Feeding the growing cities of emerging economies

Round table discussion, February 15, 2018

Introduction and rationale

Sufficient and healthy food for the booming cities is a huge challenge. Dutch agri-food companies already play a significant role in the increasing worldwide demand for (fresh) food produce. The intensive agri-food system in the Netherlands offers high value food production, with attention for health and sustainability. The integrated approach and the strong linkages between private sector, , civil society, knowledge and education, government (Golden Triangle, Dutch Diamond) are a unique selling point.

In addition, the innovative capacity of the sector helps to transform high-tech and high-org solutions for local purposes in emerging economies. A lot is happening, both on the private and public side, but it is believed that the agri-food sector can even do better, using the opportunities offered by the growing cities and by contributing to sustainable food systems. Topics for improvement include: building on lessons learned; collaborating with other partners from within and outside the sector; forming coalitions with local partners; sharing knowledge and contacts; initiating innovative and scalable projects; and positioning the agri-food sector better.

To further deepen the theme a round table discussion with experts was organized on Thursday February 15, 2018. Attendees of this round table discussion included:

- **Robert Dijksterhuis**, Netherlands Enterprise Agency (Head International Cooperation).
- **Henk van Duijn**, BoP Innovation Center (CEO).
- **Geert Westenbrink**, Ministry of Agriculture, Nature and Food Quality (Senior policy advisor).
- **Ruerd Ruben**, Wageningen Economic Research (Coordinator research on value chains and food security).

Innovation Network Feeding Cities

An “Innovation Network Feeding Cities” to facilitate sharing of experiences in practice, matchmaking of ideas and people, and looking for improvement of the enabling institutional environment was initiated 1.5 year ago. The ambition is to be an informal network of professionals from companies, sector organizations, consultants, knowledge institutes, policy officers, civil society organizations. The Food & Business Knowledge Platform (F&BKP) and MVO Nederland, in close collaboration with relevant parties, initiated activities to increase collective action:

- In April 2017, a first round table event discussing the opportunities that exist for SMEs in feeding rapidly growing cities was organized (download the report here).
- A second meeting around “Increasing investments of the Dutch agri-food sector in emerging economies” was held on January 16, 2018 (download the report here).

Following these meetings, a scoping paper on opportunities for the Dutch agri-food sector and different strategies on how to stimulate investments and partnerships to seize these opportunities was written.

The discussion had an open character, but was loosely led via the following questions:

- Which experiences and lessons learned are not fully utilized by private sector organizations, knowledge instituted, NGOs and government, while they do offer opportunities for the Dutch agri-food sector?
- Would it be useful to formulate a common strategic focus (product-market combinations, a focus on regions/countries or cities), and to map opportunities for the private sector in a more systematic manner?
- How to stimulate coalitions who can shape and implement integrated projects?
- How could we strengthen the role of facilitators like private sector (network) organizations and the government?

Highlights of the round table discussion

When talking about cities, size matters. Megacities are not just large cities, they are cities of between 10-30 million people, which we do not have in the Netherlands. That scale brings with it unique problems and solutions. To be able to engage with the opportunities this provides Dutch products and solutions should be adapted to these contexts. But opportunities also exist in cities of 1-2 million; not necessarily around availability, but around access to food (distribution) and behavioural changes in urban food systems.

The discussion highlighted a number of **trends and possible market entry points** for the Dutch agri-food sector.

Trend 1: changing food and consumption patterns in (mega-) cities

- Important characteristics of megacities are that they: 1) import their food – these cities are mainly located in coastal areas, import is often easier (and cheaper) than feeding its population via production in hinterlands; 2) often do not lack availability of food, but their populations lack a healthy diet - time is the scarce factor for many which results in a preference for the convenience of processed foods.
- The question is therefore not about how to get food to the cities, but how to get a healthy and diverse supply of food onto the plates of their populations. This is more a problem of distribution and access than of availability.
- It is important to differentiate between the different types of consumers in these cities. Each sub-strata of consumers has their own buying patterns. People buy at markets, at shops, supermarkets, via home delivery, in complex configurations.
- Buying patterns are also influenced by (culturally informed) preferences for certain types of food and ways in which it has been prepared or stored. A chicken, for instance, is only considered fresh by some consumers if it is still alive in the shop. When Hong Kong banned wet markets and the slaughter of poultry within city limits this needed to be supported by an effort to change perceptions of what food is considered healthy and safe.

> ***Ruerd Ruben (Wageningen Economic Research)***
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> *“ The issue with food in megacities is not so much about supply as it is about convenience and time. People are quick to choose processed foods, which is why particularly in cities obesity is quickly growing as a health problem. So it is not just the question of how the food gets into the city, but also about how you get a balanced diet to the consumer. ”*

Entry point/opportunities Dutch agri-food sector: Map consumer demand, market and food system in and around a city. Companies first need to know the demand, before they can articulate what they have to offer

- The comparative advantage of the Dutch Agri-food sector is its adaptive capacity. We are able to analyse the rapidly changing urban market systems and provide not only technical solutions but also the org- and software needed to meet changing consumer demand.

Trend 2: Increased complexity in rural-urban distribution within value chains and sectors in and around cities

- Not all megacities distribute food via highly concentrated and centralized wholesale markets, yet all have places where food is concentrated and distributed for sale via various formal and informal smaller distribution channels. In cities such as Dhaka such nodes can number as much as fifty.
- To effectively work within these different distribution systems the sector should look to different partners than they are used to. In many cities innovative mid- and high-end distribution systems are well developed or rapidly developing, which provides an opportunity to link up with existing systems.
- Much of the distribution in these cities is done via informal channels. A micro-entrepreneur buys a crate of tomatoes at the wholesale market, re-sells them and then returns to buy another. Some multinationals have been able to connect the formal distribution to these informal distribution systems, to street vendors with pushcarts or other models. Connecting these systems to IT solutions such as online marketplaces is where innovation is taking place. The Dutch sector could try to

connect to systems such as this that already exist, yet for multinationals there is often little added value in partnering up with international SMEs.
- Until now, much of the Dutch efforts have been export-driven and have focused on what the Dutch sector is used to selling. Technology that is applied at the edge of these cities, greenhouses, storage. Yet these solutions often do not connect to demand in the city.

Entry point/opportunities agri-food sector: organizational capacity (org- and soft- next to techware) of Dutch private sector around value chains
- In these cities well-organized companies are already present. Some of these are looking to make their next step, to scale up. Which can provide an entry point for Dutch companies that can help them, as co-investors, to achieve this.
- Innovations in connecting the informal (micro entrepreneurs) and formal distribution systems. Organize distribution and delivery in an entrepreneurial way; try to turn distribution model into business model.
- Rethinking the distribution model might also lead to partners outside the agrofood sector (like home delivery via e-commerce partners, or payment systems via e-wallet partners).

Henk van Duijn (BoP Inc)

“ If you do not reason from an export perspective, but from a local investment approach, you will find very different opportunities. ”

Trend 3: Reduced access to (healthy) food for low income consumers
- Inequality is very high within these large cities, the poor are increasingly concentrated in slums that do not only have issues with food, but also water.
- Not the availability, but access to (healthy) food becomes more and more a challenge for low income consumers.
- Many cities attempt to improve health conditions by banning wet markets. This leads to lowered access to a diverse and healthy diet for the poor.
- Introducing fresh produce is difficult via established retail outlets. Institutional channels like schools or work offices might work better in influencing behavioural change.

Entry point/opportunities Dutch agri-food sector: connect formal and informal distribution. Informal local distribution as entrepreneurial opportunity
- Apply an integrated approach to water, sanitation and food to realize slum-upgrading. Learn from partnerships and approaches in the Dutch water sector which are often locally driven by linking up with demands of municipal organizations.

Challenges
Based on these key trends and possible opportunities for the Dutch agri-food sector, the discussion also brought forward some **challenges for the Dutch agri-food sector** to act upon them.

In the experience of RVO, a limited number of companies are interested in cities of emerging economies. Few companies see the business case for starting up operations in these cities due to the risks and complexities involved. Especially in the case of producing for local consumption.

Key risks of doing business in megacities in emerging economies include:
a) Currency risks
If an entrepreneur has taken out a loan in Euro he will have to pay it back in that currency. This creates a risk when producing for the local market, as profits need to be converted back from local currency into Euro, while exchange rates will fluctuate. Available currency exchange instruments on the foreign exchange market can reduce such currency risks, but are only economical for big tickets (>million Euros) and hence less interesting for SMEs.

b) Local market insecurity vs. international markets – currency risk

Production for the local market, and especially the Base of the Pyramid, means you need to do business in local currency. If you produce for the international market you are able to buy and sell in Dollars or Euros, which are less prone to instability or devaluation.

c) Access to finance

It is difficult for companies to get local financing because local banks are not likely to finance (unknown) Dutch start-ups. Moreover, interest is very high locally. Yet if you take a loan in Dollars or Euros you will need to pay it back in the same currency. International investors also do not want to loan out small amounts, which means you are likely to start with production for export.

Robert Dijksterhuis (Netherlands Enterprise Agency)

“ Many of the companies that approach us want to produce for the international market where they can earn hard currency, rather than for a potentially unstable or volatile local market. ”

Next to risks of doing business, a limiting factor is also the way the Dutch agrofood sector is organized. Many companies are family businesses that aim for a limited share of the market. For these businesses market entry into a city of 20 million consumers is an enormous step. Moreover, cooperation between businesses – like in PPPs – is often difficult because companies take an individual approach that focuses on their own gain.

Some ways forward were also identified, focusing on the **enabling role of sector organizations and government**. Rather than looking to the Ministry of Agriculture abroad, the Dutch sector should engage with local municipal corporations, which generate their own taxes and are relatively independent from the Ministry. These corporations are often more business oriented and also less political. Often, a partner in the private sector locally is needed for this. In retail there are not many opportunities due to the small scale of supermarkets, yet there are opportunities in processing and distribution.

PPPs remain a good model for cooperation but these must be actively brokered, rely on a great amount of trust, and must be clear on how each participant will benefit from the cooperation from the start. Looking to the water sector it is often beneficial to have local demand driving such cooperation, for instance when municipalities are in need of solutions to complex problems. Agriculture and trade attache’s of the embassies can broker connections between the Dutch sector and municipal corporations. Inventory demand and build coalitions. Such brokering should pay attention to less standard opportunities for the sector as well. Connecting investment in infrastructure to food components.

More synergy is not only needed in partnerships, but also between programmes. Programmes are currently scattered due to a variety of foci chosen at the embassy level. Such programmes could be much better streamlined and coordinated regionally. Trade missions should take the example of the oil and gas sector, which are more demand-driven. Such missions should be structured sequentially: 1) Analyse demand, 2) Build a coalition, 3) Address the currency risk, 4) Connect to possibilities for multilateral investment.

Geert Westenbrink (Ministry of Agriculture, Nature & Food Quality)

“ You have to know the challenges of a specific city, its actors, and where you can add value. Rather than continuing to discuss what we can deliver. ”

Finally, some ideas on **next steps** for the **Innovation Network Feeding Cities** were discussed. Participants recommended the network to choose a geographic location and connect to a city where some of the initial knowledge needed (on the urban food system, consumer preferences) is already available. A practical approach includes facilitate linking to entrepreneurs or municipal representatives in these cities, bring them to the Netherlands and invite people based on a concrete problem that can provide a concrete business case. In any case, they recommend the network to start from pilots or from actual cases that can lead to concrete actions.