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Is the Facilitation of Sustainable Market Access Achievable? Design and Implementation Lessons from Armenia

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Abstract

Over the past three decades the globalization in agri-food sector has been accompanied by a dramatic restructuring, liberalization and privatization of markets often with serious adverse consequences for small farmers in developing and transition countries. Consequently, governments and the international donor community have markedly shifted their development policies from traditional technology transfer approaches towards more market-driven approaches of linking farmers to markets. The international agricultural development literature has begun exploring the appropriate structure of third-party facilitated institutions and enforcement mechanisms to support linking small farmers to markets. Based upon a series of long-term qualitative and quantitative analyses of the instrumental case of USDA Marketing Assistance Project in Armenia, we use a grounded theory approach to develop a dual strategic model for the establishment of sustainable third party facilitated market linkages between producers and processors. Our results and model indicate that if donors pursue a dual strategy of concurrent facilitation of private enforcement on the processing level and institutional arrangement on the producer level in the design and implementation of third-party market linkage programs, they are likely to achieve higher program impact, improved trust among channel participants, and long-run economic sustainability of market linkages.

Keywords: Market Linkages, Small Farmers, Institutions, Governance, Enforcement, Armenia

INTRODUCTION

Over the past two decades globalization has resulted in a rapidly changing structure of the international agri-food sector. This structural change has forced the international development community reevaluate many of their rural development intervention policies from traditional technology transfer approaches towards more market-driven approaches (World Bank, 2002). This shift has however caused an immense challenge. Programs based on traditional technology transfer and capacity building approaches is comparatively easy to implement, count and measure impact, whereas the design, implementation and delivery of market driven development is substantially more complex and requires a completely different set of competencies and metrics for measuring delivery success and impact. Some estimate that the actual failure rate of these market driven approaches exceeds 95% after the project is complete. This is an unacceptable rate when using public funds. As a result, many donor agencies and contract implementers are searching to identify the best practices in the design and implementation of market interventions that facilitate the establishment of economically sustainable value chain linkages between small-scale, limited-resource, financially-distressed, producers and local, regional and international markets.

The research on the impact of public facilitation of marketing linkages (Glover and Kusterer (1990); Porter and Philips-Howard (1997); Coulter et al. (1999); Eaton and Shepherd (2001); Simmons (2001)) indicates that farmer' marketing cooperatives and producer organizations are often the preferred intervention mechanism of choice (Cook, 1993; 1995; Staal et al, 1997; Cook & Iliopoulos, 1999; Key & Runsten, 1999; Holloway et al, 2000), although recent Central and Eastern European experiences indicate that Foreign Direct Investment (FDI) can be a critical catalyst in the successful development of private solutions to assist farmers (Gow & Swinnen, 1998; 2001; Dries and Swinnen, 2004; Dries et al, 2004; Dries and Reardon, 2005). Both of these alternatives have problems. Cooperatives and producer organizations often face high failure rates during and after the project due to artificial incentive problems, free-rider problems, insufficient trust, and conflicts over governance structures (Gow & Swinnen, 1998; Shepherd, 2007). Similarly, FDI and the related solutions may not be viable due to various incentive, institutional and resource constraints. Moreover, critics often raise concerns about the appropriateness of public funds supporting FDI and multinational firms enter markets due to the potential small-scale producers being excluded from these private marketing channels (Dries and Swinnen, 2004; Dries *et al*, 2004; Dries and Reardon, 2005; Reardon, 2005). Consequently, governments and international donor agencies are searching to identify appropriate pro-poor intervention mechanisms (or public private partnerships) that can build on the strengths and overcome the inherent weaknesses of these approaches.

In this paper we use a grounded theory approach to develop a dual strategic model for the establishment of sustainable third-party facilitated market linkages between small distressed producers and markets. The model draws upon a series of long-term qualitative and quantitative analyses of the instrumental case of USDA Marketing Assistance Project (MAP) in Armenia. In designing and delivering their interventions the project replicated the market development approaches and processes that a private multinational firm would follow when exploring and entering new marketplaces. They began by identifying and strengthening private processing firms who had the potential to meet market requirement and providing them with the appropriate

marketing, technical and financial support to achieve this. They concurrently worked with the processors to strengthen and upgrade the supply base both through a series of linked and independent public and private program interventions at the farm level. They also assisted in improving local institutional capacity to deliver each of the private or public facilitation processes and ensure sustainability upon the projects exit. Through this dual private and public approach USDA MAP was able to support the creation of sustainable market linkages between processors and both small and large farmers that reduced transaction costs, improved contractual arrangements, overcome investment constraints, strengthen reputation, and reduced hold up problems.

This research has important policy implications for the international development community as private and cooperative-based market linkage initiatives are often viewed as separate and competing alternatives. Our model and results however indicate that if donors pursue a dual strategy of concurrent private and cooperative interventions in the design and implementation of third party market linkage programs, they are likely to achieve higher program impact, improved trust among channel participants, and long-run economic sustainability of market linkages.

THE CHALLENGE OF A "NEW" GLOBAL FOOD SYSTEM

Over the past two decades the global agri-food procurement systems have undergone dramatic changes due to various factors including globalization, market liberalization and the internationalization of the food retail sector (World Bank, 2002). For the end consumer these changes have been beneficial and resulted in an increasing variety of food and meal options delivered as and when required in multiple different forms customized to their individual needs at ever decreasing prices. These market transformation processes have created unprecedented opportunities and threats to farmers and small and medium sized enterprises (SME) throughout the international agri-food supply chain in both developed and developing countries (Boselie & Van de Kop, 2004; Shepherd 2007). Those farmers and SME's who have been able to respond have done extremely well. However not all the actors along the supply chain have access to the necessary resources, competencies or capacity to take advantage of the opportunities presented, thus they face the risk of market exclusion. This is particularly true for small-scale agricultural producers in developing and transition countries.

Globalization phenomena

Technological improvements and rising global consumer demand for continuous supply and delivery of an increasing complex variety of food and meal options has led to the continual integration of the local, national, and regional agricultural procurement and marketing systems into an increasingly complex, inter-linked, and standardized global food procurement systems (Sobal, 1999). Within these new global food systems the down-stream players (supermarkets, food service and retailers) are determining the conditions that producers have to meet to gain market access, such as scale and volume of procurement, higher quality and safety standards, packaging requirements, and consistency of supply (Boselie, D. & Van de Kop, P. 2004). These requirements are forcing producers to become more market oriented and to continually adjust and improve their production processes to better meet the ever increasing production and processing requirements of the buyers (Shepherd, 2007). Farmers and SME's that have not been

part of the evolving international market transformation from the start, but now want to engage, can suddenly find the market requirements insurmountable. This is especially true for small-scale resource-constrained producers in developing and transition countries who lack the technology, financial, human, and organization capital and are thus exposed to the risk of being permanently excluded from these international procurement channels (Dries and Swinnen, 2004; Dries *et al*, 2004; Dries and Reardon, 2005; Reardon, 2005).

Market Liberalization and Privatization

Over the two or three decades the globalization in agri-food sector has been accompanied by a dramatic restructuring, liberalization and privatization of markets often with serious adverse consequences for small farmers. Central and Eastern European (CEE) countries provide a good example. The fall of the centrally planned agri-food marketing system in CEE and the Former Soviet Union (FSU) resulted in a major collapse of agricultural sector; the concurrent mass privatization and liberalization of markets and removal of the authoritarian governance structure and institutions that supported it, resulted in farmers and transacting parties being exposed to numerous contractual problems, many of which had previously not been anticipated. The result was a massive collapse of the food marketing system (Gow and Swinnen, 1998).

Some CEE countries, like Hungary and the Czech Republic, faced a very swift decline in agricultural production followed quickly by a rapid ascent, where as others have faced extremely long drawn out declines with no bottom (Swinnen, 2000). All of the declines can however be characterized by: the breakdown of the traditional marketing channels and business relationships due to privatization and market liberalization; extreme and pervasive financial distress across all channel members; limited personal savings and financial resources; ineffective legal enforcement systems; extreme payment delays; and a massive shift to barter and cash exchange transactions as firms had limited to no trust or confidence in business partners or financial exchange transactions (Gow and Swinnen, 1998; 2001).

To minimize their exposure to contractual hold-up problems, agricultural producers and processors rapidly shifted to transacting in spot markets where relationship specific investments are unnecessary. That is, farmers were unwilling and unable to make the necessary specific investments required to meet these new market requires for the threat of being held up. As a result processors were facing enormous difficulties in establishing a sufficiently large and stable procurement base of high quality raw materials. The agricultural sector in many CEE and FSU countries remained in suboptimal equilibrium due to the lack of suitable and cost effective governance system to support exchange transactions and relationship specific investments.

Internationalization of food retailing and procurement

The internationalization of food retailing and procurement was another major contributor to transformation of global agri-food systems. Large international supermarkets are both being *pushed* overseas by stagnant demand, limited population growth, market saturation, and intense competition within their home markets that is reducing their profitability as well as being *pulled* overseas by rapidly growing populations, increasing disposable incomes, changing dietary demands, higher margins, favorable FDI policies and lesser competition in host countries and

emerging markets (Reardon, 2005). This process of *supermarketization* has initiated a series of restructuring waves across the world's food retail industry leading towards a tighter "knitting together" or integration of the national and regional food markets (Reardon and Timmer, 2006). They have also caused numerous spillovers to occur within and across surrounding sectors and marketing channels (Gow and Swinnen, 1998; Gow *et al*, 2000).

Thus supermarketization offers a massive market opportunity for those producers who are willing and able to suitably organize themselves to respond these international supermarkets' procurement systems as they reach out to draw in specific national and international food products that their changing domestic consumer based demands. However, recent research shows that for farmers to effectively respond to these new market opportunities, farmers must make substantial on and off farm investments in technology, quality assurance, processing, and food safety systems to meet the increasing quality, consistency, and quantity requirements that these new supermarkets demand (Reardon, 2005). This presents some problems for large well financed producers; however, it severely limits market access options for small limited resource farmers.

It is clear that the changes in argi-food systems caused by the combination of increasing globalization, market liberalization, and supermarketization present significant challenges for small-scale producers in developing and transition countries and unless development programs actively and continually facilitate farmers' access to newly emerging global marketing channels, farmers will be forever excluded and constrained to poverty (Reardon and Berdegue, 2002).

CREATING SUSTAINABLE MARKET LINKAGES AND INSTITUTIONAL ARRANGEMENTS

The new global agri-food procurement system has not only presented farmers and SMEs with new challenges but also governments, NGOs, corporate entities, and development organizations that have been forced to substantially reevaluate their approaches and strategies for ensuring fair and transparent market access and governance for all channel members. As a result the international donor community has realized that their traditional technology-push approaches to agricultural development do not provide the appropriate market incentives and hence have rapid shifted towards the promotion of more market-driven approaches for linking farmers to markets (World Bank, 2002). This shift has however not been without problems. The new system requires new models of inter-organizational governance and channel coordination and thus new models of facilitation. The agribusiness research and agricultural development literature are beginning to explore the appropriate structure of third-party facilitated external and internal enforcement mechanisms that involve various contractual and institutional arrangements within weak enforcement environments. However limited research is currently available on what are the appropriate enforcement mechanisms and solutions that international agencies can use to facilitate the establishment of economically sustainable value chain linkages between small-scale, limited-resource, financially-distressed, producers and local, regional and international markets and provide them access to input and product markets, technological know-how, human and financial capital (Shepherd, 2007).

Public Facilitation

NGOs and facilitation of contract farming

Literature indicates that public agencies can play an important and beneficial role in facilitating the establishment of private processor-farmer relationships conditional upon the market linkage programs being appropriately designed to support small farmers (Glover and Kusterer (1990); Porter and Philips-Howard (1997); Coulter et al. (1999); Eaton and Shepherd (2001); Simmons (2001)). Non Governmental Organizations (NGO) were shown to have positive effects on the performance of contract farming in Africa (Porter & Philips-Howard, 1997) and in Central America (Glover & Kusterer, 1990) through facilitating relationships between firms and farmers, providing technical assistance, and helping with input purchases. Eaton & Shepherd (2001) and Simmons (2001) also argue for the positive effects of NGOs in their overviews of contract farming. However, contract farming facilitation approach has its weaknesses when dealing with small farmers. Unfortunately the lessons from negative outcomes of NGO involvement in relationship facilitation are not well disseminated.

While contract farming has the potential to link farmers with private firms by providing access to otherwise unavailable marketing channel (Jaffe, 1994; Key & Runsten, 1999; Eaton & Shepherd, 2001; Simmons, 2001) it also requires adjustment of production process to meet required quality and quantity standards. These poses a number of threats to financially distressed low-income farmers who risk becoming excluded from the channel due to a lack of sufficient financial capital required to meet industry demanded production or quality requirements (Eaton & Shepherd, 2001). Additionally it is argued that small farmers are often excluded from contract farming due to the high transaction costs firms face working with many small farmers relative to working with a few larger farmers (Key & Runsten, 1999; Singh, 2000; Warning et al, 2003). Thus many argue that contract farming provides the middle or upper income producers with access to formal marketing channels however poorer farmers remain constrained to the informal channels (Little, 1994).

Facilitation of farmer organizations and cooperatives

One of the challenges in agricultural development over the last several decades has been institutional design: that is facilitation of organizations and rules of the game that would permit small farmers and the rural poor to capture more of the benefits of a market driven economy (Staatz & Eicher, 1998). Farmers marketing cooperative and producer organizations are one of the most commonly discussed organizational structures used to provide farmers with access to formal marketing channels by enabling the development of procurement relationships between agricultural producers and processors. Research shows that marketing cooperatives can provide an effective mechanism to allow small farmers to access formal markets (Cook, 1993; 1995; Staal et al, 1997; Cook & Iliopoulos, 1999; Key & Runsten, 1999; Holloway et al, 2000), as they can resolve hold-up problems and reduce transaction costs through economies of scale in collection, transport and extension, and simplify information flow between small scale, widely dispersed buyers and sellers (Staal et al, 1997; Key & Runsten, 1999). Their long-term success has however been limited as their failure rate is often high due to artificial incentive problems, free-rider problems, insufficient trust, conflicts over governance structures, and influence cost problems (Gow & Swinnen, 1998; Shepherd, 2007). Ad hoc estimates within the development

community indicate that the long run failure rate of market driven cooperatives could be very high.

Part of the problem stem from increasing transaction costs generated by vaguely defined 'user versus investor' property rights which lead to conflicts over residual claims and decision control (Cook, 1995). This affects members' incentives to invest in the organization and the organization's overall ability to generate equity capital (Cook & Ilipoulos, 2000). This is obviously a problem in transition economies where farmers are already financially constrained and under investing in their own operations, and therefore unable to make equity investments in a cooperative (Gow & Swinnen, 1998).

Different cultural and institutional endowments of developing countries can limit the uptake and success of cooperative principals introduced directly from developed countries (Johnston & Clark, 1982; Akwabi-Ameyaw, 1997). Cooperatives have often failed at realizing benefits to the rural poor as apposed to the rural elite because they allow the opportunity for leading members to extract extra proportional rents (Johnston & Clark, 1982; Akwabi-Ameyaw, 1997). Often ill defined and unrealistic goals are to blame for the failure of cooperatives (Johnston & Clark, 1982; Stevens & Jabara, 1988). Consequently there is a considerable debate within the development community on the benefits or otherwise of contract farming and cooperatives with respect to small farmers (Johnston & Clark, 1982; Glover & Kusterer, 1990; Little & Watts, 1994; Akwabi-Ameyaw, 1997; Porter & Philips Howard, 1997; Eaton & Shepherd, 2001; Simmons, 2001).

Private Facilitation

FDI and private enforcement capital

An emerging literature in transition agriculture demonstrates strategies where private solutions have successfully been employed to solve the inherent problems resulting from lack of credible enforcement mechanisms, positive incentives for agro processors to extract quasi-rents, and a lack of financial resources. Interestingly, although there are many theoretical solutions provided in the literature, the only empirically successful solution observed in Central and Eastern Europe (CEE) for revitalizing the agricultural sector and supporting rural financial markets has been the Foreign Direct Investment (FDI) induced vertical coordination and trade credit (Gow and Swinnen, 1998; 2001; Gow et al, 2000; Foster, 1999; Dries and Swinnen, 2004).

The entry of FDI has been critical in correcting marketing channel incentives, priming rural financial markets and catalyzing economic growth. Through providing credible, transparent and enforceable vertical contract relationships along with the necessary resources, foreign firms have been able to provide private solutions that assist farmers escape the poverty trap (Gow and Swinnen, 1998; 2001; Gow et al, 2000; World Bank, 2002). By entering markets with sufficient reputation, financial resources, technical knowledge, market access and a sufficiently long-term perspective to ensure credible self-enforcing contractual relationships these foreign firms have been able to provide an incentive structure that overcomes the numerous market failures that previously plagued the sector (Gow & Swinnen, 1998; Walkenhorst, 2000; Gow & Swinnen, 2001; Dries & Swinnen, 2004; Dries et al, 2004).

Foster (1999) examined FDI in the FSU and spillover benefits to farmers. While FDI had gone almost exclusively to the up and downstream sectors of the chain, Foster identified a number of positive spillover benefits to farmers resulting from FDI. These included; 1) provision of credit; 2) access to cash markets; 3) training in improved crop cultivation or animal husbandry practices; 4) support with acquiring improved business and management skills; 5) reliable access to quality inputs; and 6), training in improved product storage and handling (Foster, 1999). Foster argued that as long as FDI was restricted to the upstream and downstream sectors and farmers were unable to afford commercial credit these spillover benefits may be one of the few means for them to acquire critically needed credit, inputs, markets and skills.

Gow *et al* (2000) developed a theoretical contract enforcement framework to explain how private enforcement mechanisms can solve hold-ups in transition agriculture. In their model they argued that when public enforcement institutions are absent, ineffective, or too costly (as is the case in many transition countries), that private enforcement mechanisms can have a significant positive effect on output and efficiency for both firms and farmers. In their case study analysis a number of contract innovations and associated support programs introduced by a foreign food processor widened the "self-enforcing range" of the contractual relationships. This reduced the risk of contractual breach, which lowered the likelihood of hold-ups, and hence encouraged contract specific investments. Gow and Swinnen (1998; 1999) and Walkenhorst (2000) note that in addition to FDI spillover benefits going to upstream sectors spillover benefits also went to competing firms within and across sectors.

While the overall impact of private initiatives on market linkage development and productivity is mostly positive, it does cause distributional and structural change in host countries. These changes give rise to adjustment and switching costs. Consequently there are also serious doubts and concerns raised about the appropriateness and effectiveness of these private initiatives in reducing poverty due to the potential exclusion of small-scale limited-resource agricultural producers (Dries and Swinnen, 2004; Dries *et al*, 2004; Dries and Reardon, 2005; Reardon, 2005).

The Need for Alternative Facilitation Strategy

The research shows that where private facilitation is present through FDI or strong local private enforcement capital, the advantages of public facilitation can address the disadvantages of private facilitation, e.g. publicly facilitated farmers organizations can solve the exclusion problem by reducing transaction cost, as well as the market power problem through competitive yardstick effect (Shanoyan, 2007). Similarly the advantages of private facilitation can address the disadvantages of public facilitation by using private enforcement capital to strengthen the incentive base of publicly facilitated linkages (Gow et al, 2000). Thus public technology-push facilitation can be efficient when the private enforcement capital is present.

However in situations where private enforcement is absent due to insufficient incentives for FDI and the capital-constrained local private sector the traditional public facilitation will be inefficient. Thus the question becomes can a sustainable third-party facilitated market-based solution be found to these market failures where private enforcement is unavailable. The literature has not identified nor explained the critical processes and factors required in the design,

delivery, establishment and impact of alternative business models that can facilitate small producers' long-run and economically-viable access to markets in an environment characterized by inadequate public and private enforcement.

THE INSTRUMENTAL CASE OF USDA MAP IN ARMENIA

Until recently the Armenian agricultural sector had not experienced the economic recovery observed elsewhere in CEE. Unlike other CEE countries, Armenia has not been able to rely on FDI to quickly restore an economically viable and sustainable market structure (World Bank, 1995 a&b). With its small domestic consumption base, both in terms of population and purchasing power, Armenia provided an unsuitable foreign investment location for multinational food companies. Without the presence of FDI-induced private solutions that create self-enforcing relationships, encourage relationship specific investment, and drive diffusion of innovation (Gow et al, 2000), the Armenian agricultural sector remained in a sub-optimal equilibrium characterized by low quality output, delayed payments, deep financial distress and limited investment. There was a need for an alternative external stimulus. The stimulus came from the US government through a US State Department financed and USDA implemented overseas development aid project, the USDA Market Assistance Program (USDA MAP).

In 1992 Armenia requested USDA assistance in facilitating agricultural transition. The USDA initially followed a traditional extension-driven, technology-push international development approach. However, after three years of operation it was apparent that this production focus was not meeting industry needs. So in 1996, a USDA advisory team redesigned the project from technology-push to market-pull and with that shifted the focus from farmers and production to market and business development and the economic recovery of the privatized food processing sector. The result was the USDA Marketing Assistance Project. Essentially, MAP changed the question from, "What can we produce?" to "what does the market demand and how can we profitability meet this demand?"

The USDA MAP used an integrated market driven approach to business development encompassing marketing, financial and technical assistance. This integrated approach enabled them to assist clients: identify potential market demand; develop appropriate marketing channels through marketing assistance; develop new products to meet the demand through technical assistance; and provide via various instruments the necessary financial resources to mobilize the other components. They were careful to only draw clients (entrepreneurs, farmer groups and processing firms) from agribusiness sectors identified as having the potential for economic recovery (such as cheese processing, vegetable processing, and wine production), even through they could have been harshly affected by transition.

To implement its programs, USDA MAP drew upon a permanent Armenian staff and various visiting American university faculty and industry volunteers. Since its inception, MAP has assisted over 65 different processing firms, who employ more than 2,600 full time staff and 1,100 seasonal staff and purchase raw materials from 18,000 farmers. At the farm level MAP has facilitated the establishment of 33 farmer marketing associations in the dairy and fruit and vegetable sectors, 48 production credit clubs, and has provided substantial technical assistance to farmers. In 2005 a local Armenian foundation called Center for Agribusiness and Rural

Development (CARD) was established to carry on the legacy of the USDA MAP. CARD's programs maintain all the key characteristics that made USDA MAP successful.

A DUAL STRATEGYC MODEL FOR FACILITATION OF SUSTAINABLE MARKET LINKAGE DEVELOPMENT

The USDA MAP unique facilitation strategy initiated a rapid revitalization and later continuous post-project sustainable development of the Armenian agricultural sector. Thus the USDA MAP provides an instrumental case for analyzing the appropriate use of ODA-induced facilitation of sustainable cooperative and private solutions, where the FDI-induced private solution are unavailable, to link farmers to markets and solve the related contracting, investment, and enforcement problems noted in the literature. The conceptual grounded theory model developed below draws from a substantial number of case studies, accompanying enumerated survey analysis of the restructuring three key sectors (dairy, fruits and vegetables), numerous expert interviews with processing and exporting firms, USDA MAP and CARD management teams and participant observations.

Using a grounded theory approach to model development, we have constructed a strategic facilitation model that consists of five components: 1) underlying philosophy, 2) client identification, 3) client appraisal, 4) client engagement, and 5) client disengagement. These are the critical components that we view as required for the successful design and implementation of a sustainable market driven development facilitation strategy. Interestingly they closely follow an approach that multinational enterprise would take when developing a market entry strategy. Key to this approach is the recognition that the process needs to be initiated and owned by the channel partners, the incentive and governance structure developed needs to be operated within the business environment independent of facilitation and that an appropriate exit strategy has to be incorporated in the design of intervention. Below we discuss each of the components.

Underlying Philosophy

Critical to the sustainable success of the USDA MAP facilitation approach was core set of underlying principles or philosophy that drove the decision making process in the establishment of sustainable self enforcing marketing relationships between small household producers and downstream processors within Armenian agricultural sector. It is important to note that this philosophy developed overtime through a trial and error process. There were a number of successes and failures over the length of the project and a lot of input from various internal and external sources that created these basic components. Each of the key stakeholders interviewed presented them in different manners. Below we synthesize them into seven key components that constitute our view of their philosophy.

Market driven

The engagement must be based on a market-driven value proposition approach and has to be driven by real, observable and concrete market opportunities. All value generated from various initiative must flow directly to value chain members through their relationships. No artificial incentives should be provided to get players to engage in the value opportunity. All activities stand on their own and their ability to produce market value, independent of the facilitator. The

facilitator should not pick winners and enforce relationships; instead firms must make their own competitive decisions and choose partners.

Transparency and openness
The information on programs and assistance should be openly available and easily accessible by all interested parties. The facilitator must be very explicit on what assistance they can and cannot provide and how this can be delivered. They must ensure that all of the parties fully understand the risks involved and that they are making the investment decision based upon prevailing market conditions.

Simple solutions that deliver immediate returns
Each engagement mechanisms should be based on simple, contextually appropriate solutions that are well adapted to local cultural system that delivers immediate returns. The engagements should be initiated through simple solutions and as intra and inter-organizations reputation and trust builds between the relevant parties then more complex opportunities should be introduced. Taking on too complex opportunities that require complex solutions ask for failure.

Strong incentive base for long-term sustainability
Each activity must be based upon its ability to deliver economic value to all of the collaborating parties, thus is incentive compatible. The facilitated relationships should be self enforcing: If the incentives do not align under the current solution, either find another solution or do not implement it. The provision of artificial incentives and handouts creates a dependency culture.

Flexibility
The operational flexibility should be present in the development and delivery of each program and activity. The form and approach of each engagement will depend on multiple business, value chain and environmental factors. Decision makers need to have operational flexibility in order to continuously adjust and adapt the engagement mechanisms based on the channel needs, performance, and responses.

Facilitator not a broker
The public agency should act as an external facilitator of relationships with each channel participant independently. They should not become broker between any channel partners or the transactions between them. It is important that each investment, relationship and transaction is driven by clients and a decision of the clients, not the facilitator. The agency should facilitate channel members in building/improving their own reputation instead of relying on the reputation of the public agency.

Client identification

Self selection
It is critical that clients (entrepreneurs, firms, and producer groups) self-select themselves. Facilitator should educate and inform about opportunities then let interested parties approach them back with proposals. This will ensure that the engagements have appropriate incentive alignment and are driven by the clients who assume ownership of the enterprise activity and

preserve their independent decision making. This is a vital factor for the long-term sustainability of the activity and enterprise.

Utilize existing linkages
Allow players along the value chain to choose their partners and use this as a base for facilitating self enforcing relationships. Learn about performance and constraints of players through communication with their channel partners.

Client appraisal
Once approached by clients an expert team should be assigned to conduct a rapid capacity appraisal and initial market assessment followed by the initial estimation of technical and financial resource requirements.

Rapid capacity appraisal
Following four factors must be assessed before any formal engagement is initiated:

1. Assessment of the natural leadership abilities and the commitment to the vision of the clients (and the social capital in case of producer groups).
2. Assessment of the availability of resources required for the proposed enterprise. This can include assessment of natural resources and/or upstream supply base.
3. Assessment of technical capabilities of the client.
4. Assessment of client's perception of market opportunity.

Initial market assessment
Conditional on positive assessment results of capacity appraisal the initial market assessment should be conducted to determine the presence of real, observable and concrete market opportunities which is fundamental to the success of possible engagement.

Initial assessment of resource requirements
The final step before formal engagement is the initial assessment of technical and financial resource requirements for the potential engagement. It is necessary to fully understand the client's resources, competencies and capabilities so that an appropriate and simple and incentive compatible facilitation engagement can be designed.

Client engagement

Design of engagement strategy
The engagement begins by the development of customizable, flexible and linked marketing, financial and technical assistance packages and implementation strategy consistent with the core components of the facilitation philosophy. The initial engagement needs to be simple and deliver immediate tangible results to the involved parties. As the relationships, business confidence and trust builds, the complexity of the engagement can increase. It needs to be a stepped process. The ordering and form of engagement is critical to its success.

Realistic expectations
Appropriate education and information on the program's investment requirements, costs, and benefits has to be provided from the beginning. It is important not to oversell the concept and benefits. Engagement parties should have clear, realistic expectations.

Alignment of incentives along the channel
The value should flow directly through marketing channel in order to insure the correct alignment of each channel members' incentives to their vertical channel partners above and below them. Any subsidies or supports that can potentially distort the cash flow stream of the proposed value proposition or enterprise will build a dependency mentality within the organization or channel and negatively affect the actors' perception of ownership.

Ensure economic sustainability
It is absolutely critical for the long-term economic viability of the channel that the financial grants and supports are used only for one-off, definable investments with the strict match-and-payment requirements imposed.

Client disengagement

Independent decision making
It is critical that all channel members take full ownership and responsibility for their individual economic and business decisions. The facilitator can assist by providing training on decision-making and analysis processes, but must separate themselves from the decisions. Under no circumstance should any facilitator attempt to influence the decision.

Self sustainable financing
Provide financial resources through enforceable mechanisms (leasing programs and credit clubs) that are interlinked to the market value proposition, thereby correcting incentive and repayment problems.

Independence of support structures
Ensure separation of support structures and assistance programs vertically and horizontally from each other and each level of the marketing channel to maintain visible independence, thereby ensuring that parties recognize the public agency's activities are independent from the channel's economic activities.

Transfer of leadership
Institutionalize programs, structures, and organizations by rapidly integrating and empowering local staff to take ownership in management and leadership. Develop suitable succession systems to transfer leadership and ensure long-term economic sustainability.

DISCUSSION OF POLICY IMPLICATIONS

This paper draws upon the instrumental case study of USDA Market Assistance Program in Armenia to develop a grounded theory model for the establishment of sustainable market linkages between farmers and local, regional and international markets. The paper draws upon

five years in case studies, surveys, expert interviews and participant observation. The resulting model consists of five components: 1) underlying philosophy, 2) client identification, 3) client appraisal, 4) client engagement, and 5) client disengagement. These are the critical components that we view as required for the successful design and implementation of a sustainable market driven development facilitation strategy.

Most development projects have a number of these components, however many lack some of the critical ones, especially the need to be only a facilitator and not become a broker. It is often too easy for the contractor to engage as brokers to ensure that they meet their project commitments of establishing X number of firms or value chain linkages. This is fine while they are still in country, however shortly after they leave the critical relationships are broken and individual channel parties who have undertaken their investment decisions based upon the broker's presence now find the opportunity incentive incompatible. Hence break their relationship and disinvest in the venture.

Market oriented public facilitation through simultaneous assistance to local processors (financial, technical, and marketing) and producers (technical and financial assistance) has a potential to imitate the effect of FDI by strengthening local private sector which in turn can lead to improved contractual arrangements with producers, improved reputation of the processors, and can reduce hold up problems. This positive effect has to be complimented by reduction in transaction cost of procurement from small producers through simultaneous facilitation of farmers' organizations.

This research has important policy implications for international development as private and cooperative-based market linkage initiatives are often viewed as separate and competing alternatives. Our results and model however indicate that if donors pursue a dual strategy of concurrent private and cooperative interventions in the design and implementation of third party market linkage programs, they are likely to achieve higher program impact, improved trust among channel participants, and long-run economic sustainability of market linkages.

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