

Questions of Scale

**Understanding Inclusive Business in
Agri-Food Markets**

Working Document for the Seas of Change Workshop



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1. Introduction

Inclusive business, especially in the agri-food sector has become a hot topic for both business and development agencies. Sustainably feeding 9 billion people, ensuring food and nutrition security, tackling poverty and inequality and being resilient to climate change all hinge in some way on creating more inclusive ways of doing business in the sector.

Many examples of inclusive agri-food business and sustainable value chains have emerged over the last decade. However, huge questions remain about how to achieve the scale of change needed if the problems confronting the world's food systems are to be tackled. Finding practical and workable ways forward is an urgent innovation agenda.

The big question for the coming decades is how to build on these developments to achieve the scale of change needed, and quickly. Where are efforts remaining 'islands of success' and where are they adding up to a 'sea of change'? What inspirational examples are emerging? What ideas could be adapted, mutated or cross-pollinated? And where do those with experience see the opportunities for rapidly putting good ideas into practice at larger scale?

Important questions are emerging about the linkages between global markets / commodity chains and local (national/regional) markets, and how to effectively invest in local entrepreneurship and agri-food sector growth. Scaling up inclusive business requires new models of business, innovative financing mechanisms, effective public private partnerships, supportive policies and mobilisation of peoples' capacities. Experience is developing rapidly but the lessons and insights often remain fragmented.

Profitable business will be a major motor of change. However, creating the enabling conditions calls for effective partnerships between business, producer organisations, policy makers, donors, civil society organisations, knowledge institutions and international agencies. Much remains to be learned about getting these partnerships right and how the different players can most effectively play their role.

Scale is an important question from a number of angles. What is the scale of the future challenges we face for global food security? At what scale are we already making headway? What is the scale of the future opportunities? How can we achieve change at scale needed?

2. Food Security - The Challenges and Opportunities Ahead

The 2009 global food price spike set the warning bells ringing. Since then a plethora of business, government and research reports have begun to tackle the fundamental question of how to feed 9 billion people on a resource scarce planet that is experiencing the impact and uncertainties of climate change. At the same time, today there are at least 1 billion people still living in poverty and with hunger. Without concerted action this number is set to grow, possibly dramatically, with all the dire consequences for human suffering and the flow-on effects for peace and security.

As the World Business Council for Sustainable Development points out, alongside the risks, the future also offers enormous business opportunity. There will be a large increase in market demand for agri-food

products and a massive need for innovations and services that enable this demand to be met in a sustainable way.

The last few years has seen food security take on two different but interconnected meanings. What we will call the '9 billion problem' and '1 billion problem'. The 9 billion problem is about how the world can produce enough food in a sustainable way to meet overall global demand by 2050. The 1 billion problem is about how to tackle hunger, malnutrition and poverty for those at the bottom of the economic pyramid. Today, about 1 billion people suffer hunger. At least another billion people live in extremely marginal economic circumstances. The critical point is that the majority of population growth will occur at the bottom of the economic pyramid. By 2050, if we go down the wrong path, we could be seeing 4 billion people at risk of hunger and extreme poverty. On the other hand, if this group experiences substantial economic development they represent a substantial new market opportunity. Contributing to this positive path for development is where the scaling of inclusive agri-food markets comes into play.

Key Facts and Trends

- Global Population growth: 9.3 billion by 2050
- Population growth in Africa: 1 billion, 100% increase by 2050
- Population growth in Asia: 1 billion by 2050
- Majority of population growth will be at the bottom of the economic pyramid
- Today 75% or the poor live in rural areas and depend on agriculture
- By 2050 67% of people will live in urban areas up from 37% today risking large increases in urban poverty and slums
- Total number of farmers in the world is 525 million of which 90% 472 million are smallholders.
- About 2.6 billion people in developing countries depend on agriculture for their livelihoods.
- Small holders produce about half of the world's current global food supply.
- The areas of greatest potential for increased agricultural production to meet growing global food demands are Africa and Latin America.
- Of the world's 1 billion people suffering hunger 58% are in Asia 25% in Africa and 17% in the rest of the world.
- World food prices may rise 30-50% over coming decades.
- Between 1981 and 2005, poverty in Asia fell from almost 60% to 40% due to population growth absolute number increased slightly
- In Sub-Saharan Africa between 1981 and 2005, poverty stayed around 50% with the numbers going 214 million to over 390 million.

3. A common language - what do we mean by 'scaling inclusive agri-food markets'

The World Business Council for Sustainable Development provides the following definition for inclusiveness:

"An inclusive business is one which seeks to contribute towards poverty alleviation by including lower-income communities within its value chain while not losing sight of the ultimate goal of business, which is to generate profits."

There are a number of different angles on inclusive business. Although inclusive business is rapidly becoming the overarching concept other notions include: corporate social; sustainable sourcing responsibility (CSR); social entrepreneurship; and Bottom of the Pyramid (BOP).

Given that 75% of the world's poor live in rural areas and depend on agriculture and that feeding the world by 2050 will have massive implications for over 450 million small scale farmers agri-food markets are key to the wider inclusive business debate.

By agri-food markets we mean agriculture and food value chains including food, fibre and fuel, along with all the market activities of production, processing, wholesaling, retailing and associated service provision. The future for small scale farmers is a key part of the story. But just as important from an inclusive perspective are the opportunities for employment, small and medium sized enterprise development for upstream market activities and service provision.

The 2008 World Bank Development report on Agriculture as a Driver of Development emphasized the critical importance of the agriculture sector for economic development in low income-countries and for tackling growing inequity in emerging economies. It is from this broader perspective we come to the idea of inclusive agri-food markets.

We are using the term 'inclusive markets' rather than 'inclusive business' because the focus is on the role of all players in the market, not business alone. In practice inclusive agri-food markets means:

- creating opportunities for small-scale farmers and their cooperatives to be economically viable business partners in supply chains
- enabling small and medium scale enterprises to flourish as processors and service providers along the supply chain
- providing greater employment opportunities in larger enterprises under fair conditions
- establishing agri-hubs and clusters that help to drive overall rural economic prosperity
- providing food products and services for low-income consumers in rural and urban areas
- engaging small scale entrepreneurs as partners in the provision of food products and services to low-income consumers in rural and urban areas

By 'scaling' we simply mean bringing about change on a sufficiently large scale that there will be a significant impact on the challenges we face, the problems we see or the goals we have set. This is the 'islands of success to seas of change' idea. If certification of products in value chains is a good way to go, how do we go from ten or 10 or 20 per cent certification to closer to 100 per cent. How do we go from marginal numbers of small scale farmers and small entrepreneurs being part of the global food system to them playing a much more key role? How do we use the potential of inclusive agri-food markets to make a much more substantial impact on poverty?



4. A Closer Look at 'Scaling'

The World Bank (2005) defines scaling as “expanding, adapting and sustaining successful policies, programs or projects in different places and over time to reach a greater number of people”. There is a growing interest and literature around the whole idea of scaling, that also has connections to complexity science and systems thinking. Below are just a few ideas to kick off the discussion about scaling.

The challenge for 'scaling' is that what works successfully at a small scale will not necessarily work at a larger scale. What works in one situation, will not automatically work in another. There are also different ways that scaling can come about. Successful initiatives or business models can get bigger and bigger. Or, ideas and business models can be copied so that scaling happens through many smaller initiatives. Another form involves innovation and adaptation so that scaling happens through rapid development of new ideas.

The classic problem for international development cooperation has been that the level of investment has been relatively small compared to the scale of the challenges. Leaving aside questions of how effective aid has been, even when there is success there is often just not the resources to make things happen on a larger scale.

Markets and entrepreneurial spirit can be powerful drivers that take good ideas and good products rapidly to a large scale of delivery and use. At the same time it is important to recognize that many business ideas and business investments fail. We tend, of course, to only notice those that have succeeded. It is key to remember that in natural systems and economic systems for every success that goes to scale, there are many that failed. High levels of 'experimentation' (mutation, selection and replication) and hence high levels of failure are what enable natural and economic systems to adapt and evolve. So scaling is not simply about copying success but rather about enabling high levels of innovation, experimentation and feedback.

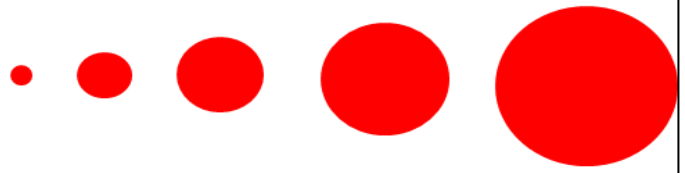
Scaling never happens in isolation of the wider context or 'system'. So another way of thinking about scaling is to look at how big or fundamental changes happen in whole systems, be they economic systems, social systems or natural systems. Sometimes systems evolve gradually through the cumulative effect of internal change. At other times external shocks or pressures can force sudden and dramatic changes. In some situations the dynamics is such that desired change happens very quickly in other situations the static forces of the system seem almost insurmountable.

Scaling up change requires clarity about whether gradual, incremental nudges will tip the system or whether it is about tackling the root causes (structures) directly. (Academics refer to this as niche vs regime change.)

Bringing about change in social systems always involves vested interests, power and politics.

Images of Scaling

Scaling Up



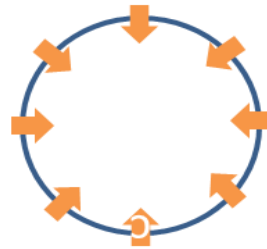
Scaling Out



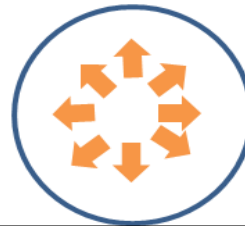
Scaling adaptively



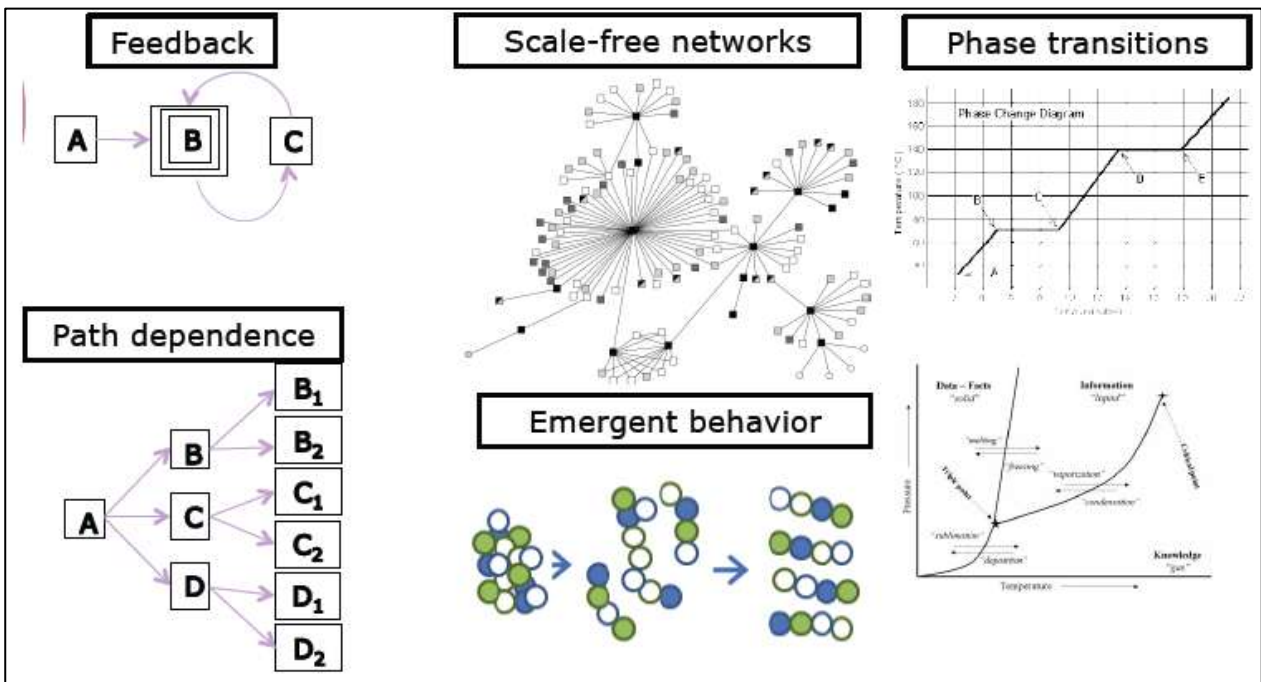
Change at scale happens through external shocks or pressures



Change at scale happens through internal innovation and evolution



Ideas about scaling from science of complex adaptive systems (Paina and Peters 2011)



5. Raising the Bar - Business Goals

Leading international agri-food firms and business platforms have begun setting ambitious sustainability goals and targets. As part of the Seas of Change preparation work a draft working paper has been prepared on the sustainability goals of 4 business platform and 10 agri-food firms. These goals range from general statements of principle about socially responsible business practices to quite specific targets about environmental impact.

Sustainability broadly is becoming an increasingly important competitive issue in relation to brand recognition, reputational risk, new market opportunities, access to resources and supply chain efficiency.

Interviews with representatives of agri-food firms indicate growing concern about how these goals and targets are going to be met and how the impact will be assessed and reported. Scaling inclusiveness in agri-food markets, while not necessarily communicated in this terminology, is clearly a key issue for business. Once ambitious goals have been set as a core part of business strategy, not achieving them or not being able to clearly demonstrate their impact raises the potential for reputational risk.

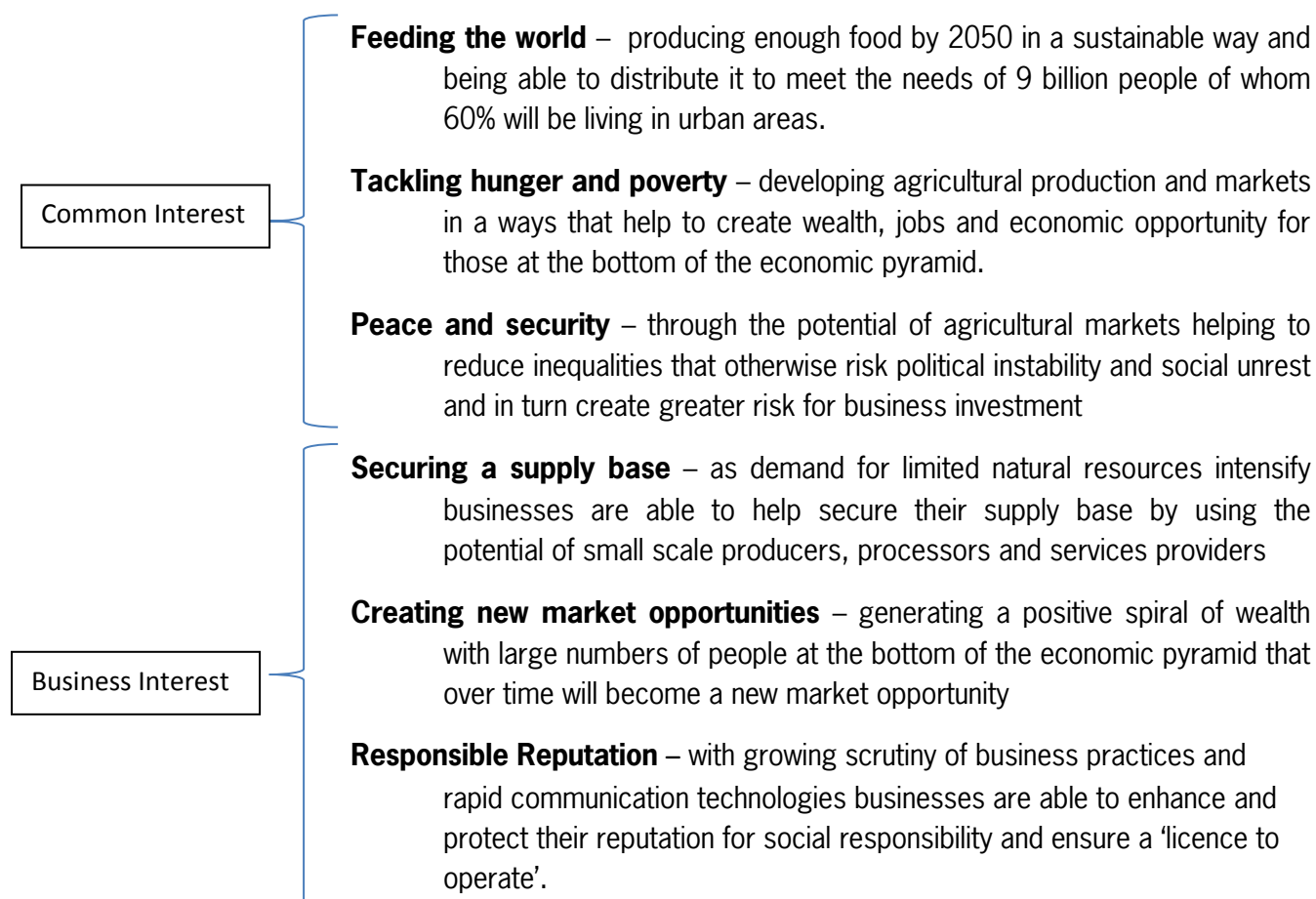
6. Looking forward - the changing context of 'development'

Over the last 50 years much effort has gone into international development cooperation ('aid') in order to tackle poverty and drive economic and social development. The results have been mixed as are the perceptions about the benefits. The general conclusion drawn by most aid agencies is that a new era of development is required that puts more emphasis on the role of the private sector and entrepreneurship. Aid investments are generally small relative to the scale of the challenges and to private sector investments.

At the same time many issues, be it inequality, climate change, security, resource degradation or food security have taken on global dimensions. It is no longer an issue of what the 'rich North' needs to do to support development of the 'poor South'. Increasingly we are facing global development issues and the ways they are handled will affect everyone. Further, the economic rise of China, India and Brazil amongst others and the way they are investing in other parts of the world creates a whole new context for development.

7. Assumptions to test - Why focus on scaling inclusive agri-food markets?

For the purpose of starting the discussion lets propose six reasons why a focus on scaling inclusive agri-food markets are important. Three of these reasons are for the wider common good. In other words they are in everyone's interest. The other three relate directly to the private interests of business.



As the International Finance Corporation points out, the 'conceptual win is clear' for inclusive business is clear. For business it offers opportunities for growth, competitiveness and the chance to combine social responsibilities with business objectives. For governments, donors and NGOs it offers the chance to

harness the power of markets to tackle poverty and inequality. For the poor it provides crucial opportunities for improving their living conditions.

On a macro scale, as Bill Gates pointed out to the recent 2011 G20 conference, the social and political instability that is an inevitable consequence of large national or global inequalities is in nobody's interest, least of all for those who want to do business.

8. A draft framework for analysis

While the 'conceptual win' might be clear, there is still a long way to go to better understand **how** to make inclusive agri-food markets work, so that the parallel objectives of profitable business, poverty reduction and environmental sustainability are met.

To help explore the **how**, we propose a simple framework for analysis. This framework has been used to analyse the first round of examples and case studies that were looked at in the lead up to the Seas of Change workshop. This framework will be refined based on the outcomes of the workshop.

The key elements to framework are:

Context – The key factors in the wider environment that are shaping the thinking about inclusive markets and which will influence putting such ideas into practice. These include economic, political, social, and biophysical factors and trends at global, national and local levels.

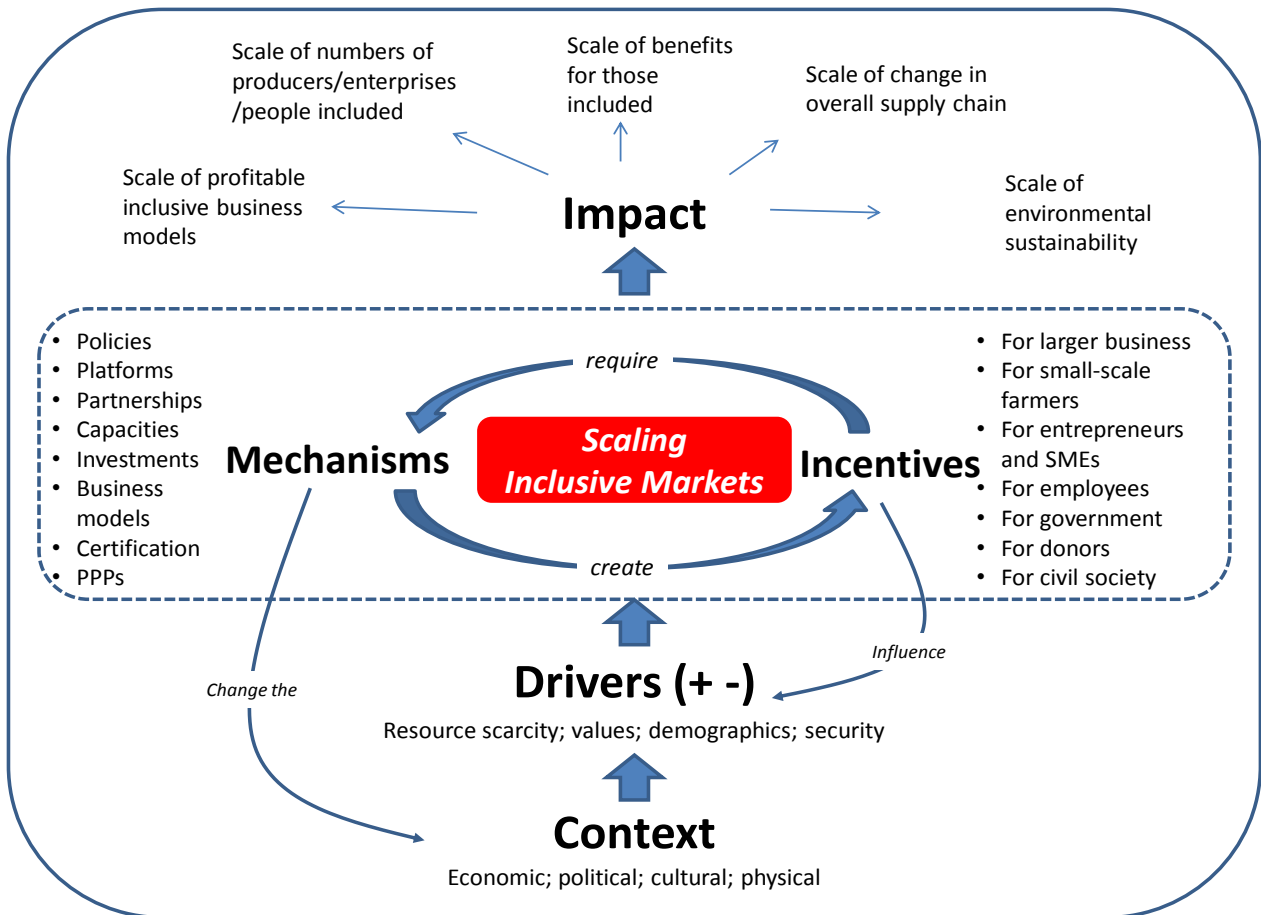
Drivers – There are the key trends within the context that are creating the drive for inclusive agri-food market development. Underlying each of the six reasons outlined above about why it might make sense to focus on inclusive market development are various drivers. These include for example rapidly growing demand for food; rapid urbanization; demographic changes; consumer demand for socially responsible business practices or supply constraints in specific commodities. The drivers are those aspects of the wider context that are most important in driving a demand for inclusive agri-food market development.

Incentives – These are the specific reasons why in a specific situation it would be in the interest of particular actors (business, traders, farmers, government, donors) to engage in inclusive agri-food market development and why they would be interested doing this on a larger scale. If there is no incentive there will be no change and no scaling. The issue is that scaling often requires finding creative ways to meet what at first may seem as different or competing interests. Understanding what is in different actors' interests and what incentives are important is critical. Given the huge diversity of the agricultural sector, incentives often have to be understood in relation to a very specific context, be it a particular value chain, a particular location, or a particular business operator.

Mechanisms – These are the specific means by which inclusive agri-food markets can be developed and scaled. The mechanisms are what create the incentives for actors to behave in particular ways. Outgrower schemes, payment procedures, certification systems, taxation arrangements, public private partnership programmes, new technological innovations, more efficient farmer extension practices, are all examples of mechanisms that would influence the actions of different actors. The challenge is that in most situations a set of different mechanisms need to work together to create an overall set of incentives that

work for all the different players who must cooperate. A set of mechanisms could also be considered an **approach**. For example certification is an approach with different mechanisms.

Impact – Ultimately are we seeing a change where we want to make a difference. Are we seeing a growth in profitable inclusive business models. Are more small-scale producers actually involved and are they really benefiting? Are there significantly more economic opportunities for the less well off? To assess impact we need to know what to assess, what can be directly measured and what needs a more qualitative understanding why there is or is not the impact desired.



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