

'Agribusiness for Development': Who Really Gains?

Perspectives from the *Journal of Agrarian Change*

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The World Bank's 'Agribusiness for Development' agenda, as detailed in the *World Development Report 2008*, puts a renewed emphasis on the role of corporate agribusiness in helping to achieve dynamic and prosperous agricultural sectors in developing countries and even in contributing to the development of smallholder farming. Articles in the *Journal of Agrarian Change's Symposium* on the 2008 report, written by Kojo Sebastian Amanor, Philip McMichael, Carlos Oya, Matteo Rizzo and Philip Woodhouse, provide a critical examination of the World Bank's renewed interest in agribusiness (see references).

This Development Viewpoint summarises their main points. First, it considers the main criticisms of the World Bank's 'Agribusiness for Development' model. Second, it evaluates some of the proposed World Bank initiatives that attempt to address the criticisms of its 'business-oriented' approach.

'Sharing' Risks and Profits?

The first major criticism by these Journal authors focuses on the supposedly benign nature of agribusiness and the resultant sharing of risks and profits with local producers, and particularly with smallholders. As Amanor explains, the World Bank report asserts that smallholder producers can be integrated with corporate agriculture by efficiently linking them to capitalist food value chains. But all authors argue that this approach misjudges the true nature of modern agribusiness and its corporate power structure.

In reality, a few corporate food giants dominate the value chains for agricultural inputs and for a significant range of outputs. And this dominance allows them to pass their costs and risks onto local producers while retaining for themselves the lion's share of the value generated along the chain.

McMichael's analysis shows that supermarkets in many agricultural retail and marketing chains set demanding standards for the nature and quality of agricultural output. Since producers are forced to shoulder the costs of meeting such standards, many of the smaller producers who cannot afford to do so are excluded from participating in these markets.

As a result of these power asymmetries in cost and risk-sharing, profits tend to be concentrated within a few oligopolistically organised companies at the trading, processing and retail end of the value chain, instead of being shared equitably with producers in developing countries. This oligopolistic structure is consistent with the growing importance of branding, marketing and retailing in agricultural chains.

The increase in profits by global corporate food and input companies during the recent so-called 'food crisis' underscores this problem. While many people, particularly the urban poor, have been suffering from large increases in food costs, little attention has been paid to those who have profited from these price hikes. The monopoly of large corporate agribusinesses in food and grain markets means that most of the price increases have been converted directly into fatter profit margins.

The Table summarises information on profits taken from McMichael's paper.

It shows that major food and agro-chemical companies increased their profits in 2007 by between 19% (for DuPont, a giant seed and chemical company) and 141% (for Mosaic, a dominant international fertilizer company).

Profit Increases of Selected Global Food and Agro-Chemical Companies

Company Name	Increase in Profits for 2007
DuPont	19%
Syngenta	28%
Cargill	36%
Monsanto	44%
Bunge	49%
ADM	67%
Potash Corporation	72%
Mosaic	141%

Source: McMichael 2009

The recent food price crisis has also been linked to the rise in bio-fuel production. While recognising the potential environmental risks of bio-fuels, the World Bank report views their rising importance as a promising economic opportunity for producers in developing countries and emphasises the potential benefits of energy security and increased incomes for smallholders.

However, McMichael shows that the supplanting of food production by bio-fuel production, which is carried out in order to meet growing energy demands in the North, undermines environmental sustainability and disrupts domestic food supply in the developing world. As an illustration, he points to the functioning of the international corn market. The US's shift from soy production for food to corn production for ethanol has led to rising prices for cattle and soy for animal feed in countries such as Brazil, Paraguay and Bolivia, and has driven up, as a result, the demand for land in these countries.

Addressing Problems

The World Bank report outlines two important ways that smallholders might overcome some of the problems discussed above and benefit from greater links with agribusiness. These can be summarised as a) promoting greater public investment and regulation as a means to solve local market failures; and b) organising producers into farmers' groups and similar local-level, democratic institutions in order to enhance their bargaining power. We consider each of these responses in turn.

A) Public Investment and Regulation

The World Bank report places a renewed importance on the state in low-income countries as a vehicle for establishing a more conducive environment for agribusiness and associated private-sector marketing chains. But both Amanor and McMichael point out that strengthening the state to facilitate, coordinate and regulate rural markets as well as invest in public goods might end up disproportionately benefitting large corporate business at the retail end of agricultural value chains.

For example, investing in rural roads, irrigation and agricultural research and development might help improve production conditions and increase the number of producers engaged with agribusiness. But it will not help reform the underlying process by which a large proportion of profits for most agro-commodities are generated far away from low-income countries, namely, in the branding, retail and marketing end of the global value chain.

Woodhouse and Oya also argue that the World Bank's renewed interest in public investment in agriculture fails to make the necessary link between agriculture and industry. Since the report does not stress the importance of the urban-industrial contribution to agricultural development, its focus on public investment in agriculture alone is inadequate. Woodhouse contrasts, for example, the World Bank's recommendations with the successful investment programmes in countries such as Japan, where industry and agriculture were supported to perform mutually enhancing roles.

Finally, Rizzo and Oya both underline the failure of the World Bank report to acknowledge the Bank's own contribution, through structural adjustment programmes since the early 1980s, to weakening state capacity in developing countries and bringing about the lamentable status quo of an under-funded, poorly resourced agricultural sector that most countries now have to overcome.

B) Fostering Producer Engagement

Amanor emphasises in his Journal article that many agricultural producers are not able to engage effectively with corporate, super-market driven agriculture, often because of their poor resource endowments or unfavourable environments, such as their endemic lack of access to yield-enhancing inputs, irrigation facilities and high-value output markets. In response to such problems, the World Bank report strongly advocates the formation of producer organisations and cooperative schemes as a way, supposedly, of achieving economies of scale.

The benefits of such organisation should include greater smallholder participation in markets and increased producer bargaining power, and thus should enable cooperating farmers to share more equitably in the profits generated by agribusiness. However, Amanor demonstrates that such producer organisations would still be embedded within existing disadvantageous market structures and entrenched hierarchical global production systems. Moreover, the World Bank's effort to promote and integrate producer organisations into global value chains ultimately spreads confusion about the fundamental differences between the market-based governance relations of food chains, which are inherently hierarchical, and democratic governance, which should be empowering.

For this reason, Amanor maintains that the supposed 'win-win' scenario of linking corporate agribusinesses to producer cooperatives is not really a viable option. While production risks would still be borne by the producer organisations and their members, most of the benefits would continue to accrue to the dominant marketing and retail businesses.

Amanor also shows that when these producer organisations become integrated into international agribusiness value chains, the result will often be the inflation of the latter's profits. Frequently, the marketing of the output of producer organisations in developed countries tries to appeal to consumers through 'fair trade' or other ethical, 'conscience-relieving' branding. The result is that retail prices are often inflated while producer prices remain squeezed.

Amanor uses the example of coffee to illustrate his point. Marketing campaigns for coffee consumers in rich countries frequently try to create an

ambience of a 'cultured commodity' suitable for an elite lifestyle. However, such marketing produces little benefit for the farmers in developing countries who are obliged to produce coffee with more efficiency, to higher quality standards and at lower profits margins--or perish.

Finally, Woodhouse questions the ability of producer organisations and farmers' groups to adequately represent the poorest and most marginalised. He argues that these schemes tend instead to focus on those producers most likely to 'achieve results'. Hence they disproportionately reward better-off farmers who are politically well connected at the local level and have greater organisational capacity.

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Summary

This Development Viewpoint has concentrated on the main criticisms of the *World Development Report 2008's* new 'Agribusiness for Development' agenda that have been posed by articles in the *Journal of Agrarian Change's* recent April 2009 Symposium issue on the report. The principal criticisms of the Journal authors have focused on the inequitable sharing of risks and profits between corporate agribusiness and local producers in developing countries.

Drawing on these articles, the Viewpoint has also noted that the World Bank report's new emphasis on public investment and producer organisations, while welcome, fails fundamentally to address the underlying power asymmetries inherent in linking local low-income producers in developing countries with powerful international agribusiness interests.

References:

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