated an in-depth understanding of the complexities of rural livelihoods and the different roles of women and men within these livelihoods. It has also required careful targeting of interventions at people and their activities – as farmers, agricultural labourers, fisherfolk, hunters and gatherers, pastoralists and small rural entrepreneurs.

IFAD's experience over the last 25 years unequivocally shows that rural poor people are fully capable both of integrating themselves into the mainstream of social and economic development, and of actively contributing to improved economic performance at the national level – provided that the causes of their poverty are understood and conditions are created that are conducive to their efforts. No amount of national or international assistance will radically improve the rural situation unless such transformation is based on the aspirations, assets and activities of rural people – and unless poor people own the change process. Major efforts need to be made to remove the critical material, institutional and policy obstacles that prevent the rural poor from seizing opportunities for improved livelihoods. Development cannot be done for them. What can be done is to create the conditions that empower the poor to become agents of change.

IFAD's New Strategic Directions

The Millennium Development Goals represent a commitment by the entire international community to take all necessary action, first and foremost, to reduce by half the proportion of people who live in extreme poverty by 2015. The *Strategic Framework for IFAD 2002-2006* is the Fund's response – a statement both of the crucial issues to be addressed and of the areas that IFAD will focus on as part of that broader international effort.

The strategic framework draws on the Fund's years of experience and reflection, and recasts IFAD's mission in a very simple statement: *enabling the rural poor to overcome their poverty*. Concretely, this mission translates into three strategic objectives upon which IFAD is concentrating its investments, research and knowledge management efforts, policy dialogue and advocacy:

- strengthening the capacity of the rural poor and their organizations;
- improving equitable access to productive natural resources and technology; and
- increasing access to financial assets and markets.

The strategic framework also recognizes that IFAD must expand its engagement beyond the immediate impact of 'its' projects and programmes to influence the direction and content of national and international poverty-reduction processes. Thus it emphasizes building complementary partnerships and broad alliances to maximize IFAD's contribution to the international community's larger poverty-reduction effort.

PROMOTING MARKET ACCESS

for the Rural Poor in Order to Achieve the Millennium Development Goals

Roundtable Discussion Paper for the
Twenty-Fifth Anniversary Session of IFAD's Governing Council

February 2003

1978 25 2003

TABLE OF CONTENTS

PROMOTING MARKET ACCESS FOR THE RURAL POOR IN ORDER TO ACHIEVE THE MILLENNIUM DEVELOPMENT GOALS

ABSTRACT

Markets are of fundamental importance in the livelihood strategy of most rural households, rich and poor alike. Markets are where, as producers, they buy their inputs and sell their products; and where, as consumers, they spend their income from the sale of crops or from their non-agricultural activities, to buy their food requirements and other consumption goods. Because of this, rural poor people in many parts of the world often indicate that one reason they cannot improve their living standards is that they face serious difficulties in accessing markets. Low population densities in rural areas, remote location and high transport costs present real physical difficulties in accessing markets. The rural poor are also often constrained by their lack of understanding of the markets, their limited business and negotiating skills, and their lack of an organization that could give them the bargaining power they require to interact on equal terms with other, larger and stronger market intermediaries. Furthermore, rural producers from developing countries face significant impediments in accessing rich countries' markets.

To help the rural poor access efficient and more equitable markets, IFAD supports three types of interventions: field operations; development and sharing of knowledge; and policy advocacy. In field operations, IFAD's projects seek to reduce the transaction costs between poor rural producers and private-sector intermediaries. This includes supporting the establishment of commercially oriented producer organizations (groups, associations, cooperatives), helping and training producers to identify new markets, linking farmers with traders and processors, constructing and improving rural roads, building market information systems, etc. Developing the Fund's knowledge in the area of market linkages requires improving the process of learning from its own projects. It also requires establishing effective monitoring and evaluation systems, working closely with cooperating institutions to improve impact assessment and supervision, and strengthening partnerships with a range of different players. IFAD must also be active at national, regional and international levels, promoting a global policy environment that increases market access for the rural poor.

The crucial role of market linkages for rural poverty reduction has only recently received the attention it deserves in the development arena. More needs to be done, especially on the implementation side. IFAD is committed to the objective of improving the rural poor's access to markets, and in this context, is seeking ways to:

- *effectively increase the market share of the rural poor and improve the terms in which they participate in markets;*
- *achieve greater market access and market development for the rural poor; and*
- *effectively improve at national, regional and international levels the rules of trade in favour of the rural poor.*

MARKETS AND TRADE FOR POVERTY REDUCTION AND RURAL DEVELOPMENT

The Millennium Development Goals, Trade and Markets

The United Nations Millennium Declaration considers trade to be an important engine of growth, both as an earner of foreign exchange, and through its multiplier effects as a generator of income and employment. It recognizes that the main beneficiaries of trade liberalization have been the industrialized countries; that developing countries' products continue to face significant impediments in accessing rich countries' markets; and that it is precisely those basic products – mainly, but not exclusively, agricultural – in which developing countries are most competitive that carry the highest protection in the most advanced countries.

The Millennium Declaration thus calls, among the 18 targets associated with the Millennium Development Goals (MDGs), for "develop(ing) further an open trading and financial system that is rule-based, predictable and non-discriminatory. This includes a commitment to good governance, development and poverty reduction – nationally and internationally." Among the specific strategies that it proposes for moving forward are:

- ensuring that developed nations fully comply with the commitments they made under the Uruguay Round of Multilateral Trade Negotiations to improve market access for products from developing countries;
- ensuring significant improvement in market access in developed countries for agricultural products from developing countries; and
- capacity-building and technical assistance for trade negotiations and dispute settlements.

The *Strategic Framework for IFAD 2002-2006* asserts that assisting rural poor people in developing countries to access markets and promoting agricultural trade from which they can benefit are crucial areas of intervention in enabling them to overcome their poverty. Through its lending operations the Fund assists rural poor people to access domestic and export markets for agricultural produce and participate in those markets on equitable terms, while through its commitment to international policy advocacy, it is increasingly seeking to engage with, and influence, policy-makers in developed as well as developing countries.

The Importance of Markets for Rural Poor People

Rural households have diverse livelihood strategies, encompassing a range of activities. For most, agriculture is a key element of their strategy; however, many are also engaged in non-agricultural activities, including microenterprises (agro-processing, trading and other off-farm occupations). Through these various activities, households seek both to ensure their food requirements and to generate the income they require to satisfy their immediate consumption needs, social purposes and investments.

Interacting with agricultural markets is thus an important aspect of the livelihood strategies of many rural households, rich and poor alike. Markets are where, as producers, they buy their agricultural inputs and sell their products; and where, as consumers, they use their income from the sale of crops, or from their non-agricultural activities, to buy their food requirements and consumption goods. Virtually all households in rural areas are, by preference, both producers and consumers, buyers and sellers; and many sell agricultural produce and buy their food at different times of year. However, rural households that, for one reason or another, are unable to interact with these markets are prevented from adopting these diverse livelihood strategies; and indeed, in many parts of the world, rural poor people often say that one reason they cannot improve their living standards is that they face difficulties in accessing markets.

For these reasons, improved market access is *not* an issue of consequence only to better-off producers, and it is *not* relevant only to cash crop, rather than food crop, production. It is of importance to all rural households, *and assisting rural poor people in improving their access to markets must be a critical element of any strategy to enable them to enhance their food security and increase their incomes.*

If it is true that markets, and improved market access, are of critical and immediate importance to rural poor households, it is also evident that they are a prerequisite for enhancing agriculture-based economic growth and increasing rural incomes in the medium term. Rural incomes will not be substantially increased by exclusive emphasis on subsistence food crop production; rather, more market-oriented production systems are needed. These require the intensification of agricultural production systems, increased commercialization and specialization in higher-value crops. And these must be built upon the establishment of efficient and well-functioning markets and trade systems – ones that keep transaction costs low, minimize risk and extend information to all players, and that do not either exclude, or work contrary to the interests of, the poor – particularly those living in areas of marginal productivity and weak infrastructure.

THE CONTEXT OF MARKET LINKAGES FOR POOR RURAL PRODUCERS

The economic environment within which rural poor households operate is characterized by unpredictability, uncertainty and risk; and agricultural markets in particular – for input supplies and agricultural produce – have become increasingly difficult for them to access. To the extent that rural poor households are able to participate in these markets at all, they do so on terms that are generally inequitable: the poor are often obliged to sell low and buy high, with little choice regarding where they conduct transactions, with whom, and at what price. It is an environment that is almost unrecognizable from the one that existed 10 or 15 years ago. Among the main factors behind this metamorphosis have been the various processes of liberalization at both national and international levels. These are discussed in the following sections.

The Changing Context at the National Level

Two decades ago, major markets in many developing countries were controlled by governments. Monopolistic parastatal marketing agencies were typically responsible for both the delivery of agri-inputs and the marketing of agricultural produce, through a network of distribution outlets and marketing depots, and at prices (usually pan-territorial) that were determined in advance. Yet in many countries, inputs were delivered to the rural areas too late to be used effectively, they were limited in the variety available, and frequently they were sold in quantities inappropriate for small farmers. Prices offered to farmers were low – representing only a relatively small proportion of the real value of the crop, and actual payment was often made several months after delivery of the crop. Further, the system of pan-territorial prices for a narrow range of crops promoted inappropriate production systems – limited in scope and ill suited to the agro-ecological and socio-economic conditions faced by many rural households. Finally, in many countries, the parastatal agencies lost large amounts of money and drained resources from national budgets.

Nearly everywhere the situation has changed radically. Starting in the early 1980s, a series of agricultural marketing reforms were introduced in most countries in the developing world, with the aim both of reducing the level of public expenditure incurred by the state agencies, and of promoting a more productive, commercially oriented and diverse agricultural sector. Crucially, they sought to limit, or completely eliminate, the role of the parastatal institutions in agricultural marketing, and so provide the space for private-sector involvement.

In practice, and in retrospect not surprisingly, the emergence of private-sector market intermediaries (ranging from small-scale informal traders to large, often foreign-owned, agro-processors) to fill the vacuum left by the withdrawal of the state has generally been less smooth and less rapid than expected. However, there has also been enormous variation in the composition of this intermediary sector and in the speed of its emergence.

First, this process is most advanced in those countries that were the first to introduce market reforms. In some countries, the situation is enormously dynamic, changing yearly as increasing numbers of players enter the markets and as marketing operations become more efficient and varied. Second, this process has also made rapid progress in countries with relatively sophisticated and diverse economies, a well-established private sector and an entrepreneurial culture, and a relatively developed rural infrastructure. Within countries, markets have grown more rapidly in areas close to urban centres, with relatively dense populations, and in higher-potential areas where levels of agricultural production and surpluses are greater. By contrast, in areas that are remote, have weak infrastructure, are scarcely populated and have low agricultural potential, the process of market development has been far slower. Furthermore, different types of market relations have developed for different types of crops: food crop markets being typically characterized by informal arrangements between producers and small-scale intermediaries, and export crop markets by 'formal' relations between producers and agro-processing firms – which in case also supply inputs and provide production support services. In many countries, export crop markets have emerged faster and more smoothly than food crop markets.

In this rapidly evolving context, the policy and institutional frameworks established by the governments of developing countries have not been consistently supportive of private-sector-led market development. At the national level, improved farmer-to-market linkages have been typically constrained by, for example, an overly restrictive legal framework for farmer group registration, the lack of an effective legal framework for contract enforcement, or by excessive licensing requirements for traders. The policy environment has also constrained the development of intraregional markets. It is true that many developing countries have been keen to promote intraregional trade, and that – particularly during the 1990s – a substantial number of regional trading agreements were established. Yet despite the provisions of these agreements, the level of intraregional agricultural trade generally remains low. All such trading efforts have come up against structural and policy obstacles, including tariff barriers and trade restrictions; non-tariff barriers, such as differing standards and inspection systems; and bureaucratic bottlenecks.

The Changing Context at the International Level

At an international level, globalization – of capital flows, access to technology, and trade – is leading to important changes in economic and social relations across the world; and in theory at least, it promises new opportunities for growth and income-generating activities for households in developing countries. In practice, however, the road to globalization is beset with difficulties – particularly for those least able to participate effectively in the global marketplace.

The agricultural sector is not only the most important for rural poverty reduction; it is also of critical importance to the economies of many developing countries, which depend above all on agricultural commodities as the main source of export earnings. According to the World Bank, indeed, agricultural and other labour-intensive products represent more than half of low-income countries' exports and about 70% of the least-developed countries' export revenues. Yet, ironically, over the last two decades the market prices of most primary commodities have declined substantially: in 2000, prices for 18 major export commodities were 25% or more lower in real terms than in 1980.

Two factors can be identified as being responsible for the decline in prices. The first is a long-term and structural one, resulting from the slow growth in demand for primary food commodities as incomes grow, contrasted with a more rapidly expanding supply of traditional commodity products from an increasing number of developing countries. Coffee is a classic example: not only has the world price declined and the value of coffee exports fallen (by USD 4 billion over the past five years), but also the proportion of the value of the coffee market captured by producer countries has dropped, from 33% ten years ago to less than 10% today. Other crops such as cocoa and rubber have been adversely affected in similar ways.

The second factor behind the decline in commodity prices is that of subsidies and related support paid to farmers in the developed world. In member countries of the Organisation for Economic Co-operation and Development (OECD), total public support for agriculture amounted to USD 311 billion in 2001 (fully *six* times the total amount of official development assistance), while producer support as a whole – domestic subsidies, import tariffs and export subsidies – was estimated to equal nearly one third of total farm receipts. Prices received by OECD farmers were, on average, 31% above world prices. A large share of that support is directed at temperate-zone agriculture, but support for products of interest to producers in the tropics is often especially high – crops particularly affected include cotton, maize, wheat, rice, sugar and oil seeds. These subsidies lead directly to increased output and to surpluses that are then transferred onto international markets, with the effect of increasing price volatility and depressing the prices received by farmers in developing countries. In a study of the impact of subsidies on cotton production in the United States, Oxfam found that in 2001/02 American farmers received subsidies of USD 3.9 billion (double the level in 1992); the cost to Africa alone of those subsidies were losses amounting to USD 301 million. Eight cotton-producing countries in West Africa accounted for about two thirds of that.

There are other trade barriers, both direct and indirect, that undermine the ability of developing countries to export agricultural products to the developed world. Low- and middle-income countries reported that, from 1996 to 1999, they were unable to meet sanitary and phytosanitary requirements on more than 50% of their potential exports of fresh and processed fish, meat, fruit and vegetables into the European Union. They viewed these measures as more important barriers than the tariffs and quotas. Finally, and in addition to these factors, other practices undermine the efforts of producers in developing countries to access both local and international markets. Food aid and agricultural input supplies programmes have on occasion been used by developed countries to dispose of surpluses, and these too have had the effect of depressing local prices and undermining markets in developing countries.

Yet if liberalization – or rather, the only-partial liberalization of agricultural trade – has created enormous difficulties for many developing countries, at the same time new opportunities have emerged for some rural producers in some developing countries. This is particularly true for countries that have a well-established comparative advantage for specific products and that have already gained a foothold in international markets. In addition, new consumer habits and concerns in the developed world (which include concerns precisely about the effect of globalization on developing countries) have led to new opportunities for producers in those developing countries. Markets are emerging in the developed world for 'new' tropical fruits and vegetables; for organically grown agricultural products; for products bearing a Fair Trade label, which guarantees fair trading relations and production conditions; for natural products (such as honey and non-timber forest products); and for rural crafts. Regional trade opportunities too are opening up, and for many developing countries there is significant potential to increase their participation in intraregional markets. The challenge for IFAD is to assist small and poor producers in accessing all these markets and in gaining from them.

Constraints on Poor Farmers

As a result of these national and international trends, smallholder producers find themselves in a world entirely unlike the one they faced two decades ago. Markets no longer have fixed nominal prices. Instead, new commercial relations must be struck with a myriad of suppliers and buyers, and prices, whether for selling produce or purchasing inputs, are now largely negotiated. For some farmers – particularly those producing export crops in areas enjoying good communications – this has created new opportunities. For many others – especially those trying to produce market staples in remote areas of low agro-ecological potential – it has created major problems. The issue of market access may usefully be considered according to three dimensions: physical access to markets; structure of the markets; and producers' lack of skills, information and organization.

Physical access to markets. Distance to markets – and lack of roads to get to them (or roads that are impassable at certain times of the year) – is a central concern for rural communities throughout the developing world. It undermines the ability of producers to buy their inputs and sell their crops; it results in high transportation costs and high transaction costs, both to buyers and sellers; and it leads to uncompetitive, monopsonistic markets. In many countries, the closure of the former parastatal market chain has exacerbated this problem, leaving large numbers of farmers far from any markets. Transport costs – combined with storage constraints – are particularly important for women, who tend to trade locally in vegetables and other perishables.

Difficult market access restricts opportunities for income-generation. Remoteness increases uncertainty and reduces choice: it results in more-limited marketing opportunities, reduced farm-gate prices and increased input costs. It also exacerbates the problem of post-harvest losses, which can reach as high as 50% in some areas. In doing so, it weakens incentives to participate in the monetized economy, and results in subsistence rather than market-oriented production systems. By contrast, improved infrastructure leads to increased market integration and more commercially oriented production systems. Market access is thus a key determinant of household production systems.

Market structure. Rural markets are characterized by extreme asymmetry of relations between, on the one hand, large numbers of small producers/consumers, and on the other, a few market intermediaries. Such market relations are characteristically uncompetitive, unpredictable and highly inequitable. Rural producers who face difficulties in reaching markets often become dependent on traders coming to the village to buy their agricultural produce and to sell them inputs and consumer goods. However, especially in remote areas, a trader may not arrive reliably or at all, and producers are often faced with little choice but to accept the first offer of the first trader who shows up, however unfavourable it might be. Such a situation is exacerbated when the trader is also the only source of information on prices and other relevant market information.

In many countries, there has been rapid growth in smallholder-based contract farming; and through this, many poor producers have established an important, assured commercial relationship. However, in the context of monopolization of processing, credit, marketing and technical capabilities by agribusiness companies, smallholders have been entering a commercial relationship that has been fundamentally inequitable. Although experiences have varied, and there are clear examples of companies acting with enlightened self-interest, smallholder producers have in some cases found themselves effectively operating as employees rather than as partners; and ultimately, they have derived very low net returns as the large-scale private sector exercises its economic power to take the lion's share of value added. This offers a scenario of growth of smallholder production without smallholder development.

Input markets have been even more problematic. In many countries the commercial firms that have replaced the parastatal input distribution companies have only a limited retail network in the interior and are only starting to develop their networks of agents. To the extent that the inputs get to the rural communities – and in many developing countries fertilizer use has fallen off dramatically in recent years – the range is often still limited, and the costs are considerably higher than formerly. This is the result of the removal of the subsidies on agri-inputs, high transport costs, lack of competition among distributors, and farmers' lack of ability to negotiate favourable terms.

Lack of skills, organization and information. In their participation in agricultural markets, poor producers find themselves at a major disadvantage. Many have a poor understanding of the market, how it works and why prices fluctuate; they have little or no information on market conditions, prices and the quality of goods; they lack the collective organization that can give them the power they require to interact on equal terms with other, generally larger and stronger, market intermediaries; and they have no experience of market negotiation and little appreciation of their own capacity to influence the terms and conditions upon which they trade. With little experience, no information and no organization, they have no basis upon which either to plan a market-oriented production system or to negotiate market prices and conditions. Ultimately, their lack of knowledge means that they are passive, rather than active, players in the market; that they can be exploited by those with whom they have market relations; and that they fail to realize the full value of their production.

The provision of market and price information can assist producers with farm-gate marketing decisions: linked to training both to help them interpret and act upon that information, and to organize collectively, it can also help them to understand marketing processes more fully and to develop strategies to achieve better and more stable prices for their agricultural produce. However, such information must be location-specific, timely and accurate, dynamic, and locally available and in a language understood by all of the rural population. Few government-run market information systems have adequately met the challenge of all of these requirements. In many countries, however, improved communications – radios and, more recently, mobile telephones – play an important part in reducing informational asymmetries.

Socio-Economic Consequences of Market Changes

The combined effects of liberalization of agricultural markets and globalization have generally increased economic differentiation among communities and households. By virtue of their location, asset base and levels of organization, some communities – and some households within communities – have succeeded in responding to new market opportunities, and have been able to increase their incomes, in some cases substantially. These communities have often seen an increase in employment opportunities (on- and off-farm), directly related to the development of new markets. By contrast, remote communities in low-potential areas, or households lacking adequate levels of assets and organization, have been unable to cope in the new environment, and many have found themselves decreasingly able to meet their food and income requirements from agriculture. The process of market liberalization has led to the better-off – whether overall communities or individual households – becoming richer, and the worse-off poorer.

In areas where new commercial market opportunities have emerged, agricultural land has gained greater value. This has had various consequences. First, it has led to new systems of land management – in some circumstances short-term in nature, exploitative and environmentally degrading; in others, based on sustainable intensification of the production system. Second, in a number of countries in Africa and Latin America, it has led to the emergence of new markets for land itself, and to rural elites, traders and large landowners buying out poorer households with immediate cash needs. In broader terms, it is clear that through market liberalization the access of the poorest and most vulnerable rural people to land in such areas has become more tenuous than previously. Women and indigenous peoples are likely to be the most adversely affected.

Another major change has been the increasing role and contribution of women in agriculture. This is a result of increasing male migration, and of the rising number of households headed by women – due to abandonment, single motherhood, separation of spouses and the violence associated with armed conflicts, among other factors – and is an increasingly important social phenomenon. Rural poverty is frequently highest in areas with the largest numbers of woman-headed households; and as such, it is apparent that rural poverty is closely linked to the issue of gender. In some niche markets – particularly for vegetables – the participation of women is particularly important; and there are many examples of where the successful exploitation of new market opportunities has led to an improvement in the living conditions of women.

IFAD'S EXPERIENCE AND LESSONS LEARNED

Past Experience

IFAD has, since its establishment, recognized the importance of marketing issues to rural poor households, and indeed, over one third of all projects and programmes financed by IFAD over the past 25 years have included at least some sub-components related to agricultural marketing. However, IFAD's understanding of those marketing issues, and appropriate responses to them, has evolved considerably over that period.

During the first decade or so of IFAD lending, the Fund's support for marketing was typically provided within the context of the parastatal marketing framework prevailing at the time, and was in many cases geared towards, on one hand, the supply of agricultural inputs – in a number of cases for the direct importation and distribution to farmers of seeds and fertilizers, and on the other, the construction of physical marketing infrastructure. With the liberalization of agricultural marketing and the contraction of parastatal marketing organizations in the late 1980s and early 1990s, the institutional framework within which project initiatives had been fitted effectively ceased to exist, and it was no longer immediately evident how IFAD could support the marketing chain. Thus, the proportion of projects with a specific 'marketing' component fell from 30% between 1981 and 1985 to only 12% between 1991 and 1995.

It gradually became apparent, however, that while, in theory, liberalization of agricultural marketing offered space for the emergence of new private-sector market intermediaries, in practice they were operating primarily in those areas with good communications, where there was a significant production surplus. In other, less favoured rural areas, the withdrawal of the state apparatus resulted in a marketing vacuum, and some rural producers found themselves able neither to access agri-inputs nor to market their crops. It became increasingly evident that there was a new role for IFAD to play: supporting in a variety of ways the emergence of new private-sector-led marketing systems to benefit rural poor people.

As early as 1995, IFAD was piloting new approaches to the provision of support. One of the first such efforts, developed together with the non-governmental organization (NGO) CARE, resulted in the Agribusiness Entrepreneur Network and Training Development Project – a small project in Zimbabwe aimed at improving smallholder producers' access to agri-inputs by supporting the emergence of a class of village-based input suppliers. In other regions too, the late 1990s saw a new attention given to helping small producers to link to markets better. Moreover, an increasing number of projects included activities or components that sought to assist smallholder farmers in establishing stronger linkages to markets. Significantly, overcoming market constraints became increasingly important as a project objective, and the proportion of IFAD-financed projects with objectives relating to markets increased from 18% over the period 1991-95 to 38% between 1999 and 2001.

Learning from Others

IFAD has not been alone in seeking to assist developing countries, and poor producers in developing countries, to respond to the changing market environment; and the experiences and analyses of a number of donor agencies and NGOs have provided valuable lessons that have helped IFAD to shape its current approach.

Within the donor community, the United States Agency for International Development (USAID) has played a particularly significant role: a long and proactive supporter of private-sector and agribusiness development, it has financed programmes promoting the development of a commercialized agricultural sector in many developing countries. Others such as the European Union, the Danish International Development Assistance, and the Dutch Government are also active in this broad area. The World Bank and other multilateral organizations are giving increasing attention to trade-related capacity-building activities – even if none of them is specifically focusing on the agricultural sector and the rural poor; and the Food and Agriculture Organization of the United Nations (FAO) is currently organizing a major study on the impact of trade liberalization on the agricultural sector in developing countries.

A number of NGOs – both international and local – are also active in supporting market-access activities. Many of these have gained that experience under USAID-financed programmes including in particular the Cooperative League of the U.S.A (CLUSA), which specializes in supporting the development of farmer enterprise groups; Technoserve, which promotes rural business development; CARE, which has developed expertise in a number of areas relative to market linkage development; and the Citizen's Network for Foreign Affairs (CNFA), which works to support the emergence of commercial rural input supply networks. Other NGOs are engaged in advocacy activities at the international level: Oxfam in particular has focused on the overall economic environment facing developing countries, and on issues related to tariffs and subsidies, commodity prices and the role of the World Trade Organization (WTO).

Current Directions

As practical experience was gained, and lessons learned, so the necessity of IFAD's assisting poor rural producers in accessing markets more effectively became better understood: not only as a means of enabling them to respond to new opportunities – and so increase their income levels – but also as a way of helping them to confront and respond to the enormous and frightening challenges posed by these new unpredictable and inequitable markets.

As a result, the issue of market linkage support was increasingly taken up at the corporate level. The strategic framework defines increasing the access of rural poor people to markets (and financial services) as one of IFAD's three pillars for enabling the rural poor to overcome their poverty. It explicitly recognizes that efforts to increase agricultural productivity can be effective only if they are linked to an appreciation of market potential; and it calls for integrated approaches along the full continuum of production, processing and marketing. Transport infrastructure is recognized as being critical for developing links with markets. Diversifying income sources, either by producing and marketing non-traditional crops or by exploiting off-farm opportunities, is also proposed.

The newer generation of IFAD-financed projects and programmes in support of market linkage development essentially aim to achieve three interrelated objectives. First, they seek to influence the rate at which that market development takes place – i.e. to make it a more rapid process than it would be in the absence of such support. Second, they facilitate and broaden market access to rural producers. This involves both the provision of support in geographical areas beyond those in which the market is spontaneously developing, and the elimination of those barriers that inhibit the market participation of the poorer community members. Third, they aim to establish a fairer set of market relations, assisting poor producers not only in entering markets but also in participating in them on more equitable terms.

They achieve these ends through interventions that work at different levels. First and foremost, many projects directly assist smallholder producers in understanding better how markets work, how to gear their production to the demands of potential buyers, how to access markets, and how to relate more effectively – and on a more equal footing – with private-sector market intermediaries. Key to achieving this is the provision of support to help them to form commercially oriented organizations (groups, associations, cooperatives) and training these so as to enable them to develop the understanding and skills required to interact effectively with markets. Support for improved techniques for production, storage, packaging and processing is an essential element in enabling producers to respond to market requirements.

Second, the smallholder producer is served better by – and will ultimately benefit more from – a competitive and vibrant private-sector market than by one that is monopsonistic and uncompetitive. For this reason, a number of interventions support the development of a private sector to provide more competitive and efficient services to smallholders, particularly for input supplies and produce marketing: the sort of support envisaged may include basic business training, credit provision, or the linking of small-scale rural entrepreneurs to larger, urban-based firms.

Third, IFAD-supported projects assist producers and market intermediaries in coming together. The sort of support required varies considerably: it includes essential physical infrastructure – primarily roads – enabling buyers and sellers to develop the mutual trust necessary to enter into contracts with each other. It may also include market/price information and communications, including mobile telephones and Internet-based systems; the setting up of trade fairs or market days, which provide an opportunity for buyers and sellers to meet; and contract brokerage.

Fourth, IFAD is working with governments in promoting dialogue among the main stakeholders to generate the policy, institutional and legal context required to enhance private investment in agricultural marketing and promote equitable commercial linkages. Examples include: laws for contracts and property rights, a legal framework for farmers' associations, and food standards. Building upon its experience at the country level, IFAD is increasingly seeking to become engaged in policy dialogue and advocacy at the regional and the international levels (see next section).

IFAD at the Regional Level

In much of *Western and Central Africa*, poor farmers tend to be primarily food-crop rather than export-crop producers, and it is frequently they who face the highest marketing costs. This is a reflection of their location in remote or less accessible villages, where the levels of marketable surplus are low, and where the few buyers can exert

BOX 1: **Aromatic/Organic Cocoa from Sao Tome and Principe**

In January 2000, IFAD commissioned a study, conducted by the French company Kaoka, to analyse the feasibility of developing the 'aromatic/organic cocoa' sector in Sao Tome and Principe. Given the positive results of the study, IFAD subsequently financed a pilot programme.

Aside from 'common' cocoa, there exists so-called 'aromatic' cocoa, or 'cocoa of origin,' with qualities that are defined by the variety and the soil type. Aromatic cocoa has a 2.7% share of the total cocoa world market, or approximately 800 000 tonnes in 1998. The aromatic cocoa market is quite independent of the common cocoa market, and while the price premium for this type of cocoa varies, it can reach significant levels in certain instances. A separate market exists for 'organic' cocoa: annual world production amounts to about 10 000 tonnes and, depending on the quality and the level of demand, the price premium it achieves is between 20 and 100% above the price for common cocoa. Organic cocoa is generally produced by small farmers.

Cocoa from Sao Tome and Principe is used mainly for the production of medium-quality cocoa butter. However, the country is still classified by the International Cocoa Organization as a producer of fine cocoa, and as such it forms part of the historic production zones. The fine cocoa from Sao Tome and Principe is cocoa of superior quality due to its rich genetic origin, and it can form the basis of cocoa 'of Sao Tome and Principe origin'. The country is therefore potentially well positioned for the production of aromatic cocoa. The production of this aromatic cocoa under organic conditions represents the second phase in the processing of a product with 'double qualities' – aromatic and organic. This production, with a target of about 1 000 tonnes of marketable cocoa, will be, in the first instance, bought by Kaoka. Subsequently, other buyers could become interested in this niche market.

The objective of the pilot programme is to support the production and marketing of this 'aromatic/organic' cocoa through the recognition of its origin, aromatic qualities and organic production. The projected impact is the marketing of a highly valued cocoa that is relatively protected from the wild fluctuations of world markets.

monopsony power. For these reasons, support to marketing – especially food and input marketing – is taking on increased importance in IFAD interventions (although Box 1 shows how the Fund is supporting the production and marketing of a specialized export crop – aromatic/organic cocoa – in Sao Tome and Principe). Particular emphasis is put on management and technical training for the strengthening of farmers' groups and associations, building, where possible, on existing local structures rather than creating new structures. Credit and transport infrastructure support are viewed as complements to capacity-building efforts. Repair and rehabilitation of access-road infrastructure also receive priority.

In *Eastern and Southern Africa*, IFAD has since the mid-1990s been expanding its engagement in this area, and it is now supporting long-term and large-scale interventions aimed specifically at building up rural market linkages in Zambia (see Box 2), and in Mozambique, the United Republic of Tanzania and Uganda. All involve investment in smallholder market organization and in knowledge, storage and transportation infrastructure, creating the conditions for greater private-sector investment and services; and the improvement of the policy and regulatory environment. An approach for poverty/gender targeting of such programmes has been developed, and this is now enhancing their implementation focus. In Rwanda, IFAD is exploring market linkage issues specifically within the context of the rehabilitation of the tea industry: there, the project will assist smallholder producers' organizations in eventually owning their own tea-processing factory, and will seek to enable them to access, and produce for, the high-value 'Fair Trade' market. IFAD's support for the Southern African Natural Products Trade Association (SANProTA) extends the principles of producer-to-market linkages to harvested products from community-held woodlands, BOX 2: **The Smallholder Enterprise and Marketing Programme in Zambia**

The Smallholder Enterprise and Marketing Programme (SHEMP) was developed as a response to Zambia's need to support commercialization of smallholder farming. Although the ultimate goal of SHEMP is to increase smallholder incomes, its primary objective is to improve smallholder farmer access to input and output markets. This will be achieved through: (i) the formation of farmer enterprise groups; (ii) improved physical access to input and output markets; (iii) more diversification of smallholder production; (iv) the creation of a competitive and efficient network of agribusiness/trading enterprises serving smallholder farmers; and (v) the creation of a capacity for legal/policy dialogue and formulation, to build national and local consensus on market linkage principles.

The above goals are to be achieved through three main investment components: (i) support for smallholder enterprise group development (formation/strengthening of groups and associations, and of local NGO capacity). The aim here is to develop financially viable, sustainable smallholder business organizations by assisting enterprise groups and their members in strengthening management/business skills, knowledge, and capacity to participate actively in input and output markets; (ii) market linkage development focusing on investments that, responding to locally-defined needs and priorities, can strengthen commercial relations between smallholder producers and market intermediaries, to the benefit of both. Activities supported include improvements to market access roads, training and commercial support for market intermediaries, and support for market diversification by smallholder producers; and (iii) support for policy/legislative reform and institutional strengthening, which aims to establish a more favourable policy environment for smallholder producers and associated market intermediaries, as well as providing market information to producers and traders.

BOX 3: **Agricultural Financial Services Project in The Former Yugoslav Republic of Macedonia**

Through the Agricultural Financial Services Project (AFSP) in The Former Yugoslav Republic of Macedonia, IFAD is seeking to promote the vertical systems integrated commodity approach. This approach links the producer to the market by using a series of instruments, which vary according to the commodity produced. Bottlenecks in the producer-to-market chain may be related to the primary production level (appropriate technology, finance), or the processing level (quality control, business planning, financing), or they may occur at the final point of sale at domestic or export markets. Impediments at the processing and wholesale level now constitute the most important obstacles to rural poverty reduction.

In terms of the AFSP, financial services and associated training – related to technical and business management aspects – will be provided for all levels in the commodity chain. Specific training programmes will be carried out for participating financial institutions providing services to farmers, processors and traders while an agricultural productivity centre will work with national and local farmers' organizations for training in technical aspects and general commodity-based market research. In that context, both the domestic and export markets will be targeted.

and links rural poor communities in marginal areas of Botswana, Malawi, Namibia, Zambia and Zimbabwe to cosmetic and pharmaceutical markets in the north.

Providing input support services and output market linkages to small farmers and rural entrepreneurs is an important component of IFAD's ongoing projects in the *Near East and North Africa* region. IFAD has learned that supporting intensified production or diversification is often not enough to raise rural people's incomes; producers also need access to markets where they can sell their products in order to fully benefit from investments in increased productivity. Development projects in Algeria, Egypt, Lebanon, Tunisia and Yemen, for example, include support for market information dissemination, formation of farmer marketing groups, milk collection centres, dairy processing facilities, basic market infrastructure (including cold storage for fish and dairy products, refrigerated trucks, potato stores, etc.), technical assistance in identifying market opportunities, and establishment of market linkages with buyers.

BOX 4: **Matale Regional Economic Advancement Project in Sri Lanka**

The Matale Regional Economic Advancement Project has a very explicit aim of promoting micro/small enterprises and strengthening private-sector linkages. Various studies and training have been undertaken to disseminate information on different types of viable enterprises and their market potential. The project has established linkages with private industry for commercial agricultural production such as bell pepper, seed onion and maize cultivation. Farmers have started outgrowers' schemes with private-sector companies, and have been assisted with formalities related to signing of forward contracts with such companies. The model of collaboration between farmers and private companies tested is a good system to stabilize prices and to provide assured market access to farmers.

However, this collaboration is between unequal partners. In the event of a company failing to pick up the produce from the farmer, the farmer would have to go to court seeking redress. This is an expensive and difficult proposition for small farmers, particularly if they have borrowed heavily, sometimes mortgaging their houses. The project will seek advice from a specialized lawyer on mechanisms that can be developed to safeguard the interests of farmers.

As the project is heavily involved in commercializing agriculture, it will have to assess the implications for local small farmers of the recent signing of the WTO and South Asian Free Trade Area agreements by Sri Lanka, and make recommendations in favour of the protection of the farmers' interests.

Assistance in establishing market linkages in the region is not limited to the agriculture sector, but encompasses non-agricultural microenterprises such as small-scale trading, food-processing and crafts, among others.

In *Central and Eastern Europe and the Newly Independent States* (CEN), the collapse of the former Communist system resulted in a rapid dissolution of production, agricultural marketing and distribution channels at the local, regional and national levels. The private sector is not yet able to provide reliable, transparent and remunerative marketing services; and for this reason, IFAD's strategy in the region focuses heavily on developing new market linkages between small farmers, processors and traders. This includes, for example, (i) supporting the formation of producer associations and farmer marketing groups, and technical assistance and training in marketing; (ii) establishing village-level milk collection centres and dairy processing units; and (iii) provision of trader credit through financial service projects. An example of how the strategy has been operationalized in The Former Yugoslav Republic of Macedonia is shown in Box 3. Furthermore, IFAD initiated a technical assistance grant in mid-2002 to analyse the competitiveness and marketing of key commodities produced by the rural poor in a representative sample of CEN countries. The results of this study should inform IFAD, other donors and policy-makers on how best to channel development resources in the agricultural sector of the CEN region.

IFAD's main target group in the *Asia and the Pacific* region are the marginalized poor living in less-favoured areas. Although support for market linkage development *per se* is not yet one of the major thrusts of IFAD's strategy in the region, the Fund argues for raising household incomes through increased production of high-value commodities/crops, including horticulture and non-timber forest products. However, the absence of adequate physical and institutional infrastructure to facilitate marketing activities in less-favoured areas is leading to the exclusion of marginalized groups from participating in – and gaining from – opportunities offered by increasingly globalized markets. Thus, IFAD-financed projects support complementary activities including the construction/rehabilitation of rural infrastructure (e.g. road networks), building

BOX 5: **Developing and Sharing Knowledge: Partnerships with IFAT and the Overseas Development Institute**

Since 2000 the Latin American and Caribbean division has been developing a partnership with the International Federation for Alternative Trade (IFAT). This has involved IFAD in supporting the development of standards for Fair Trade organizations and in actively participating in IFAT discussions related to their market access activities, also one of the leading issues discussed in their 2002 regional meetings in Africa, Asia and Latin America.

IFAD is also organizing jointly with the Overseas Development Institute in London, and with the collaboration of IFAT, a study to explore the opportunities and options for increasing market access at a global level to benefit the rural poor. Two workshops are being organized to: (i) define the main obstacles rural producers face in accessing international markets; and (ii) discuss the main opportunities open to small producers with the process of globalization, and what their implications are for economic policy and the organization and the activities of projects in developing countries. These activities involve participants from the private sector, donors, NGOs and academics, all with long experience in promoting market access to small rural producers in developing countries.

local institutions such as producer/marketing groups, and developing information and community technologies to help small producers obtain information on prices, innovative production methods and markets. Specific projects in the area of marketing are being financed in Bangladesh, Sri Lanka (see Box 4) and Viet Nam.

In the *Latin America and the Caribbean* region, globalization has led to the creation both of new income-generation opportunities and of new challenges for the rural poor, particularly those living in remote areas. To enable them to take advantage of the opportunities, IFAD-supported projects seek to strengthen their linkages with suppliers of innovative technologies, and to help them gain access to local, regional and international markets. A number of projects have focused on microenterprises and the promotion of off-farm activities and high-value export markets for organic products. In addition, the Rural Microenterprise Support Programme in Latin America and the Caribbean (PROMER) is a regional programme specifically devoted to microenterprise and market development activities in IFAD-financed projects. Marketing activities have also been developed in Central America by the Regional Unit for Technical Assistance (RUTA).

A study examining six IFAD-financed projects in Central America found that market access was consistently one of the key constraints faced by small producers. The study concluded that market promotion, while important, is not a panacea and does not on its own contribute substantially to rural development: successful initiatives require a complex set of operations going beyond the scope of marketing. The experience points to the importance of access to market information; analysis of marketing opportunities; selection of specialized staff; and capacity-building of producers and strengthening of their organizations. IFAD has also given special attention to learning activities across regions and partnerships with other organizations (see Box 5).

THE WAY AHEAD: ENABLING THE RURAL POOR TO SEIZE OPPORTUNITIES AND OVERCOME THEIR CONSTRAINTS

Enabling rural poor people to have better access to markets is one of IFAD's key strategic thrusts within its broader objective of reducing rural poverty. The strategic framework also makes it clear that if an organization of IFAD's small size is to make a significant contribution to rural poverty reduction, then it must seek to have a catalytic impact: that is to say, to make a difference, it must rely not only on its field operations, but also on developing and sharing the knowledge and experience generated from country programme experiences, and on influencing the national, regional and international policies that impact on the economic livelihoods of rural poor people. These three dimensions – field operations, development and sharing of knowledge, and policy advocacy – are closely interlinked. IFAD-supported projects encompass both field operations, which provide services directly to poor rural producers, and activities at a national level, which support the development of an enabling policy framework. At the same time, the projects provide the basis both for the development and sharing of knowledge and for influencing the international policy environment. This section presents the main conclusions for IFAD's work in each of these three dimensions and a set of recommendations for governments and donors.

Field Operations

Building upon its already existing operations (as discussed in the previous section), IFAD will continue to support the governments of developing countries to promote the development of private-sector-driven agricultural markets, and to enhance the access of poor rural producers to these markets. Operations will be focused in the four broad areas of: (i) assisting poor rural producers to develop their market skills and organization; (ii) supporting the emergence of a private sector to provide appropriate and competitive services to producers, particularly for input supplies and agricultural products; (iii) helping producers and market intermediaries to come together, by establishing the essential physical infrastructure (primarily roads and communications), ensuring the availability of market/price information, and assisting buyers and sellers to meet and develop business relations with each other; and (iv) promoting the development of a conducive policy environment that reduces uncertainty, facilitates the efficient functioning of markets, and promotes the participation of the private sector in the various marketing activities.

Much of this support is geared specifically towards reducing the transaction costs for both poor rural producers and private-sector market intermediaries. Projects can play an important intermediary role in identifying new markets and brokering contracts between buyers and sellers: the involvement of an external, neutral agent provides reassurance to both sets of parties, and can assist them in developing the trust necessary to establish a commercial relationship with each other. Commercially oriented organizations of poor rural producers (groups, associations, cooperatives) can enable producers to pool their input requirements as well as their outputs. This reduces the cost of doing business, and can lead to increased profits both for the producers and the other participants of the marketing chain. The rehabilitation or construction of rural roads that link small rural producers to the main commercial centres provides an obvious example of how programmes can cut down the costs of doing business: improved roads lead to lower transport costs, open opportunities for new market entrants and greater competition among buyers. Information on supply and demand, market location and prices lessens uncertainty and risk, which in turn lowers transaction costs, particularly for poor rural producers.

A major constraint to expanding agricultural market relations – for both producers and market intermediaries – is the lack of investment and working capital. As a result, the Fund is looking to develop rural financial service programmes that would explicitly complement and support the efforts of the market linkage programmes in a number of countries. At the same time, many of the initiatives supported by the market linkage programmes go some way to providing the preconditions for the establishment of commercial financial relations within the agricultural sector. In a number of countries, the agro-processing companies are effectively the largest supplier of in-kind input credit. The expansion of commercial relations between agro-processors and poor rural producers is one way of helping poor rural producers invest in production. The brokering of supply contracts and the establishment of legally recognized farmers' associations are the kinds of initiatives that attenuate commercial banks' perception of risk associated with lending to poor rural producers and so lead to an increase in the amounts of bank loans to rural households.

IFAD is also committed to promoting the development of new markets for the rural poor. Supply is rising faster than demand in many traditional export crops, and secular downward price trends for raw materials are likely to continue. New markets – both regional and international – must be developed: as well as full participation in the organic and Fair Trade markets, it is necessary to reorganize production towards product diversification (including natural products and artisanal crafts), place more emphasis on value added in raw materials processing, and pay greater attention to the quality and phyto-sanitary standards of the major markets.

Development and Sharing of Knowledge

IFAD is in the early stage of acquiring expertise in the field of market access improvement and market development. It is still identifying the crucial areas of intervention required to access markets and promote equitable commercial relations with market intermediaries. The implementation phase is still recent, so there is as yet little hard evidence as to what works and what does not work, and little analysis of the impact of programme interventions and their distributional consequences among the rural population.

Learning from the implementation of the first generation of market access programmes is thus crucial. This will require effective management, and programme monitoring and evaluation linked to regular reporting systems; it will require that IFAD support its cooperating institutions in order to strengthen the programme supervision process; it will demand the establishment of forums at which programme coordinators can share real experience and contribute their understanding; and it will necessitate that IFAD assess the impact of the programmes that it finances.

Developing further the Fund's understanding of the key issues will also require the strengthening of partnerships. These partners include, first and foremost, the governments of developing countries. On the one hand, IFAD-supported market linkage programmes respond to the new market environment that governments have themselves established; on the other hand, many of them actively assist those governments in further developing a legal, policy and institutional framework that promotes private investment in agricultural marketing and enables poor rural producers to access markets and benefit from interaction with them.

IFAD has already learned much from the experiences of some of the other donor agencies in the field. Alliances with them must be further strengthened so as to provide opportunities for sharing of experience, for the development of complementary and consistent approaches, and for the cofinancing of specific interventions. NGOs too are already valuable partners. IFAD has provided funding to a number of NGOs to enable them to explore new areas and pilot new initiatives, and in doing so, has actually enabled those NGOs to re-examine their operational strategies, refocus their interventions, and enhance their implementation capacity. In return, IFAD has learned much from the experiences of NGOs in this area, and these have significantly informed the focus and content of the strategic framework.

IFAD's strategy for market access development recognizes that the interests of private-sector market intermediaries and small-scale rural producers are not by definition mutually antagonistic. On the contrary, market intermediaries are considered important partners for IFAD, and the strategy is predicated on the concept of promoting 'win-win' situations, justified on the basis of the benefits that they bring to poor producers, but which actually increase the incomes of the market intermediaries as well as the producers. IFAD has seen that under the right circumstances, the private sector *is* willing to invest in developing commercial relations with smallholder producers; a key question is how the Fund can more systematically leverage private funding for activities that lead to increased profits for all parties.

Finally, if IFAD is to help poor producers effectively expand their commercial relations and access markets – for agri-input supplies, traditional agricultural commodities, Fair Trade-labelled and organic products, cosmetics and pharmaceutical products, etc. – it has to acquire a thorough understanding of those markets and the requirements of the major players. Here there is much that can be learned from the private sector and from commercially oriented regional and international networks and associations. Examples include: the International Federation of Organic Agriculture Movements; the Fair Trade organizations; IFAT; the Fair Trade Labelling Organizations International – one of whose members, TWIN Trading, will shortly be participating in an IFAD-financed programme in Rwanda as implementing and co-funding partner; and SANProTA.

Policy Advocacy

Policy dialogue and advocacy is, on the one hand, an activity conducted at the national level, in association with the programmes that IFAD finances. On the other hand, it represents an engagement by IFAD to bring to bear its concern for rural poverty reduction and its experiences in supporting farmer-to-market linkages and promoting both a regional and global policy environment that serves the economic interests of its target group. IFAD can exert such a commitment both directly – in international forums – and indirectly, by providing support to its partners, particularly governments and civil-society organizations, to enable them to engage in policy debates.

Changing the system of agricultural trade at the international level – including both market access and the way in which the prices of agricultural commodities are determined – is a prerequisite for any strategy to reduce rural poverty. Globally, there are around 900 million rural people living in extreme poverty, and the large majority rely on agriculture for their livelihoods. For these people, the issues of access to markets and international agricultural commodity prices are critical: they have a direct bearing on their incomes. The reality is that, with restricted access to developed-country markets and artificially depressed commodity prices, they gain scanty rewards for their efforts. As things presently stand, their route to development and the impact of their rural development partners will remain insubstantial – *and almost certainly insufficient to reach the MDGs in many countries.*

Central to the problem are the huge production subsidies that many developed countries pay to their farmers. Yet the issue is not necessarily one of subsidies *per se*. Few contest the right of rich countries to support their rural and farming communities. The issue is *how* to do it. If the objective of the subsidy is to improve rural income rather than to boost outputs, there are many alternatives to production subsidies. As is increasingly being realized, environmental subsidies could have the same impact on rural incomes as current production subsidies, while avoiding many of their negative impacts on poor farmers in the developing world. These options must be actively pursued if global development is to move from a polarized system that serves a few, to a broad-based system that provides opportunities to many.

Freer markets and less harmful subsidies are indispensable for the poor producers of developing countries. But the fact is that even within a more balanced trade regime, many developing countries will encounter increasing difficulties. In the case of many traditional export crops, supply is growing faster than demand, and prices for the raw materials are likely to continue to decline. New markets – intraregional and international – must be identified, and poor rural producers helped to access and benefit from them. Many of the poorest countries are not equipped to meet these challenges. Internal rural market organization is often poor, rural financial systems are inadequate, access to land and water by poor people is often awkward and insecure, and technology and information systems are woefully unsuited to the new demands of poor people. Poor producers and countries have to be assisted – and quickly – if globalization is to be a system of joint development.

Clearly then, trade is not an alternative to aid. Rather, aid is an essential factor to help foster competitiveness and to create conditions for private investments and associations with small farmers, which are two of IFAD's main objectives. Unfortunately, the level of global resources committed to such efforts is meagre compared with the scale of the problem. To accelerate rural poverty reduction and meet the MDGs, substantially increased levels of targeted aid for development will be required. The results of the Monterrey Conference seem to be positive with regard to the volume of aid; next on the agenda is ensuring that a greater share of aid goes to where it will favour the growth potential of the rural poor. IFAD must play its part in this dialogue.

A fundamental change required to make globalization work is an improvement in *governance*. This means promoting the effective participation of developing countries in the decisions that influence the global economic, social and environmental variables that affect their citizens, and particularly the rural poor. But it also means better governance at the national and local levels, promoting a transparent and vigorous policy dialogue about rural poverty and market access within national boundaries. These issues should not be limited to the agendas of the ministries of agriculture; rather, they should be part of the policy agenda of the government as a whole, at national and decentralized local levels. In some cases, government agencies will act as *providers* of the critical public goods needed for the development of markets – such as the provision of information, basic infrastructure, law enforcement and property rights – while in others they will act as *facilitators*, encouraging private firms and NGOs to provide the goods and services needed to increase market access for the rural poor. The establishment of a common understanding on these issues is crucial if governments are to leverage the substantial levels of donor support required in this area.

REFERENCES

International Fund for Agricultural Development (IFAD) (2001). *Enabling the Rural Poor to Overcome their Poverty. Strategic Framework for IFAD 2002-2006.* Rome: IFAD.

– (2001). *Rural Poverty Report 2001.* Oxford: Oxford University Press.

– (2002). Regional strategy papers [five papers – one for each regional division]. Rome: IFAD. Available at http://www.ifad.org/SF/strategy.htm.

International Monetary Fund (IMF) and World Bank (2002). *Market Access for Developing Country Exports: Selected Issues.* Washington, D.C.: IMF/World Bank. Available at http://www.worldbank.org/annualmeetings/mktaccess.pdf.

Lankes, H.P. (2002). "Market Access for Developing Countries". In *Finance and Development*, Vol. 39, No. 3, September.

Legrain, P. (2002). "Free Trade in Chains". In *The Economist, The World* in 2003.

Mazoyer, M. (2001). *Protecting Small Farmers and the Rural Poor in the Context of Globalization.* Rome: Food and Agriculture Organization of the United Nations (FAO).

Oxfam International (2001). *Rigged Rules and Double Standards: Trade Globalization and the Fight against Poverty.* London: Oxfam.

Reardon, T. and Berdegue, J. (eds) (2002). "Supermarkets and Agrifood Systems: Latin American Challenges". In *Development Policy Review*, Vol. 20, No. 4, September.

Stiglitz, J. (2002). *Globalization and its Discontents.* London: Allen Lane and the Penguin Press.

World Bank (2002). *Global Economic Prospects and the Developing Countries.* Washington, D.C.: World Bank.

United Nations Conference on Trade and Development (UNCTAD) (2001). "Duty and Quota Free Market Access for LDCs: An Analysis of Quad Initiatives". London and Geneva: UNCTAD.

IFAD
INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

Via del Serafico, 107 | 00142 Rome, Italy
Tel +39-06-54591 | Fax +39-06-5043463
E-mail: ifad@ifad.org | www.ifad.org