

## Competitiveness with Equity in Agri-Food Chains

### I. INTRODUCTION

Trade organizations, ministries of agriculture and other institutions will face major challenges in coming years. One of the most thorny will be how to harmonize the objectives of competitiveness and equity in agricultural development. Many opinions have been expressed on the subject. Some feel that these goals will never be easy to attain because market mechanisms are the only force by which prices are set and resources are allocated. Trade opening and economic liberalization, according to this view, may indeed stimulate production and export growth, but do not necessarily guarantee widespread, sustained improvements in the lives of the people engaged in agriculture.

While these views may or may not be fully valid, the fact is that farm producers, small- and medium-scale agroindustries and others in agriculture will need to "fight the good fight" if they hope to produce more and better, at ever-lower costs, meeting higher quality standards, and at the same time find ways to distribute the benefits of this effort more equitably. In many countries, agriculture is ceasing to be an engine capable of raising living standards. For the most part, concentration of land ownership continues unabated; farmers are still migrating into the cities or taking jobs as low-wage laborers; and a shrinking share of farmland is being used for goods consumed domestically. There are many reasons for this, one of which is the daunting challenge of competing with goods produced in countries that subsidize. Only a few non-traditional export products have succeeded in penetrating the world market, and even these, in most cases, are handled by transnational companies or very wealthy national businesses.

IICA, aware of the countries' need to pursue development, compete successfully, and still preserve conditions of equity, has been channeling its technical cooperation activities into the niche of "competitiveness with equity in agri-food chains." This initiative is patterned after the context in which agriculture is developing, in a number of ways. First, in the move toward trade opening, countries must find ways and means to place their products on the markets over the long term. Second, while it has been shown that economic growth is a necessary condition to guarantee widespread improvement in the lives of the population, growth itself is not enough; additional mechanisms are needed to ensure reasonably equitable distribution of income. Third, because of the need to compete for markets and meet increasingly stringent quality standards, competitiveness in the primary sector alone is no longer enough. Every link in the production chain needs to be competitive.

This paper will describe the Chains and Dialogue for Action Approach (CADIAC) and show how it can contribute to developing competitiveness with equity in the agri-food sector. The initiative known as CADIAC emerged after 1992, when the Ministers of Agriculture of Central America challenged IICA to develop technical instruments that the countries could use as they undertook the process of structural adjustment and trade opening.

### II. CONCEPTUAL FRAMEWORK

The objective of the Chains and Dialogue for Action Approach is to make agri-food systems (AFSs) more competitive in a way that will simultaneously foster social development. An agri-food system can be defined as "the full range of activities that culminate in the formation and distribution of agri-food products, and consequently, the performance of functions of human nutrition in a given society."<sup>[1]</sup> CADIAC narrows the concept to refer to specific products (for example, the beef agri-food system). The term can also be extended to cover agricultural

products that, once processed, will be used for purposes other than human food consumption (rubber, tobacco, wood, etc.). In this case, the term agroindustrial system is used.

#### **TABLE 1: Rural poverty in Latin America and the Caribbean**

...Rural poverty is more acute than urban poverty and appears more difficult to overcome. In many countries of the region, rural-dwelling poor are not yet seeing any benefit from recent economic growth. Unequal land distribution and distortions in the agricultural services market have tended to perpetuate rural poverty. Although rates vary greatly from one country to another and within any country, rural poverty is of such magnitude and so widespread that effective programs need to be conceived and implemented to reduce it.

...Despite a period of considerable economic growth in most countries of Latin America and the Caribbean in the 1990s, rural poverty has failed to see any appreciable decline. From 1994 through 1997, the number of rural dwellers living in poverty actually increased. Urban poverty also grew as the rural poor abandoned their farms and migrated to the cities. The rural landscape in Latin America and the Caribbean is highly varied, is more closely interwoven with the urban sector than ever before, and is home to a relatively small population. The nature and magnitude of poverty in rural areas also vary greatly. Although agriculture continues to be the major source of employment in these places, off-farm rural activities are becoming increasingly important and are highly interdependent with urban centers. As the many components at play become more general, interconnected and multisectoral, it becomes necessary to approach the economic and social problems of rural zones more on the basis of location than in exclusively sectoral terms.

Source: Echeverría, R. 2000. Opciones para reducir la pobreza rural en América Latina y el Caribe. ECLAC Review 70.

The agri-food chain (AFC) is a useful instrument for representing the agri-food system. It brings together the whole range of participants in activities of primary production, industrialization, transportation and marketing, distribution, consumption and input and service supply.

## **2.1 THE APPROACH**

The CADIAC system was developed as a project approach for conducting participatory research on the relative competitiveness of the agri-food system. It also envisions activities for dialogue and consensus-building among people in the sector. The objective of the research is to work up proposals to make agriculture systems more competitive under conditions of greater equity. The objective of "dialogue and consensus-building" is to create favorable conditions in which people can agree together on proposed policies and actions that will make the chain more competitive.

### **2.1.1 RESEARCH**

The approach is based on chain analysis methods, a useful instrument for studying an economic situation in all its facets. In this case, the target of study is an agri-food system (as, for example, the system for wheat or potatoes). The research consists of four modules<sup>[2]</sup>: a) the international context, b) the national context, c) the chain structure, and d) the operation of the chain. It closes with a synthesis.

**Module 1**, interaction with the international economy, generates quantitative information (trade flows) and qualitative information (legal framework, leading countries and companies,

policies, etc.) on markets of interest. The results are then used to analyze how the environment affects current and future conditions of the chain and to weigh risks and opportunities present in world markets and in preferential markets.

**Module 2**, interaction with the national economy, assesses the socio-economic contribution of the agri-food system and examines the impact that socio-political and institutional trends have on the system. This requires information on the economic and social importance of the agri-food system; how it interacts with public and private institutions; and the policy framework that shapes its development.

**Module 3**, structure of the agri-food system, identifies and develops a technical and economic profile of stakeholders in the system, basic activities (agricultural production, processing, marketing, consumption) and support activities (supply of inputs, equipment, services). Comparisons can then be drawn to show the current and potential capacity of the different categories of stakeholders to compete with one another and with the world economy. The critical point is to identify homogeneous groups of actors so as to 1) understand how the international and national environments affect them; and 2) define specific actions to achieve greater competitiveness in each case. A technical and economic evaluation is performed for each group, based on cost data by item, total costs, cost per unit produced, sales prices, profits, factor productivity, etc.

**Module 4**, operation of the agri-food system, identifies and describes technical and economic relations among the different types of participants in the system. The objective is to understand how the chain operates, based on the web of technical and economic relations among activities and people. For this purpose, it is necessary: 1) to identify the major circuits through which products flow; and 2) to describe how these circuits operate. The concept of a circuit can be understood as a representation of the path a product follows from production to consumption (and all the participants and specific relations encountered along this route).

In the Synthesis, all these elements are brought together to reveal factors that determine the strengths, weaknesses and potential of the system, by parts and as a whole, so that technical, economic and organizational proposals can be drafted to make the chain more competitive.

## 2.1.2 DIALOGUE AND CONSENSUS-BUILDING

The information and technical material generated in chain analysis is an essential input for the process of decision-making, but in and of itself, is not sufficient. The information will produce change only if mechanisms of dialogue and consensus-building are available to forge a strong connection between technical analysis and action. A number of mechanisms need to be put into place during the research phase. Applied sequentially, they can prove to be very useful. The process begins with meetings to determine how the approach will be applied and define the participation and commitments of each stakeholder. Next, the members of the chain itself form a support group. The next step is follow-up meetings, then technical workshops to evaluate research findings; national workshops to define an agenda of actions and policy proposals to improve competitiveness; and finally, a group is set up to follow up on agreements.

These support mechanisms--dialogue and consensus-building--are implemented in conjunction with the chain research and analysis work. Indeed, it is best to delay implementing the approach until the various people involved begin to take responsibility for it and shoulder specific commitments, such as to supply information as input for the analysis, to set up a support group or to fund all or part of the work. In general, it is essential to recognize that the process of strengthening dialogue and building consensus among participants in the agri-food chains is complex and will gather strength gradually as the people in the chains begin to

derive real benefit from the consensus-building. Thus, the whole process builds toward what could be called a "chain culture."

If a "chain culture" develops, an industrial producer who needs raw materials at the right time, of the right quality and for a price that is competitive on the external market, will be able to sit down at the table with the farmer who produces that raw material, negotiate with him and with the government and agree on actions and commitments that obey shared interests. If the process works, both can become more competitive. The farmer will be expected to produce raw materials under the competitive conditions needed, and the industrialist can boost productivity and keep costs down. [3]

### 2.1.3 THE CONCEPT OF COMPETITIVENESS

The concept of competitiveness in the framework of CADIAC has been taking shape over time and continues to develop. When the approach was first conceived and began to grow, no clear definition of competitiveness existed as a basis. This is because CADIAC was created at the request of the Ministers of Agriculture of Central America as an instrument to help the countries identify bottlenecks and problems that could prevent domestic production from surviving in markets exposed to trade opening and domestic economic liberalization.

A definition has emerged as the approach has been applied and bottlenecks have been discovered, particularly after these problems were translated into factors of competitiveness. Factors that determine competitiveness can be matched to the four modules of the CADIAC approach. They can also be separated into two groups: those that producers, agroindustrial firms and other participants in the chain can modify or control, and those they cannot. Factors related to the international setting include international prices and the trade regulatory framework. Factors in the national setting include quality of labor, quality of local infrastructure, sectoral and macroeconomic policies, and the ability of private organizations to assist their members in the work of reconversion. Factors related to the structure of the chain may include the type of technology being used, product quality, safety and relative differentiation, and such factors as respect for the environment. Finally, the most important factors involving the operation of the chain are consensus-building and coordination among all stakeholders.

With this basis, competitiveness can be defined as "the ability of an agri-food system to establish a lasting market presence." Such a definition is consistent with the conceptual framework that sustains the CADIAC. In fact, the chain's market survival will depend on whether participants in the chain succeed in acting on the variables that are within their control. However, it is also determined by their ability to react appropriately to changes in the environment. In the national setting, public institutions play a critical role in creating a policy framework and macroeconomic environment that allow business to flourish.

## III HOW THE CHAIN APPROACH CAN HELP IMPROVE COMPETITIVENESS WITH EQUITY

Distribution of wealth in agriculture is a complex issue. It far transcends mere questions of income and profit distribution in the agri-food chain, more directly addressing the problems of rural development. This document, however, will focus on equity issues within the agri-food chain. Meeting equity objectives means that participants in the chain are able to enjoy reasonably good socioeconomic conditions and live decently. Clearly, this is not yet the case in most countries of Latin America, for diverse reasons. For example, "...products in the chain are distributed and marketed within a very complex world of multiple interrelationships that fall far short of constituting a harmonious set of attitudes and behaviors. This is because the chains operate within a trade environment that revolves around competition for access to different markets, where all activities are undertaken for the basic individual motivation of business profitability." [4]. Many fall by the wayside, pushed out by the interests of the more powerful.

Concern for the issue of equity is intrinsic to the definition of competitiveness, as given above. One of the conditions that must be met if the chain is to survive in the market on a lasting basis is that none of the links can become weakened and withdraw from production. This could occur, for example, if unfavorable socioeconomic conditions render market participation unsustainable. The Chain Approach, as demonstrated below, addresses the equity issue in all four modules. At the same time, the mechanisms of dialogue and consensus-building are at work to make sure this objective is met.

Module 3, the structure of the agri-food system, outlines typologies of the different actors. [5]. It is important to divide the actors into categories and then identify specific actions for making each one more competitive, without introducing any exclusions a priori. Thus, the methodology is useful for framing solutions appropriate to all stakeholders represented in categories, by identifying alternatives (specifically by group) to remove bottlenecks that keep them from improving their income. [6]. The purpose of analyzing competitiveness problems in this way is to bypass the shortcomings inherent in the use of national averages, which by their very nature, contribute very little to finding solutions for specific groups.

Module 4, operation of the agri-food system, begins by describing the technical and economic relationships that interconnect participants in the different links of the chain. The analysis covers such issues as bargaining power for setting prices, and the distribution of prices, costs and profits all along the chain. With this assessment complete, it becomes possible to calculate how surplus is distributed among the different actors, determine possible causes and, if necessary, propose new ways to make distribution more equitable. It would be a disservice to suggest that this type of study is easy. However, conditions deriving from the process of trade opening have clearly revealed to everyone involved that all the links in the chain need to be strong and need access to the resources that will make them more productive. This is the only way to build greater market share. As the markets demand ever-higher quality, agroindustries become more and more concerned about the quality of raw materials supplied by producers. They also come to understand that producers without adequate resources cannot easily supply high-quality products. In both situations, trade organizations emerge as the only practical answer for medium- and small-scale producers interested in gaining greater bargaining power. This leads directly into Module 2.

Module 2 analyzes interactions with the national environment. It starts with an evaluation of trade organizations of farmers and other producers, geared to ascertain whether they are able to help their members. Experience has shown that many solutions are available to equip producers with greater bargaining power and, in general, improve their ability to compete and earn more income; but these solutions require that producers be organized. Thus, the first task is to determine whether they have formed groups. If so, researchers can scrutinize the ability of the the organizations to support their members, for example, by coordinating actions to bring down production costs, add greater value to production, conduct joint product marketing, obtain access to technical assistance, and mostly, to engage in dialogue with other members of the chain when conflicts arise concerning distribution of surplus, or when problems need to be solved jointly, as for example, to improve the quality of consumer products.

Concerns about equity also need to address such issues as international prices and production subsidy policies in the developed countries. All this is covered in module 1, which analyzes interactions with the international environment. These issues are highly complex because even in the best of cases, producers and domestic agroindustries have very little maneuvering room to influence world markets; usually, they have none at all. Nonetheless, because a legal framework is now in effect to regulate trade relations, an evaluation can be performed of the conditions surrounding commercial exchange so that recommendations can be directed to officials responsible for trade policy.

Finally, support mechanisms for dialogue and consensus-building provide all members of the chain with a forum to discuss any type of dispute, including disagreements over price-setting and profit distribution. Even so, a clear awareness of the need to pay reasonable prices will grow naturally as the "chain culture" develops. In any case, if these mechanisms are to make

sense and if agreements are to be made, all stakeholders need to be organized, especially agricultural producers.

## IV. CONCLUSIONS

1. Competitiveness with equity in the agri-food chain is a clearly defined niche for action, fully in tune with the times. This work can open the door for IICA to lend valuable cooperation to the countries.

2. The key to success is to strike a balance between clear concepts on one hand, and on the other, high-quality, fully applicable instruments made available to the agri-food sectors in the countries.

3. IICA's experience in applying the Chains and Dialogue for Action Approach (CADIAC), because of the way it was structured, can contribute to the development of competitiveness with equity in agri-food chains. If it is to be applied successfully, all participants in the chains must be very actively involved in activities of research, chain analysis and dialogue and consensus-building.

4. If the research results are to have an impact, and if proposals for making the agri-food chains more competitive and equitable are to take concrete shape, every link in the chain, especially the producers, needs to be organized.

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1[1] Malassis, L. 1979, Economie agro-alimentaire I. Economie de la consommation et de la production agro-alimentaire. Paris. Ed. Cujas, 437 p.

1[2] Called "modules" because they can be applied independently, in keeping with the objectives of the user

1[3] Roldán and Espinal 1998: 24.

1[41] Roldán Y Espinal 1998 : 24

1[51]Se dispone de una metodología de bajo costo que ha dado resultados satisfactorios. Herrera 1998: Metodología para la elaboración de Tipologías de Actores

1[61]No obstante, pueden aparecer casos de categorías de actores no viables por distintas razones como pueden ser por ubicación geográfica, condiciones de suelo o climáticas y otras. Lo mismo en el eslabón agroindustrial.