

EXPLORING THE MARKET SYSTEMS APPROACH

PROPEL Targets Agricultural Markets, Sustainability and Scale

- July 2017

The Promotion of Regional Opportunities for Produce through Enterprises and Linkages (PROPEL) project is a CAD \$20 million initiative connecting fresh produce buyers in the Caribbean region and beyond with local farmers, processors and related businesses. By 2018, PROPEL will have increased the absorption of fresh Caribbean produce into high-value national and regional markets while ensuring markets are more inclusive and benefits flow to small producers. The project works in Barbados, Dominica, Guyana, Jamaica and St. Lucia.

PROPEL uses a market system approach to facilitate the sustainable development of stronger commercially viable and inclusive supply chains between small producers and high value markets. The following cases explore the project's use of the market systems approach in order to achieve sustainable results for small producers in the Caribbean region.

The Promotion of Regional Opportunities for Produce through Enterprises and Linkages (PROPEL) project is implemented by World University of Canada (WUSC), with the financial support of donors and from the Government of Canada through Global Affairs Canada (GAC).



PROPEL – THE CASE FOR TRADE

MARKET SYSTEM

programs aim to facilitate a change in behaviour by various local actors in order to catalyse inclusive opportunities and generate growth. In order to convince local actors to alter their behaviour, programs need to identify opportunities, understand the various incentives at play and demonstrate the potential benefits. In other words, programs need to build

BUSINESS CASES *which can convince potential local partners, whether private, civil or public, that an investment in time and resources will likely yield worthwhile returns.*

BUILDING THE BUSINESS CASE

While working in Barbados and Dominica, PROPEL identified an opportunity for regional trade in fresh produce. In Dominica, the market is small and fresh produce is relatively competitive while Barbados has a much larger market but retail pricing of fresh produce is high and production inefficient. To complement this potential opportunity, a reliable and cost-effective shipping route exists between the two countries.

PROPEL was able to identify local actors well positioned to step into this opportunity, such as DEXIA, the Dominican Export Import Agency, and a number of importers of fresh produce in Barbados. Yet a number of challenges emerged, principally the lack of capacity at DEXIA as well as the poor consumer perception in Barbados for Dominican produce.

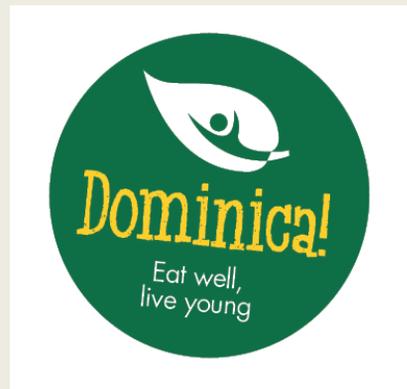
This negative perception was primarily driven by poor packing and container loading and reinforced by incorrect documentation. Although Dominica had been investing in improved quality through an enhanced pack-house and certification programme, this was not yet translating into a change in perception.

To counter this significant hurdle, PROPEL explored the opportunity to develop new branding with the Government of Dominica. Other Caribbean countries have been successful in repositioning their produce with strong branding (such as Costa Rica Bananas) and Dominica already benefited from a reputation as a nature island where residents boast the longest life expectancy in the region.

PROPEL worked with the Government to develop the **“Dominica! Eat well, live young”** fresh produce brand, supported capacity building with DEXIA, the Ministry of Agriculture, Bureau of Standards and farmers, and demonstrated through a strong business case the potential opportunity for trade, which was pursued by importers in Barbados.

Dominica branded produce can now be found in Barbados, there is a sustainable and commercial supply chain in place, and the Dominican Government is leveraging its new branding to explore further export opportunities in the region and beyond.

Adopting a market system approach encouraged PROPEL’s project staff to properly identify constraints, encouraged the development of strong business cases, supported the identification of sustainable partners and provided the flexibility to address constraints at various levels (including improving quality standards and branding).



“PROPEL worked with the Government to develop the “Dominica! Eat well, live young” fresh produce brand”



PROPEL SUSTAINABILITY & SCALE

SUSTAINABILITY is at the core of the market systems approach. In order to ensure that the change catalyzed by a project is sustained, interventions need to clearly identify which local actor has the incentive to provide a good or service and who will provide payment. Depending on the desired change, any number of actors in the eco system can be targeted, whether private, civil or government.

Understanding **WHO DOES AND WHO PAYS** is a simple tool which brings rigor to a project staff's understanding of incentives and focuses the quality of business cases they develop.

WHO DOES – WHO PAYS

The PROPEL project was initially developed as a more traditional market-led agricultural support program. The project hired agricultural officers that provided advice on improved practices and post-harvest handling. Although this can deliver strong results for the farmers directly reached by the project officers, the scale of impact is both limited by the number of officers which can be hired, as well as the time-bound nature of the project which means that services can only be offered for as long as the project exists.

As PROPEL gradually moved towards systems thinking, sustainability and scale became key program concerns. Moving away from direct delivery can be a difficult process for staff. A tool that proved pivotal in expanding staff understanding questioned “who was doing” an activity and “who was paying” for the activity (who does, who pays matrix). When the answer to those questions is “the project” the team gradually understood that the activity could not be sustainable and scale would be difficult to reach

“Stakeholder and incentive analysis help the project teams identify which actors are currently in the system and which may have the incentives to offer enhanced services.”

In Guyana, the PROPEL staff realized they needed to change their model of technical assistance to farmers, but were conscious of avoiding major disruption to producers. The team adopted a staged approach to moving from direct delivery to facilitation. PROPEL is now leading Farmer Field Schools which allows more farmers in a given area to access information and support. Yet the field schools are still operated by the project, which is now evaluating which actors in the eco-system would best be placed to take over the technical support functions.

Stakeholder and incentive analysis is helping the project team to identify which actors are currently in the system and which may have the incentives to offer enhanced services. Agricultural extension services are notoriously difficult to privatise as farmers are typically wary of paying for advice. Yet other actors can often combine to offer a suite of useful services which can help farmers obtain ongoing support for their activities. PROPEL is building the capacity of the government extension service department, working with input suppliers who can provide enhanced information and see the advantage of doing so as it increases their market share, or even working with buyers who have an incentive to support farmers in producing a set quality of produce.

Facilitating change through existing local actors requires time and strong staff capacity but a steadfast focus can deliver sustainable change at scale for small producers.

TABLE 1: EXAMPLE OF “WHO DOES, WHO PAYS” MATRIX FOR INFORMATION DELIVERY TO FARMERS

INFORMATION ABOUT PROPER APPLICATION OF AGRICULTURAL INPUTS			
CURRENTLY		AT PROJECT END	
Who does	Who pays	Who does	Who pays
PROPEL project	PROPEL project	Input supplier (embedded information at point of sale)	Farmers purchase inputs and receive information at point of sale



PROPEL - ACCESS TO FINANCE

FINANCE is a critical component of economic activity. Farmers often lack liquidity between the time they must invest in the planting of their land and the time they generate revenue from the harvest. Small village retailers need to purchase their goods before they generate revenue from sales. Small businesses looking to grow often need significant investment to unleash their full potential. Despite these needs, there are still global **FINANCING GAPS** with lack of supply of capital particularly in agriculture and in the SME-growth segments. The market systems approach encourages programs to consider the financing gap, and provides the flexibility to focus on this thorny issue to generate positive changes in markets.

UNDERSTANDING INCENTIVES AND TAILORING SOLUTIONS

Risk is a feature of the financial sector. The ability of financial providers to understand and quantify the risk level of their investment drives decision-making. Risk for financial providers can take many forms, including, lack of understanding of particular sectors, lack of data, perceived remoteness, firm capacity and instability.

Understanding the factors influencing the decisions of financial providers and working either with these actors or others in the market eco-system to reduce the risk or increase the awareness of opportunities can be an effective way to unlock financial resources for market actors. Finance can also come from a variety of different actors in a variety of different instruments.

PROPEL has worked with a cross-section of actors to help facilitate increased access to finance.

“PROPEL helped reduce risk and build trust between market actors”

AGRICULTURAL FINANCE

In DOMINICA, PROPEL was working with female farmers growing potatoes for the first time using elite quality seed varieties. The upfront investment required to access the new improved quality seed varieties was a barrier for these farmers. PROPEL organized a stakeholder meeting of parties interested in potato production. Green’s a local supermarket which traditionally imported potatoes expressed interest in purchasing the production from the female farmers. This promise of purchase drastically reduced the investment risk for a financial institution and the Dominica Agricultural and Industrial Bank, which was also at the meeting, rapidly understood the opportunity and stepped in to offer agricultural credit to those women who obtained sales agreements from Green’s and other buyers.



VALUE CHAIN FINANCE

In JAMAICA, PROPEL led the introduction of new elite and super elite potato seed varieties. This required that farmers invest in the new seeds every season which proved difficult for farmers as agricultural finance is limited in Jamaica. Glastonbury, an agro-service provider, stepped in to offer inputs on credit to small farmers interested in entering into a sales contract. This provided a win-win situation for both the farmers and the company, both of which had been developing a relationship for years. These agreements, although often contractual, typically rely on strong trust between actors to work well. For example, the Government of Jamaica encouraged the grower’s association (POPA) to pursue similar arrangements, but the lack of relationship and trust led to significant default and side selling by farmers.



In SAINT LUCIA, the grocery store Massy has also been providing inputs on credit to farmers. PROPEL, which assists producers to increase their productivity, was able to link new farmers to Massy’s network, including youth producer groups. By increasing farmer capacity, the project was decreasing the risk profile of the producers and therefore facilitated a new opportunity for both the farmers and the investor. PROPEL also worked with Massy to encourage them to import higher quality seed varieties therefore becoming a stakeholder in improving the productivity of the producers.





PROPEL - PILOTING AND CROWDING-IN

PILOTING is a key tool of the market systems approach. Programs acknowledge that in complex systems, it is impossible to fully predict the outcome of interventions. Particularly when attempting to solve difficult development problems. Pilots are rapid testing of ideas, based on strong market research and solid problem analysis, which may not be successful. The goal of pilot implementation is to either fail fast, or demonstrate a viable model which can be copied by other actors in the market, independently of the program. This copycat effect, typically labelled **CROWDING-IN**, is the ultimate mark of success of a market systems intervention which always strives for scale and sustainability.

IMPROVING POTATO PRODUCTIVITY IN JAMAICA

THE CHALLENGE

Irish potatoes are a staple food crop in Jamaica and the government has been supporting an import substitution program aimed at creating self-sufficiency in potatoes. PROPEL coordinated with this priority and worked with stakeholders to identify constraints in the sector. Poor seed quality, impacting productivity, was singled out as a key issue. In response, WUSC Caribbean launched a pilot to explore the commercial viability of importing high performing super elite and elite potato seeds.

THE PILOT

At the beginning of 2014, PROPEL partnered with Kujuma Traders Ltd., an input supplier, to purchase high quality, high yielding potato seed. The partners shared the costs of a container of super elite seeds to pilot productivity and commercial viability in the Jamaican context. The initial arrangement relied on Kujuma Traders selling the seeds at a cost-recovery price point; producers receiving technical support from government extension services; and producers selling their crops back to input suppliers who would then store the seed and sell it back to a larger number of producers, at a profit, the following season. If successful, the pilot was to lead to a new market system for high quality Irish potato seeds available for sale to producers at competitive rates.

The pilot encountered its first road bump when Kujuma Traders acknowledged it lacked the physical capacity to store all the purchased seeds, while other initial partners lacked the cash flow to buy large quantities of the second-generation seeds from farmers. This lack of capacity put the seed crop at risk of being released on the market as food, rather than stored as seed for the following season. This would cut short the attempt to develop a sustainable seed system.

PROPEL knew there was an opportunity in high quality potato seeds and needed to identify new market actors who would be interested in investing. The project developed the business case demonstrating that an investor could make a 100% return on investment within three months by buying, storing and re-selling the seeds. Glastonbury, a large input supplier, and the grower's association (Christiana Potato Growers Cooperative Association) grasped the opportunity and stepped-in to purchase the seeds from farmers. Even the credit union, now understanding the business case better, agreed to provide credit to the grower's association, thereby providing the necessary cash flow.

The outcome of the pilot demonstrated that Jamaica could not only produce its own second-generation seeds, but that producers, creditors, consolidators, and storage facilities could lead the charge in improving productivity of a crucial local crop.

PROPEL's market systems approach allows it the freedom to pilot new ideas, understanding that failure may be an outcome, and provides the flexibility to rapidly reassess partnerships and readjust interventions based on an ongoing understanding of local markets and both public and private actors' incentives.



Crowding-in: Within 24 months following the pilot, every importer of potatoes in Jamaica was buying super elite or elite seeds, which were introduced by the project, and were entering into agreements with farmers to produce potatoes. Even farmers who did not enter into agreements were now planting higher quality seeds. Potato yields have now increased from an average of 12,000 pounds per acre to 17,000 pounds per acre¹. Small potatoes that were usually left in the field are now harvested, sold, stored, and used as seeds for future crops. This increased the recovery rate of potatoes from the field by 20%, which further improved yield.

^[1] According to the Jamaican Rural Agricultural Development Agency (RADA) tracking data