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# Positioning agriculture and rural life on the Inter-American agenda

- Institutional change  
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**Factors of success**

## Agri-food chains

# Developing consensual competitiveness policies

*The Commodity Chain and Action-Oriented Dialogue Approach is a useful tool for developing consensual agricultural policies at the national level*

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**T**he Policy and Trade Unit of the Inter-American Institute for Cooperation on Agriculture (IICA) is promoting the Commodity Chain and Action-Oriented Dialogue Approach<sup>1</sup>, as an instrument for the design and implementation of agricultural policies in Latin America and the Caribbean.

This approach holds that the first step toward achieving greater competitiveness is the organization of commodity chains – that is, the creation of formal, permanent spaces for discussion and dialogue which include representatives of the actors comprising each link in the chain, as well as the government itself. These spaces would serve as fora where specific policies and actions could be established to foster competitiveness<sup>2</sup>, and where actors could improve their

coordination with each other. The creation of a Chain Committee and a basic Technical Secretariat are necessary steps in this process, as they allow those involved to follow up on agreements and their implementation.

This instrument should make it easier to channel financing into areas such as technological innovation, product safety, industrialization, product value-added, agricultural extension, etc., thereby enabling chains to remain in the market over time – that is, to be competitive.

This brief study summarizes the conceptual and operational framework underlying this line of action, and also provides a brief account of the Honduran experience for illustrative purposes<sup>3</sup>.

<sup>1</sup> Herrera, D. and Bourgeois, R. 1996. Actor-Led Change for Efficient AgriFood Systems. Handbook of the Participatory Actor-Based CADIAC Approach. San José, C.R., IICA.

<sup>2</sup> Competitiveness may be defined as follows: the ability of an agri-food chain to remain in the market over a sustained period of time. It depends on both built-in factors, such as the technologies used or the nature of the relationship between the chain's actors, and external factors, such as the country's macro and trade policies, or international prices.

<sup>3</sup> Based on "Proceso de Construcción de Posiciones Competitivas a través del Enfoque de Cadenas Agroalimentarias. Experiencia Hondureña. Programa Nacional de Desarrollo Agroalimentario (PRONAGRO)": Presentation by Wilfredo Modenessy, Chain Coordinator of the Secretariat for Agriculture. Undergraduate Program on Agri-food Chains, Tegucigalpa, June 6-11, 2005.

***An agrifood chain can be defined as the group of actions and actors technically and economically involved in the production of a commodity, from the primary agricultural production stage to the marketing of the product to its end-user. Steps along the way include packaging, the industrial or transformation process, and distribution.***

### ***What is an agrifood chain?***

An agrifood chain can be defined as the group of actions and actors technically and economically involved in the production of a commodity, from the primary agricultural production stage to the marketing of the product to its end-user. Steps along the way include packaging, the industrial or transformation process, and distribution. These are the main activities that make up the chain. There are also supporting activities, such as the provision of equipment, inputs and services, which, while not an intrinsic part of the chain, play an essential facilitating role.

The concept of an agrifood chain is applied to specific products (the rice chain, the meat chain, etc.). It also extends to agricultural products not intended for human use as food (such as timber or tobacco). The latter are referred to as agro-industrial chains.

Usually, for illustrative purposes, chains are graphically rendered as a linear series of activities, each of which adds value to the product.



In actual fact, of course, chains are not linear, and the activities that comprise them can take place at any location within a country, in different regions or areas.

### ***Why is the concept of a chain useful?***

One simple way to define the Agrifood System (A.S.) would be to say that it is a coordinated, intertwined group of agrifood chains. The concept's usefulness lies in the fact that it enables us to compartmentalize the A.S., analyzing its components on an individual basis (the dairy chain, for example).

## ***The Agrifood System and Agrifood Chains***

Within what is known as an economic system, the concept of an agrifood system refers to those relationships most directly related to the supply and consumption of food, as a framework for development policies. It is a specific system, distinguished from other systems for the production and consumption of goods by the biological determinants of the point of departure and entry, the primary production process and the human nutritional component.

Given its broadness and diversity, the concept of an agrifood system – which includes a large number of products and producers – falls short as a foundation for policy. On the other hand, a specific analysis of the behavior of relevant agents is also insufficient as a criterion for analyzing the competitiveness factors of each subsector. An intermediate approach is therefore required, in order to properly carry out assessments and devise policies. This approach can be found halfway between the analysis of the agrifood system and that of specific production and consumption units.

The concept of an agrifood chain resides precisely at this midpoint. On the one hand, it is a system; on the other, it involves specific products or families of products.

*Source: "La cadena alimentaria de la carne bovina en Córdoba", Geymonat, A.; Donadoni, M; Granda, J.; Vagnola, A. and Regolini, M. Universidad Nacional de Río Cuarto, School of Economics, Instituto de Desarrollo Regional, 1998.*



### *Why use the concept of an agrifood chain?*

For public institutions and private organizations seeking to improve the socio-economic conditions of farmers, it is simply not enough to focus their interest and actions on crop production and livestock breeding. Increases in farm productivity are of little use if packaging, processing and distribution processes are inefficient (the converse is also true).

Given the current level of exposure of domestic production to international competition (on the domestic market, the international market or both) every one of the activities that comprise the chain must be highly productive. Coordination and partnerships between the actors that make up the chain's various links are an effective way to achieve this goal.

### *A practical approach to concepts*

The concepts set forth herein are intended to serve as tools to support the productive transformation of agrifood chains.

The Commodity Chain and Action-Oriented Dialogue Approach posits that theory can be turned into practice if formal and permanent dialogue and consensus-building mechanisms can be developed between the actors that make up agrifood chains, and between these actors and their governments. Such mechanisms should lead to the establishment of agendas and commitments to change. This will enable chains to make the transition from theory to practice, becoming permanent institutions in the process. The use of "competitiveness agreements" as instruments of change are a result of this vision.

### *What are competitiveness agreements?*

A Competitiveness Agreement<sup>4</sup> is a formal framework for public-private dialogue and consensus-building, created to reach agreements

on policies and actions that help strengthen chain competitiveness.

The first step required to reach such an agreement is the development of an **assessment** of the problems and strengths of the primary production process, the industrial component and distribution. This step also includes a proper analysis of the relationships between the actors comprising the chain. The impact of the chain on its surrounding environment must also be assessed. In order to properly target changes and achieve a comprehensive understanding of the factors affecting a chain's competitiveness, an analysis of the international environment must be conducted, to evaluate the risks and opportunities involved in the liberalization process.

While each chain must be analyzed individually, it has been observed that, in general, agrifood trade has grown at a faster rate than the overall economy. This is partly a result of globalization and the progress of multilateral negotiations, which have reduced tariffs and facilitated trade. Internal national dynamics have also led to a more complex network of economic interaction in the agricultural sector, paving the way for better production, transformation and distribution technologies. Furthermore, changes in the urban-rural ratio of the population, advertising by trans-national food corporations, the global reorganization of production scales and the profits of major corporations have given rise to new eating habits. Increased food safety awareness on the part of consumers is also a factor.

Countries must also understand the environmental factors that contribute to the establishment of successful chains. These factors include commitment on the part of public institutions to the development of competitive agrifood chains, which, in turn, includes macro, trade and sectoral policies. The condition of the national infrastructure surrounding each chain also plays a part, as does the level of understanding of the role of private organizations in the improvement of competitiveness.

Ultimately, what is needed is a precise understanding of how factors that are external to chains inter-

<sup>4</sup> We have taken the term "Competitiveness Agreement" from the process built around that mechanism in Colombia.

## Determinants of systematic competitiveness



act with built-in factors to influence competitiveness. “Systemic competitiveness” analyses<sup>5</sup> are very useful in this regard, as they deal with the framework of intertwined macro, meso, meta and micro factors from which competitiveness is obtained.

A useful second step in developing a competitiveness agreement is the establishment of a **vision for the future** shared by all actors. What do we want or expect from the chain within a certain period of time? Do we want a highly productive chain, with differentiated products, positioned within the domestic market and capable of exporting its products? A perspective must be developed which takes into account the strengths and weaknesses of the chain and the viability of change.

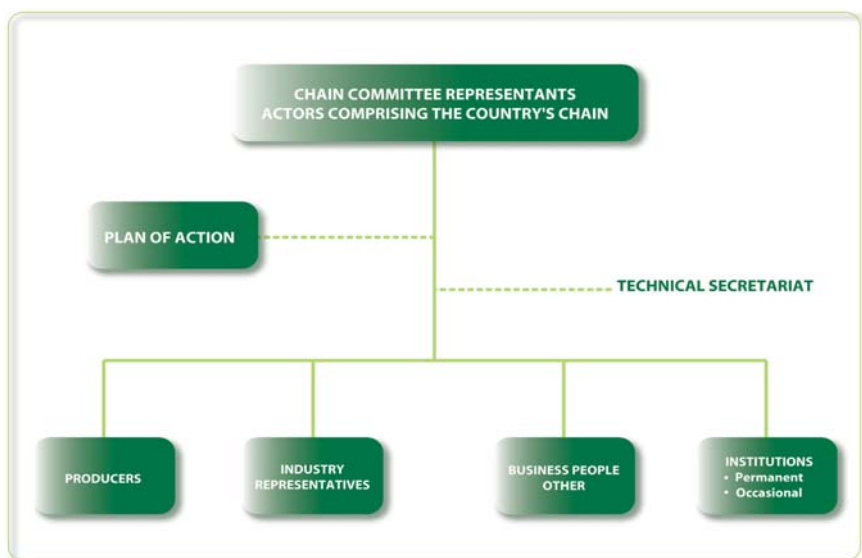
to implement the Plan of Action take place. To that end, a Chain Committee is formed by actors representing the chain’s various links. The government – chiefly the Ministry of Agriculture – should be represented on this Committee.

### Competitiveness agreements and sectoral agricultural policy

Competitiveness agreements and plans of action generate both private and public solutions; many of the private ones involve price-setting mechanisms and the distribution of profits along the chain. Public solutions can be classified in two categories: 1) solutions for which the Ministry of Agriculture (MAG) and other sectoral institutions are responsible – usually involving issues such as irrigation, land, technical assistance, etc.; and 2) solutions outside the Ministry’s jurisdiction.

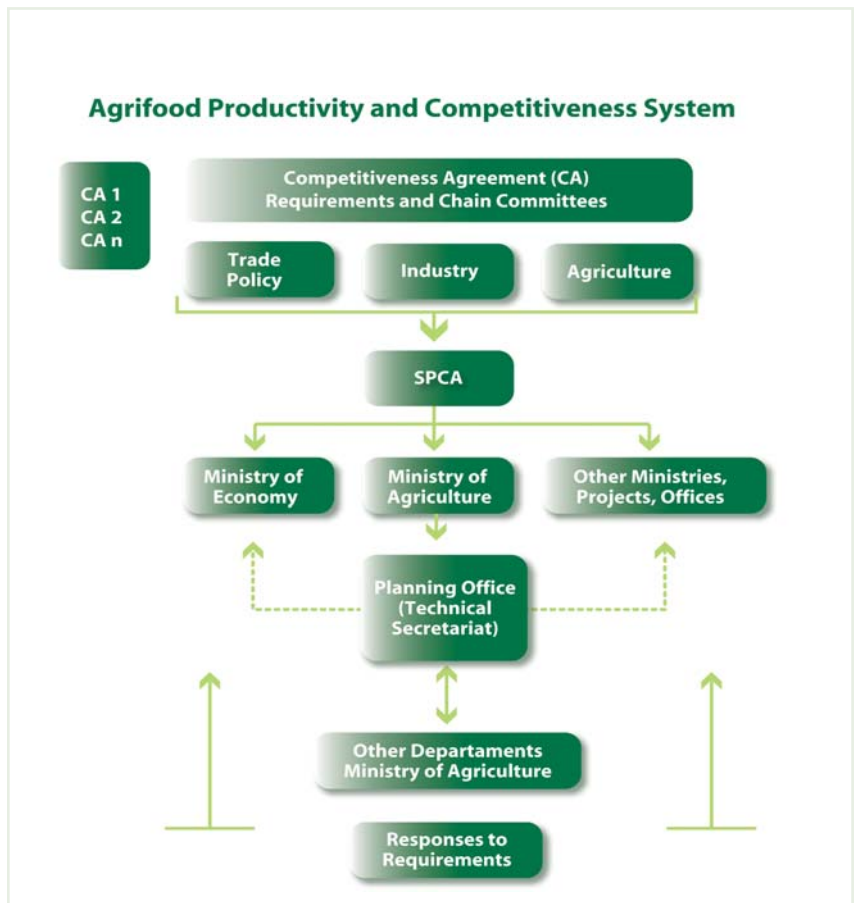
As countries develop competitiveness agreements for different chains, the solutions or responses offered by their agricultural institutions begin to form what can truly be described as a Sectoral Agricultural Policy. It is a “demand-based” policy, closely linked to the needs of the country’s productive sectors.

A number of needs remain, however, which are outside the jurisdic-



<sup>5</sup> Competitividad sistémica. Competitividad internacional de las empresas y políticas requeridas: Klaus Esser, Wolfgang Hillebrand, Dirk Messner, Jörg Meyer-Stamer. German Development Institute. Berlin, 1994.

tion of MAGs. These requirements involve industry, health and foreign trade policies, among others. This is an area which is critical to the success of competitiveness agreements; the implementation of solutions depends on the leadership of MAGs, and their ability to convince counterpart ministries of their worth – a challenging task, given the relative weakening of agricultural institutions in the wake of structural adjustments. This brings us to our next topic: in order to create successful commodity chains, a National Agrifood Policy must be developed.



### *Competitiveness agreements and national agricultural policy*

The following chart, entitled “Agrifood Productivity and Competitiveness System”, shows the requirements arising from competitiveness agreements, in descending order; the institutional responses to these needs are shown in ascending order. The competitiveness agreements themselves (AC1, AC2..., ACn) generate a variety of requirements, policy proposals, actions and commitments, only some of which pertain to agriculture.

An institutional model must therefore be developed whereby all needs are channeled toward the appropriate institutions through a single entity – not bureaucratic in nature, but backed by the necessary legal support – to facilitate agrifood competitiveness. This entity would be something akin to a National Agrifood Productivity and Competitiveness System (NAPCS, as shown above<sup>6</sup>). The NAPCS secretariat would be responsible for following up on requirements and fulfilling public commitments.

6 The Bolivian Productivity and Competitiveness System (SBPC), while omni-sectoral in approach, is an example worth studying.

7 The substantial progress achieved in the development of agrifood competitiveness policies based on agrifood chain organization is attributable, first and foremost, to the work of national institutions and the organizational efforts of the chains; a number of different institutions and agencies – IICA included – have also played a role.

Agricultural needs would be referred to the MAG Planning Office, which would be responsible for two tasks: 1) liaising with other Ministry departments to follow up on agricultural needs; and 2) lobbying other ministries for support in the implementation of solutions (see dotted arrows).

### *The case of Honduras<sup>7</sup>*

The Honduran Board of Agriculture (MAH), which began operations in October 2002, has become a consensus-building forum for the various links comprising the country’s most important agrifood chains. The issues facing chains in strategic areas of the agrifood sector have been addressed by this body.

The inputs developed by MAH have also served as the basis for the design and development of the 2004-2021 State Policy for the Honduran Agrifood and Rural Sectors. The participatory approach to agrifood chains is one of the most important tools

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used by the State Policy to increase the country's competitiveness.

Chain Committees have been formed to follow up on the Board's policies and actions, as well as the solutions devised for new problems as they arise. Each Committee is backed by a Technical Secretariat, which, in the case of Honduras, is furnished by the government. The Secretariats systematically follow up on all decisions made by the Chain Committee. Eventually, as these institutions gain their footing, it is hoped that the chains will finance the Technical Secretariats.

The process also enjoys legal support, in the form of a Ministerial Agreement which establishes the rules governing the Chain Committees. The Agreement also endows the Committees with legal capacity.

So far, the following chains have been established:

- 2003  
Dairy chain  
African palm chain
- 2004  
Vegetable chain  
Pork chain  
Beef chain
- 2005  
Apiculture chain  
Basic grains chain (under construction)

### ***Progress in actions and policies, classified by commodity (June 2005)***

Following is a breakdown of the progress made thus far, as well as the challenges faced. With regard to the latter, Hondurans are aware that they have embarked upon a difficult learning process; the country is moving from a tradition of confrontation to a culture of coordination and cooperation.

#### **African palm chain**

- Activation and appropriation by the Chain Committee of resources available for the sector, pursuant to Legislative Decree 144-2001, in the amount of 17 million lempiras (Lps), to be used for training activities and transfers of technology.

- Design and implementation of a 2005 Training Program:
  - 387 workshops on subjects such as fertilization, weed control, harvesting, planting and phytosanitary control measures.
  - 40 management seminars.
  - 16 palm-planting courses.
  - Cost of program: 4.1 million Lps
- Development of a feasibility study for the Central American Bank for Economic Integration (US\$7 million); involves sowing and replanting of 7,206 hectares of African palm in four of the country's departments. The project, entitled CORACOY, was approved by CABI in March, and is currently (as of June 2005) being formalized. It is the first stage of a larger initiative, which includes the replanting and expansion of 28,000 hectares of African palm.

#### **Vegetable chain**

- Development and submission to the IDB-FIDE Competitiveness Fund of a vegetable census proposal. The project, valued at US\$165,000, has been approved, and is currently being implemented by a specialized firm in preselected areas.
- Execution of five-hundred-thousand-dollar pilot fruit and vegetable exporting project in Comayagua Valley. The project is being executed by the company AGRO-SERVE S.A. A market approach (procurement agreement) was used, and technical assistance was provided in the planting and marketing of the products involved.

#### **Apiculture chain**

- Development – by the Technical Secretariat – and official submission to the Canadian International Development Agency of an Apiculture Promotion and Development Project in the departments of Colón, Yoro and El Paraíso. The project is valued at US\$300,000 (approval pending).
- Development – by the Technical Secretariat – and official presentation of a Project to Support the Transformation and Marketing of Apicultural Products. The project, valued at US\$250,000, will cover eight departments (approval granted; disbursement pending).



*A Competitiveness Agreement is a formal framework for public-private dialogue and consensus-building, created to reach agreements on policies and actions that help strengthen chain competitiveness.*

- Development of initiatives such as the Central American Conference on Apiculture, which took place on May 19-20, 2005.
- Training activities dealing with product safety and diversification, supported by various institutions involved with the industry.

#### **Dairy chain**

- Was the first chain to be developed; a source of heavy expectations on the part of its links.
- Due to the failure of the production and industrial processing links to reach a clear, transparent agreement regarding prices, no visible progress has been made in other areas to improve the competitiveness of this commodity.
- PRONAGRO is currently supporting a number of initiatives undertaken by the production link, as it awaits the resolution of the price problem mentioned above.

#### **Beef chain**

- A Framework Competitiveness Agreement has been developed and submitted to the Committee for analysis. Discussion of the Agreement is pending.
- The Chain Committee has stated that, until the government solves the financing issue, it has no interest in participating in the agrifood chain approach.
- Notwithstanding the above, the Technical Secretariat has been reactivated, several sub-projects have been submitted which have attracted interest from the chain, and the Committee is expected to hold its fifth official meeting in June 2005.

#### **Food production: some conditioning factors**

There are a number of factors which dictate how food is produced at the global level, and which affect the ability of actors to reach successful competitiveness agreements. These factors must be taken into account. The markets in which agrifood chain competitiveness must be achieved are not only globalized and highly competitive, but also – in no small number of cases – highly distorted by the large subsidies granted by developed countries to their agricultural

sectors. Agrifood chains must also comply with rules and employ technologies designed to produce foods considered safe by social strata that demand adherence to ever more demanding marketing, safety and environmental norms.

At the same time, however, contradictions have emerged. Consumers are expected to enjoy freedom in their choice of foods, with access to reliable information and nutritional education. How rational and attainable are these goals in Latin America and the Caribbean, a region characterized by high rates of illiteracy and poverty?

In any future scenario, technology will play a decisive role in the quest for chain competitiveness, beginning at the primary production stage, where both the number of hectares per capita and the quantity and quality of water sources is falling. Water is needed for everything from the production of biomass to the operation of agriculture and the sustenance of human beings in rapidly growing population centers.

#### **Final thoughts**

The Commodity Chain and Action-Oriented Dialogue Approach can be useful in the identification, formulation and implementation of agrifood policies, provided certain conditions are met. They include the following:

- Commitment on the part of the actors involved. The actors comprising the chain are the main players in the process; if they are not committed to participating, no agreement should be attempted;
- Commitment on the part of the government;
- A legal framework for the creation of Committees, etc.;
- A national competitiveness policy, as well as a framework of macro, trade and other policies to encourage chain development;
- Strong producer associations, with a firm negotiating position vis à vis the production and distribution links.

Finally, the importance of creating a National Agrifood Competitiveness System should be noted. Such a system should ensure that all relevant institutions, both agricultural and non-agricultural, are committed to the reforms that agrifood chains require.