



Transforming food systems through inclusive agribusiness

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ABSTRACT

Corporations and independent experts alike consider inclusive agribusiness (IAB) instrumental to achieving sustainable and equitable development for small farmers. As businesses that productively integrate small farmers into commercial agrifood chains, IABs could help resolve some of the coordination and market and input access problems confronting many rural economies. They are therefore increasingly regarded as important private innovations to address systemic inequalities and inefficiencies within modern food systems. This article critically interrogates IAB narratives inspiring recent policy innovations. By reviewing recent IAB literature, discourse and strategies, as well as past IAB scaling experiences, it shows that IAB models such as contract farming and producer cooperatives are liable to discriminatory practices, uneven benefit capture and socio-ecological trade-offs, especially at scale. This article challenges IAB orthodoxies and the unconsidered definitions, big-business biases and value creation assumptions pervading emergent IAB policy discourse. It argues that in order for IABs to contribute to transformational change, the phenomenon deserves to be more explicitly positioned within a sustainable food systems framework. To help move the needle on IAB scholarship and policy, this article reimagines IAB along these lines.

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1. Introduction

The international development community is enamored by inclusive business (IB), especially inclusive agribusiness (IAB). In this community, IBs are commonly regarded as businesses that “provide goods, services, and livelihoods on a commercially viable basis, either at scale or scalable, to people at the base of the economic pyramid [by] making them part of the value chain” (G20, 2015, p. 3). IAB is a type of IB, albeit one that enables smallholders specifically to produce for and participate in commercial agrifood chains (van Westen et al., 2019; Wangu et al., 2020). Since IABs often achieve this through a combination of market guarantees and input and/or technical support provisioning, they have the potential to ameliorate market failures and coordination problems pervasive in rural areas. As a result, IAB promotion increasingly features in sustainable development and food system agendas (Fanzo et al., 2020; Ghosh & Rajan, 2019; Pouw et al., 2019). Because IABs purportedly also help reduce COVID-19 related market, logistical and food security risks facing smallholders (ASEAN, 2020; BCTA, 2020; IFC, 2020a), the recent crisis has only further deepened political commitment to the IAB project.

Despite mounting political momentum, policy and institutional structures for promoting and supporting IABs do remain underdeveloped. Because of competing and often value-laden interpreta-

tions of the concept (Schoneveld, 2020), the type of coordinated action needed to transform momentum into systemic change is yet to emerge. That IABs necessarily contribute toward the Sustainable Development Goals (SDG), sustainable food systems and crisis recovery does not appear to hold up to scrutiny either. While the many effectiveness studies on common IAB ‘models’ such as contract farming (CF) and producer cooperatives have convincingly shown they can certainly be welfare-enhancing (Grashuis & Su, 2019; Ton et al., 2018), the ability of IABs to contribute to systemic change is undermined by socio-ecological trade-offs, inclusion biases and perverse outcomes (Chamberlain & Anseeuw, 2019; Schoneveld & Weng, 2021; Schoneveld et al., 2021; Ton et al., 2018). As this article will show, because upscaling IABs reduces their ability to achieve depth of impact, the efficacy and inclusivity challenges inherent to mainstream IAB models only become more pronounced as they expand their reach. Neither impact without scale, nor scale without impact, is transformative. This scaling dilemma poses a major challenge to the growing number of development stakeholders working to upscale more inclusive business solutions.

This article problematizes, evidences, and identifies solutions for IAB efficacy and inclusivity challenges and associated scaling dilemmas. It does this by critically examining existing IAB literature, discourse, and strategies and by synthesizing key learnings from a 13-year research-for-development program that engaged over 200 IABs across ten low-income countries. While partly looking to expound critical gaps in mainstream research and

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development policy, this article ultimately attempts to encourage the reflexivity needed to scale and institutionalize more progressive, coherent, and coordinated IAB action. It argues that development stakeholders need to abandon breadth scaling strategies that privilege reach over depth of impact. Instead, attention, also by IAB scholars, deserves to shift to identifying, developing, and mainstreaming IAB values, approaches and strategies that are more consistent with food systems frameworks and IAB's value creation roots.

With the confluence of the COVID-19 pandemic and the climate crisis reversing many past poverty eradication gains (World Bank, 2020) and exposing deep-seated vulnerabilities and inequalities within the global food system, as well as the intimate relationship between health, ecosystems, and food (Blay-Palmer et al., 2020; Fanzo et al., 2020; Garcia et al., 2020), a radical reimagining of agribusiness' social contract is urgently needed. Because least developed countries are disproportionately affected by economic and food security shocks and lack the fiscal space to develop comprehensive economic stimulus packages (UN, 2021), leveraging private capital to safeguard and expand vulnerable populations' access to markets, production inputs and nutritional foods is more critical than ever. Approximately half the world's extreme poor work in smallholder production and most lack access to reliable social safety nets to absorb extreme shocks (UN, 2021; World Bank, 2020). Investing in livelihood resilience and sustainable food production, especially in times of crisis, not only helps protect vulnerable populations but also strengthens ecological resilience and bolsters national food security.¹ With renewed calls for global solidarity, multilateralism and non-discrimination, current conditions offer a strategic opportunity to build the cross-sectoral coordination needed to upend the status quo.

The remainder of this article is structured as follows. The next sections review empirical evidence on IAB efficacy and inclusivity, as well as past IAB scaling experiences. This knowledge is then used to critically interrogate common IAB framings, strategies, and policy innovations. The article goes on to argue that a profound shift in IAB ideas, practices and ecosystems is needed if IABs are to ever meaningfully contribute to transformational change. Several concrete solutions, relating to, amongst others, IAB definitions, cross-sectoral partnerships and technical and financial service provisioning are finally proposed.

2. The evidence

2.1. The efficacy and inclusiveness of 'inclusive' agribusiness

Vermeulen and Cotula (2010) developed a widely adopted typology of smallholder-inclusive agribusiness models. This includes CF and producer cooperatives, but also tenant farming and management contracts. The latter two are both characterized by a separation of land ownership and management. Under tenant farming, companies own and farmers manage the land, and under management contracts farmers own and companies manage the land. Only under exceptional circumstances do IABs voluntarily adopt such models. In the case of tenant farming initiatives, many emerged in the 1970s-80s, especially in the Southeast Asian oil palm and East and Southern African sugarcane sectors. During that time, agribusinesses were often required to allocate a share of their land concessions to smallholders (McCarthy, 2010; von Maltitz et al., 2019). In most cases, rights to those lands have since been transferred (back) to smallholders or agribusinesses began assuming all smallholder farm management responsibilities (e.g. Indone-

sia's 'one roof management' models) (McCarthy, 2010; von Maltitz et al., 2019). When that happens, such businesses no longer operate through tenant farming models. Regardless, tenant farming and CF models are rarely conceptually distinct since most tenant farming initiatives are similarly structured around supply contracts, a defining characteristic of CF. As a result, tenant farming and CF are often used interchangeably in academic literature.

Management contract models are only really prevalent in countries such as South Africa, Zimbabwe and China where land policies preclude many agribusinesses from owning large areas of land. Engaging in direct production therefore often requires renting and consolidating smallholder land. Since smallholders then transfer management rights to companies and become passive beneficiaries of land rents or a share of company profits, few companies using management contract models can be considered IABs, at least when following mainstream IB definitions. The concept of 'productive integration' integral to IB definitions is key here. This implies that smallholders "perform activities that contribute to producing a good or service" (Schoneveld, 2020, p. 8). Barring a few notable exceptions, since management contracts generally sideline smallholders from the operations on their farm (Chamberlain & Anseeuw, 2019), few companies with such models deserve an inclusivity designation. Because of this, in practice, most genuine IAB models involve CF and producer cooperatives. These two models are therefore the primary focus of this article.

While rarely conceptualized as IABs, CF – understood as a production system wherein farmers produce for and supply buyers under forward agreements – long captured the imagination of new institutional and agrarian political economists (Oya, 2012; Schoneveld et al., 2021). Agrarian political economists and food sovereignty champions – international peasant rights movements such as La Via Campesina in particular – are especially critical of CF, often depicting it as an exclusionary, predatory and socially differentiating institution that promotes monocultures and disproportionately benefits more privileged social classes (e.g. Singh, 2012; McMichael, 2013). Scholars in the new institutional economics tradition, on the other hand, tend to emphasize CF's welfare-enhancing effect. Using more quantitative analytical approaches, most observe a positive effect of CF participation on smallholder yields, incomes, production practices and food security (see, for example, the literature reviews by Otsuka et al. (2016), Ton et al. (2018), and Bellemare and Bloem (2018)). The large literature on producer cooperatives follows a similar tradition. This literature shows that participation is welfare-enhancing, at least on aggregate. A positive effect on smallholder prices, income, productivity, market access, product quality and adoption of better agronomic practices is widely observed (Bizikova et al., 2020; Grashuis & Su, 2019).

Despite these encouraging results, both literatures do offer compelling evidence that larger, more affluent and educated farmers are more likely to participate in CF and the more market-oriented cooperatives (Bijman & Wijers, 2019; Bizikova et al., 2020; Ton et al., 2018; Vamuloh et al., 2019). Such farmers require less investment and produce fewer transaction costs. How effects are distributed amongst different types of IAB participants has, in contrast, received little attention (Schoneveld et al., 2021). The few scholarly contributions that do address distributional/impact heterogeneity issues point to highly differentiated welfare gains amongst participants at the IAB-level. Schoneveld et al. (2021), for example, demonstrate that within CF schemes for perennial crops, older and land-poor smallholders are less likely to benefit from participation. Bernard et al. (2008) and Verhofstadt and Maertens (2014) also find that land-poor farmers derive fewer gains from cooperative participation than more land endowed farmers.

Available evidence therefore suggests that mainstream IAB models rarely include and are less likely to benefit more marginal-

¹ In Africa and Asia, for example, almost 80% of the food consumed is produced within smallholder systems (Ricciardi et al. 2018).

ized segments of the rural population. While numerous IABs purposefully exclude smaller producers to reduce transaction costs, coordination problems and, in the case of cooperatives, equity problems, risk aversion and subsistence priorities of more marginalized producers also drives voluntary exclusion (Barrett et al., 2012; Otsuka et al., 2016). Even when such producers do participate, many struggle to reconcile competing livelihood priorities, with the need to safeguard food security affecting resource allocation to market-oriented cropping activities (Schoneveld et al., 2021).

If many IABs are not genuinely inclusive and do not distribute benefits equitably, are they then really *inclusive* agribusinesses? As will be explored later, this calls into question the very assumptions underpinning the IAB concept, with important implications for development policy.

2.2. The moderating effect of size

Whether and how outcomes are moderated by IAB scale is scarcely researched. Because CF research largely relies on case study approaches, it lacks critical comparative perspective (Schoneveld et al., 2021). There is, therefore, no robust empirical evidence to suggest that smaller schemes are more inclusive and impactful than larger schemes. Effectiveness studies on cooperatives is richer in this regard. However, despite a number of important theoretical contributions on the topic (e.g. Cook, 1995; Royer, 1999), it is still surprisingly thin. Feng et al. (2016), for example, find that group size negatively impacts member involvement and satisfaction, while Wollni and Fischer (2015) observe that members in larger cooperatives are more inclined to breach their contracts. Both attribute these effects to declining social capital and attendant escalation of monitoring costs². Pennerstorfer and Weiss (2013) and Cai et al. (2016) furthermore observe that the relationship between group size with product quality is inverse U-shaped. This suggests that beyond a certain scale threshold, a freeriding problem begins to emerge. Some have however demonstrated that despite the negative effects of size, larger cooperatives can benefit from economies of scale (Arcas et al., 2011; Gezahegn et al., 2019).

Since CF initiatives are likely to be confronted by similar scaling issues, however small and enterprise-centric, this evidence on cooperatives does point to a scaling dilemma. In particular, the relationship between IABs and smallholders seemingly deteriorates as numbers increase since IABs, understandably, can no longer be expected to remain as responsive to increasingly heterogeneous smallholder needs and interests. This arguably poses not only long-term IAB viability issues but also reduces IAB capacity to adequately calibrate the quality of its service offering to the needs of their suppliers. This requires depth scaling strategies in which IABs continuously explore opportunities to expand the scope and quality of their offering to farmers (Desa & Koch, 2014).³ Under such strategies, IABs seek to provide more durable and comprehensive livelihood solutions to existing participants;

² As cooperatives grow, their membership base becomes more heterogeneous. Ties between members consequently weakens, as does the ability of cooperative managers to accommodate 'preference heterogeneity'. As a result, patronage (e.g. share of output sold through cooperatives) goes down as members feel less vested in cooperative success. Furthermore, more members strain the capacity of cooperatives to effectively monitor whether farmers fulfill their patronage commitments. This further facilitates 'side-selling'.

³ Different epistemic communities used different scaling definitions. This article aligns itself with social enterprise literature because the object of analysis is similar. In this literature, depth scaling generally refers to deepening the impact on existing participants through improved service offerings. Breadth scaling, on the other hand, refers to reaching more people (e.g. by expanding into new geographies) (Desa and Koch 2014). Breadth and upscaling are used synonymously here, recognizing that upscaling can mean different things to different communities (e.g. it can also denote impact on policy).

for example, by generating non-monetary benefits to deepen impact (e.g. building human capital, civic participation, food security) (Zhao & Han, 2020) or addressing unresolved inclusivity and distributional constraints. Doing this well is generally preconditioned on the IAB's ability to develop and leverage relational capital with participants (ibid; Smith & Stevens, 2010; Bauwens et al., 2020), which inevitably diminishes as the IAB supply base grows and becomes more diverse.

3. Scaling strategies

While empirical evidence on IAB scaling is insufficiently robust to fully inform policy action, important lessons can be learnt from countries that have in the past managed to expand the reach of CFs and cooperatives. To further evidence scaling dilemmas and challenges and risks inherent to IAB development, this section examines two distinct strategies that governments and development actors normally employ to expand (the reach of) CF and cooperatives: (1) establishing IABs through interference ('push') and (2) encouraging IAB formation through incentives ('pull').

3.1. Contract farming

3.1.1. Interference

For colonial-era cash crops such as tea, cotton, sugarcane and tobacco, smallholder marketing is generally governed by CF arrangements. Under post-independence indigenization reforms in especially sub-Saharan Africa, large CF initiatives were established by state commodity boards and/or parastatal monopolies under centralized marketing structures. Except for Francophone Africa, many such CF initiatives were privatized under the structural adjustment programs of the 1980s-90s, but since these sectors are of national strategic importance for the foreign exchange earnings they generate, to this day they continue to be heavily regulated. Many CF businesses in these sectors now benefit from regulations prohibiting independent marketing by smallholders, price controls, public subsidies and, in some sectors, artificially created local monopolies. Such monopolies emerged under concessionary systems whereby key production zones are divided into sole sourcing areas. CF businesses receiving concessionary rights to purchase crops in a particular zone thereby benefit from monopoly conditions (e.g. since other buyers are barred from sourcing outside their zones).

Under such conditions, CF businesses are better equipped to manage risks inherent to external sourcing. Carefully managed competition between buyers, for example, reduces risk of smallholder side-selling, escalating contract enforcement costs and smallholder credit defaults (e.g. not recovering the costs of production inputs CF businesses provided on credit). In especially the cotton and tobacco sectors, this enabled some businesses to engage hundreds of thousands of smallholders. Such businesses contract anybody willing to produce these crops. While heavy state interference in these so-called 'regulated sectors' helps IABs expand their reach and many marginalized smallholders access inputs and markets, such sectors are especially vulnerable to the effects of political interference, electoral politics, cooptation and clientelism, with the sectors' macroeconomic rather than social contributions typically informing sectoral policies.

Recent literature from CF in regulated sectors that were created and sustained by market interference suggests that despite reaching and being accessible to many small, marginalized farmers, they are seldom pro-poor. Instead, literature on CF in regulated sectors suggests such arrangements contribute to social differentiation and land concentration (Pérez Niño, 2016; Petrini et al., 2017; Scoones et al., 2018; Luna, 2019; Martiniello & Azambuja, 2019; von Maltitz et al., 2019), exploitation (Luna, 2019; Martiniello,

2020; Pérez Niño, 2016), distrust (Dal Belo Leite et al., 2020; Sachikonye, 2016; Schoneveld & Weng, 2021), declining smallholder autonomy (Petrini et al., 2017; Sachikonye, 2016; Schoneveld & Weng, 2021) and environmental degradation (Petrini et al., 2017; Schoneveld & Weng, 2021). Because the services, prices and supply agreements offered by CF businesses in regulated sectors are so heavily regulated by sectoral legislation, CF businesses lack the flexibility to innovate on and differentiate their business models (e.g. so these better align with the needs and interests of their stakeholders). Whether many such CF businesses are sufficiently incentivized to do so is also questionable since the ability to extract monopoly rents reduces the commercial imperative to invest in impact deepening.

3.1.2. Incentivization

Several Asian countries, most notably Thailand and China, also experienced (phases of) rapid CF growth, albeit using more incentive-oriented approaches not tied to specific cash crops. Rather than market interference, governments in these countries sought to scale CF by creating conditions conducive to IAB development. In Thailand, for example, innumerable CF initiatives were established in the 1980s when the government began encouraging financial institutions to increase rural lending (Singh, 2005). Because smallholders pose a comparatively high credit default risk, many banks during that time specifically targeted contract farmers. Compared to non-contracted farmers, the supply contracts held by contract farmers helped reduce bank exposure to market risks (e.g. in the presence of a guaranteed buyer), which too functioned as a source of collateral (Burch, 1994; Glover & Ghee, 1992; Singh, 2005). At the same time, the Thai government invested in CF training and extension support infrastructure and, responding to increased rural credit availability, many new private input suppliers began entering the market (Glover & Ghee, 1992; Singh, 2005). Since buyers/processors could as a result externalize credit risks to banks and smallholders, partly served by private input suppliers, required only few additional services, CF became a favored sourcing strategy for many agribusinesses. In China, concerted state efforts to address market distortions and modernize smallholder production, combined with rising demand for higher-value (processed) foods (e.g. the supermarket revolution), similarly helped mainstream CF in much of the country (Guo et al., 2005; Zhang, 2012). In a bid to diversify and industrialize the rural economy, agribusinesses with vertically-integrated supply chains – such as processors engaged in CF – could qualify for concessionary loans and tax exemptions (Guo et al., 2005; Zhang, 2012). Due to restrictive land laws, CF was one of the few options available to China-based agribusinesses to exert control over (the means of) production (Zhang, 2012). Like in Thailand, CF emerged in a context where estate production is, due to land access constraints, rarely viable.

In contrast to the top-down approaches common in regulated sectors, incentive-oriented strategies offered CF businesses little regulatory protection and as the number of such businesses grew so did competition. Because fewer monopoly rents could be extracted, smallholder side-selling became a pervasive issue in both countries (Guo & Jolly, 2008; Sriboonchitta & Wiboonpoongse, 2008; Zhang, 2012). Because smallholders, in the absence of a large plantation sector, are often the only source of produce and especially the non-niche domestic markets are highly deconcentrated, smallholders wield significant bargaining power and experience few switching costs. As a result, in China, and to some extent Thailand, rising competition and side-selling problems encouraged many CF businesses to shift to spot market procurement practices or relocate to more remote areas (Sriboonchitta & Wiboonpoongse, 2008; Zhang, 2012).

Had CF businesses invested more in improving and differentiating the services offered to smallholders, moral hazard problems

could have, arguably, been ameliorated (e.g. by strengthening farmer loyalty and raising switching costs). Available evidence suggests this did not occur to a meaningful extent. Rather, opportunistic trading practices and distrust encouraged many CF businesses to begin engaging market intermediaries (Endo, 2014; Guo et al., 2005; Singh, 2005; Sriboonchitta & Wiboonpoongse, 2008). These ‘middlemen’ generally work on a commission basis, distribute inputs on the business’ behalf, and have some local standing, thereby enabling CF businesses to externalize transaction and monitoring costs. This, however, served to disconnect IABs from their supply base; in turn, disincentivizing and undermining their ability to depth scale, while also placing inclusion decisions in the hands of intermediaries. As such, even in smallholder-dominated economies, CF similarly remains more accessible to comparatively affluent, educated and/or land-endowed farmers (e.g. Singh, 2002; Setboonsarng et al., 2006; Miyata et al., 2009; Ito et al., 2012; Narayanan, 2014; Wang et al., 2014; Vicol, 2017; Mishra et al., 2018).

3.2. Cooperatives

3.2.1. Interference

Producer cooperatives attracted much interest in 1960s–80s, especially in post-colonial countries. Cooperative development was widely regarded as an important strategy to retain export revenues, collectivize agriculture, manage fragmented societies and distribute aid, subsidies and credit (Pesche & Losch, 2016; Wedig & Wiegatz, 2018). Many governments and development actors actively organized farmers during this time. Because such cooperatives became an important part of state building, many were integrated into/coopted by the political machinery, which produced myriad internal governance challenges, inefficiencies and external dependencies as cooperative leadership increasingly served political rather than member interests (Tulus, 2020; Vásquez-León, 2010; Wedig & Wiegatz, 2018). Many cooperatives accordingly collapsed under structural adjustment reforms. As external funding dried up, few were able to sustain operations within increasingly competitive markets.

While most low-income countries started integrating economic empowerment and bottom-up principles into their cooperative development strategies in recent decades, many non-governmental organizations and development agencies continue to actively organize farmers into cooperatives (Bijman et al., 2016; Pollet, 2009). To many, cooperative development has become a favored strategy for correcting rural market failures and productive inefficiencies (Shiferaw et al., 2011). While pre-structural adjustment cooperatives were often conceived to support community development, emphasis has shifted to cooperative competitiveness and efficiency (Bijman, 2016). Because cooperatives help more efficiently disseminate (climate smart) input and crop technologies and habilitate farmers for compliance with global sustainability and health and safety standards, cooperative development also often features in climate and supply chain sustainability agendas (Makate, 2019; Manjula, 2020). Besides development actors, many CF businesses organize their contract farmers into cooperatives too, especially when they are unable to benefit from local monopolies or need farmers to comply with complex standards (Chamberlain & Anseeuw, 2019; Schoneveld et al., 2021; Weng et al., 2022). This helps CF businesses manage their transaction and monitoring costs and reduces the risk of contract breaches (e.g. by leveraging existing social controls).

Even though push strategies help cooperatives scale, the business models, activities and growth trajectories of cooperatives formed through external intervention – particularly by development organizations – are often influenced by external norms and objectives and remain comparatively dependent on external fund-

ing to sustain operations (Berdegué, 2001; Bijman, 2016; Thorp et al., 2005). When these norms and objectives are not fully owned by cooperative members, an end to technical and financial support will invariably produce mission drifts, collapse or restructuring. This is particularly the case when development actors impose open cooperative membership policies, as is typically the case. Ample research has shown that such cooperatives often struggle to effectively compete in free market settings, diversify and vertically integrate (Bijman & Wijers, 2019; Lutz and Tadesse, 2017). While more in the spirit of cooperative and inclusive development principles, because open membership can result in rapid growth, cooperatives with such policies can be susceptible to freeriding, equity and preference heterogeneity problems, which, in turn, can stifle their ability to innovate, depth scale and adapt to changes market conditions (Cook, 1995; Höhler & Köhl, 2018). This not only poses long-term viability challenges but due to the inefficiencies that are especially prevalent among open membership cooperatives also reduces their positive impact on member livelihoods (Bijman & Wijers, 2019; Lutz & Tadesse, 2017).

3.2.2. Incentivization

Despite the checkered history of state involvement in cooperative development, in many low-income countries, producer cooperatives remain integral to rural and agricultural development policies. Through *inter alia* fiscal incentives, subsidies, and input provisioning, many states now focus on developing enabling environments for cooperative development. With many states no longer actively involved in cooperative formation, farmers are generally encouraged to self-organize, typically around purely commercial objectives.

While contributing to a cooperative resurgence in many countries, many cooperatives still struggle to effectively compete within free(r) markets as they continue to rely on financial incentives and support to sustain operations. In deconcentrated, smallholder-driven, agricultural economies (predominantly in Asia), governments generally had more success mainstreaming and commercializing cooperatives using incentive-based approaches. In such markets, cooperatives hold a much stronger competitive position and have an important comparative advantage over private investors (e.g. farmer loyalty and rapport). Such conditions allow cooperatives to better capitalize on new market opportunities and strengthen terms of market participation.

Cooperative integration into supermarket supply chains is an interesting case in point. With rising demand for 'safe food', supermarkets increasingly source from producers directly since this reduces traceability, monitoring and transaction costs. In countries such as Viet Nam, China and Chile, their governments attempted to further buttress the direct sourcing trend by promoting fresh fruit and vegetable labeling, providing cooperatives technical support on integrated pest management, developing cold storage infrastructure and coupling supermarkets with cooperatives (Berdegué, 2001; Ding et al., 2015; Van Hoi et al., 2009). In China and Viet Nam, this allowed cooperatives and supermarkets to bypass traders and wholesalers, and facilitated cooperative expansion, commercialization and upgrading (Bijman and Hu, 2011; Michelson et al., 2018; Moustier et al., 2010). Like in many other Latin American countries (Reardon & Berdegué, 2002), state support in Chile in contrast failed to integrate its cooperatives into supermarket chains at scale (Berdegué, 2001). Without corporate farming restrictions, most cooperatives were never able to compete with larger agribusinesses on cost and quality (ibid). This illustrates well how cooperative comparative advantages typically cannot stand up to those of larger agribusinesses in countries with liberalized land markets (at least without states fully absorbing cooperative cost disadvantages).

Compared to approaches involving external interference, incentive-based approaches are also more likely to produce

closed-membership cooperatives. When farmers self-organize, a more homogenous membership pursuing mutual rather than general interests often emerges. To avoid equity and freeriding problems, closed-membership cooperatives are therefore generally more selective. As a result, they are often less accessible to under-resourced and under-capacitated farmers. On the other hand, with a more homogenous membership base, such cooperatives are generally more competitive, innovative and responsive to member demands. In China, for example, where incentive-based approaches facilitated an explosive growth in cooperatives, many cooperatives are highly competitive and entrepreneurial yet remain comparatively inaccessible to small farmers (Bijman & Hu, 2011; Ito et al., 2012). It is also reported that public incentives in China disproportionately benefit commercial and political elites capable of navigating and manipulating public bureaucracies (Bijman & Hu, 2011; Zhang, 2012).⁴ This suggests that within complex bureaucracies, significant technical backstopping support may be needed to safeguard equitable access to opportunity.

3.3. Key lessons

Two distinct IAB scaling strategies can be observed: 'push scaling' whereby external actors actively intervene and/or regulate IAB development and 'pull scaling' whereby external actors create conditions conducive to IAB development. The former generally facilitates development of larger IABs that are comparatively inclusive of smaller farmers, whereas the latter generally produces smaller, but more plentiful, IABs that due to greater competitive pressures and less external inference tend to be less inclusive. While both strategies succeeded in integrating more farmers into IAB supply chains, neither have proven to be transformative. Ultimately, there is little evidence of significant depth of impact, with depth scaling generally compromised by external interests/interference, self-sustainability challenges and/or competitive pressures.

Despite push scaling strategies enabling more inclusive participation, if this participation fails to produce meaningful welfare gains and remains forever contingent on external support, such strategies are difficult to justify. While cooperative pull scaling strategies in some Asian countries have shown most promise in terms of improving cooperative competitiveness and depth of impact, the cooperatives emerging from such strategies are not fully in keeping with inclusive development goals. Moreover, since such strategies are more effective in smallholder-dominated agricultural economies, such strategies will be difficult to replicate elsewhere. This illustrates the challenges inherent to scaling and mainstreaming genuinely inclusive agribusinesses, as well as the complex trade-offs between reach and depth of impact.

This review also demonstrates that in many sectors the long-term success of IAB scaling strategies is contingent on continued factor market imperfections. As many others have also argued, monopsonistic market conditions are needed to help businesses reduce side-selling and credit default risks, but what the China, Thailand and Viet Nam experiences also suggest is that pull scaling strategies work best under conditions where smallholders benefit from (quasi)monopolies over means of production such as land. However, the collapse of the CF movement in these countries shows that when IAB promotion strategies help markets become more competitive, then smallholder bargaining power may, ironically, actually undermine long-term IAB viability. This poses a major challenge to particularly CF scaling: if models like CF are

⁴ The number of registered cooperatives in China increased from less than 200,000 in 2007 to more than 2.2 million in 2019 (Yang et al. 2018; Liu et al. 2020). However, by some estimates, not more than 20% of such cooperatives are 'genuine' (Hairong and Yiyuan 2013), with most cooperatives controlled by corporations, entrepreneurial farmers and rural elites (Zhang 2012; Bijman and Hu 2016).

both a response and a solution to market failures, then by design they will become redundant and uncompetitive once they succeed at scale. While some may argue that they have then served their purpose, the loss of backwards linkages (e.g. provisioning of inputs and services upstream) reduces the ability to shorten supply chains, incentivize and facilitate smallholder adoption of more climate friendly production practices and regulatory innovations. While regulated sectors can help sustain the monopsonistic market conditions that especially CF initiatives depend on, excessive state oversight and market interference is not a panacea either.

4. Emerging IAB policy discourse

Past efforts to expand the reach of commonly targeted models such as CF and cooperatives point to mixed successes, at best, with IAB breadth scaling and mainstreaming compromising depth of impact and threatening long-term IAB viability. Despite this, many development stakeholders remain committed to their IAB promotion and scaling agendas (Jenkins & Ishikawa, 2010; Neto, 2018; Woodhill, 2016). Does this reflect short institutional memories, or does the introduction of the IAB concept symbolize a commitment to resolving pervasive 'IAB' inclusivity challenges and dilemmas?

It appears to be a case of old wine in new bottles. This is already evident in how IBs are defined and operationalized. Not only is there no consensual definition of IB but those commonly used are also ambiguous and inconsistent (Schoneveld, 2020). Some adopt purely process-oriented definitions: IBs are businesses that *integrate* low-income groups into the value chain at scale or with the potential to scale (G20, 2015; IFC, 2018). Others also specify outcome targets: IBs should provide 'mutual benefit' (SNV and WBCSD, 2011; UNDP, 2010) or have 'high development impact' (ADB, 2019). While process-oriented definitions reduce smallholder integration to an end in itself, those with outcome targets are often too ambiguous to be actionable (Schoneveld, 2020). Lack of consensus on what an IB is has tremendous implications for how development strategies are designed. If it is not clear what the development community is working toward, then how can coherent, well-integrated strategies ever be designed? Only by understanding what we are scaling toward can insights be generated into scalable and/or replicable business solutions.

That said, the Association of Southeast Asian Nations (ASEAN), in collaboration with, among others, the Asian Development Bank (ADB), Inclusive Business Action Network (IBAN) and United Nations Economic and Social Commission for Asia and the Pacific (UN ESCAP), has in the face of ambiguity made an important step forward with operationalizing and institutionalizing IB. Drawing heavily on the *G20 IB Framework (2015)* and its process-oriented definition, ASEAN in 2017 endorsed the ASEAN Inclusive Business Framework and in 2020 developed its IB Promotion Guidelines. While anchored in ASEAN's micro and small-scale enterprises (MSE) agenda, the ASEAN and many of its partners now distinguish IBs from MSEs, and to some extent also from social enterprises.⁵ IBs are considered vehicles for empowering and integrating MSEs, but are generally depicted as medium to large profit-oriented enterprises with significant reach (ASEAN, 2020). UN ESCAP (2019) went as far as to suggest that IBs have an investment size exceeding US\$5

⁵ ASEAN's Guidelines (2020) focuses on the 'IB models' approach to 'conducting IB', which it defines as those that "integrate the base of the pyramid into their core business operations. Commercial viability of the business model is at the forefront for companies in this category as they rely primarily on commercial sources of financing for their business operations and look to realize market returns" (p. 20). It "considers the two other 'IB approaches' [social enterprise initiatives and 'IB activities'] in the context of scaling them up into IB models" (p. 1). This reveals a questionable assumption that social enterprises need to evolve from mission-driven to profit-driven enterprises to deliver impacts at scale.

million, while ADB (2012) suggests they should benefit at least 5000 households, also to be eligible for ADB funding.

This narrative is reflected in the IB strategies developed by the Philippine government, an important IB pioneer. In the IB accreditation system it introduced in 2017 (the 'core policy instrument' of the ASEAN (2020)), agribusinesses that source at least 25% of the value of goods sold from MSEs (through a notarized contract), that engage at least 300 farmers (of which 30% women), on average raise farmer incomes by 20% and provide inputs, trainings or credit can be afforded IB accreditation, provided they are medium or large enterprises (BOI, 2017)⁶. Accreditation would grant companies tax holidays and preferential public procurement status (ADB, 2018; BOI, 2017). The governments of Cambodia and Myanmar both developed IB strategies inclusive of similar IB accreditation systems, while Viet Nam is currently exploring provincial-level IB accreditation and Indonesia has begun to develop a dedicated IB financing facility (UN ESCAP, 2019).

That the IB concept has evolved from an abstraction into concrete policy action is encouraging. This demonstrates that IB is increasingly being mainstreamed within public policy. However, whether the direction this is headed is necessarily in the spirit of inclusive development and sustainable food systems is debatable. On the one hand, the Philippine accreditation system introduced important process and outcome criteria. Departing somewhat from G20's Framework, it emphasizes female participants, backward linkages and impact on participant incomes. On the other hand, the separation between IBs and MSEs/social enterprises, also witnessed in recent policy discussions, is concerning. While this is understandable since most countries already have MSEs strategies and incentive systems in place, the emphasis on scale and scalability in ASEAN and certain donor policy circle rests on tenuous assumptions. Firstly, it presupposes that the magnitude and distribution of businesses' societal contributions directly correlates with numbers reached and/or the size of their business. Secondly, it alienates MSEs such as producer cooperatives and social enterprises from the IB movement, fiscal incentives and technical and financial support. As the Philippine accreditation system suggests, medium-large enterprise interlocking arrangement with MSEs appears to be the primary anticipated impact pathway. Reflecting the convergence of the CF and cooperative movements, such perspectives appear to be guided by assumptions that MSEs need to be contractually integrated into corporate supply chains to grow and modernize. While a valid assumption in some contexts, in others, incentivizing MSE-medium/large enterprise contracting without effective safeguarding may well undermine MSE autonomy and foster new types of dependencies. Not unimportantly, IBs risk capturing the glory and reward for the smallholder integration activities performed by MSEs.

Concerning too is the tendency in recent policy frameworks and instruments to reduce IAB impacts to money metrics since this sidelines businesses that may differently perceive their societal contributions. Some may, for example, still serve inclusive development objectives when 'only' improving farmer food security, resilience to shocks and capacity to organize. All of which are of fundamental importance in the face of the COVID-19 pandemic.⁷

⁶ The provision on farmer engagement does not specify whether farmers should be directly or indirectly engaged (e.g. through MSEs sourcing). Since the provision on IB farmer income contributions specifies "at least 20% increase in average income of individuals engaged from MSEs" (p. 23), the latter is assumed.

⁷ ASEAN (2020) acknowledges depth of impact, contributions to other SDGs and suggests that environmental impacts should be considered. Yet, in the proposed rating scheme for accreditation systems that Cambodia is now working to formally adopt, depth of impact is a function of income change and sustainability of income, and only contributes to 15% of total rating scores. While environmental impacts are not explicitly captured, 'sector impact' and 'geographic impact' are also rated, though without proposing measurable and verifiable indicators it is unclear how such impacts should be operationalized or be objectively evaluated.

More fundamentally, by averaging out impacts on participants at the level of the IAB and using generic 'beneficiary' categories such as 'farmers', recent accreditation schemes gloss over pervasive distributional issues and discriminatory practices that risk emerging from traditionalist (scaling) approaches.

Despite congratulating itself for being a 'leading' IB investor for its US\$ 22 billion commitment to IBs since 2005 (IFC, 2020), the International Finance Corporation's (IFC) IB vetting criteria suffer from similar problems. For example, it classifies agribusinesses it supports as 'inclusive' when they source products from farmers under a certain area or income threshold, provide training, inputs and/or financing and represent either 20% of a company's purchase volume or purchase from at least 5,000 smallholders (see IFC, 2018 for more details). While not necessarily disqualifying MSEs, the scale threshold set for businesses that do not meet the purchase threshold does similarly point to a scale bias, as IFC's formal adoption of the G20 definition and the average size of IFC IB investments also illustrate.⁸ But, unlike the Philippines, the IFC does not consider realized impacts. So, IB projects it supports are 'inclusive' even when they are discriminatory or result in adverse incorporation of the poor. The prioritization of reach over welfare impacts is clearly reflected in an evaluation of its Independent Evaluation Group, which concludes that "the current use of aggregate 'reach' indicators instead of measuring impact is a systemic issue for IFC's entire portfolio. The absence of additional information - such as on the share of total inputs delivered by smallholder versus medium or large-scale farmers, and the prices paid or payments made to these farmers for their produce - and the consequent inability to validate the intended welfare benefits on the base of the pyramid risks undermining the credibility of IFC's current approach to inclusive business" (IFC, 2018, p. ix).⁹

With emphasis on larger businesses that establish backwards linkages with and procure from smallholders, much of the development community appears to have merely rebranded pre-existing CF support strategies so they better align with the inclusivity turn of the 2010s and the SDGs.¹⁰ The type of scaling support that is provided to CF consists mostly of concessionary loans, tax incentives and de-risking facilities. This is not too dissimilar from the pull strategies of the 1980s in Thailand, albeit favoring larger firms. This raises very real concerns how such a big business bias will impact monopsonistic competition.¹¹ Furthermore, important inclusivity principles of non-discrimination, economic empowerment and distributional equity appear to have fallen by the wayside. This is, seemingly, a product of the tenuous assumption that businesses that

reach and establish backwards linkages with many smallholders are by default inclusive.

5. Developing the foundation for transformative change

Mainstream IAB interpretations and support strategies are unlikely to catalyze transformational change. To effectively leverage the IAB movement and unlock the private capital needed to comprehensively deliver on the SDGs and sustainable food system objectives at scale, what it means to be and to effectively support IABs needs to change, radically. To achieve this, fundamental changes to all three 'spheres of transformation' are required. These include the personal, practical and political spheres (O'Brien, 2018), which can be likened to values and ideas, actions and ecosystems, respectively. This section will firstly discuss what changing values and ideas – the foundation for action and ecosystem change - involves. It highlights the importance of mainstreaming more progressive IAB definitions and embracing a sustainable food systems perspective. It goes on to argue that developing locally appropriate and socially and environmentally impactful IAB actions demands both collaborative advantage and innovation that only really emerge within (inclusively governed) value networks consisting of cross-sectoral partnerships and a prioritization of depth over breadth scaling. Finally, concrete opportunities for integrating more progressive values and actions and 'depth mainstreaming' strategies into public policy, development finance and technical support structures are explored.

5.1. Values and ideas

5.1.1. Non-discrimination and depth scaling

Breadth scaling is generally associated with mounting transaction costs and coordination problems. Engaging more (geographically dispersed) farmers, for example, increases the risk of moral hazard (e.g. credit default, side-selling, freeriding) as IAB ability to engage in relational contracting, monitoring and supervision declines. To overcome these problems, IABs may be required to tolerate such risks, reduce the quality of their service offering, protect or expand monopsonistic market positions, coopt political and traditional elite, engage larger, more capable and commercialized farmers and/or externalize transaction cost and coordination problems to intermediaries. Additionally, since preference heterogeneity problems compromise IAB responsiveness to (changing) participant needs and interests when breadth scaling, ties with farmers invariably weaken, as does IAB capacity to engage in collaborative/bottom-up innovation. This not only erodes IABs' depth scaling capacity but might even motivate depth downscaling. For more socially-mission driven IABs, the self-sustainability problems emerging from external upscaling pressures could furthermore incite mission drifts as attention shifts to economic survival.

The previously discussed evidence suggests that IABs are often not inclusive of or non-discriminatory towards smaller, more marginalized, farmers and that welfare gains are not uniformly distributed amongst direct participants. It cannot be conclusively claimed that these problems are less acute in smaller IAB initiatives since smaller IABs lacking resources and struggling for survival may also be inclined to engage larger, better capacitated, farmers to enhance stability of supply, manage costs and reduce investment in backward linkages. While community-oriented and/or closed membership/participation IABs are more likely to serve the interests of marginalized populations within their orbit, their inclusiveness is ultimately contingent on whose interests they were conceived to serve. This suggests that if *non-discrimination* and *impact deepening values* are not part of the very

⁸ The average project-level commitment by IFC to IBs amounts to approximately US \$35 million (IFC 2020b).

⁹ The Netherlands Development Finance Company (FMO), which deliberately aligns its activities with SDG 10 (reducing income inequality), adopts very similar definitions and criteria, albeit without thresholds, but do stress the importance of depth contributions. But, like IFC, "measuring these aspects is not part of FMO's impact monitoring" (FMO, 2018, p. 30). Similarly, FMO's average IB investment size (\$18.7 million) similarly points to a big(ger) business bias.

¹⁰ One notable exception is the International Fund for Agricultural Development (IFAD). In addition to CF, they explicitly target 'cooperative-led models' and 'joint ventures'. It also does not provide any financing to large businesses, only providing direct support to MSMEs (IFAD 2019). Furthermore, in contrast to most other development finance institutions, IFAD's approach to scaling up does not (just) involve making small projects larger but rather to leverage the success of and learnings from local initiatives for policy change.

¹¹ IFC's IB investments, for example, disproportionately target International Development Association (IDA) countries (IFC 2018). Even though poverty rates are comparatively high in these countries, few have enacted anticompetition laws, with markets often characterized by anticompetitive business practices and monopoly rents. Investments of such size in such markets may well enable CF businesses to monopolize (formal) market sourcing. Its Independent Evaluation Group also observes that: "IFC's support of corporations with substantial market power may disadvantage smaller producers in the value chain, and that identification of risks associated with market structure (and increase of monopsony or monopoly power) and mitigating factors was insufficient" (IFC 2018, p. 34).

fabric of how IABs do business, it cannot be assumed that IABs are by default inclusive when they engage ‘farmers’ and establish backward linkages. Such assumptions are even less likely to hold for large-scale IAB initiatives or those pursuing breadth scaling strategies.

5.1.2. Socio-ecological trade-off management

Perverse outcomes and negative externalities deserve equal attention (Schoneveld, 2020). While rarely problematized or analyzed by scholars in the new institutional economics tradition, some have shown that CF businesses and cooperatives can exacerbate processes of social differentiation, societal fragmentation, land concentration and environmental degradation (Adams et al., 2019; Schoneveld et al., 2021; Scoones et al., 2018; Vicol, 2019). While some of these are byproducts of exclusionary practices, many actually stem from the dominant IAB theory of change, namely, smallholder integration into IAB supply chains improves access to inputs, which in turn enhances productivity (e.g. through intensification), which – combined with improved access to high-value markets – contributes to higher farmer incomes and by extension wellbeing. Given the low productivity and returns of many smallholder farming systems, this is a valid pathway to poverty reduction in many situations, but, without effective safeguarding, could be environmentally and socially detrimental at the same time.

While intensification is popularly associated with land-sparing as more can be produced on less land (i.e. Borlaug hypothesis), a large body of evidence warns of possible rebound effects (i.e. Jevons Paradox). Because intensification creates financial incentives to expand the area under production when agricultural land rents increase through yield and surplus gains, farmers are encouraged to simultaneously extensify (Angelsen, 2010; Phelps et al., 2013). Many have shown that intensification can thereby exacerbate deforestation rates, biodiversity loss, greenhouse gas emission, conservation costs and land concentration and conflict, especially under weak land and environmental governance systems and market-driven intensification approaches (Byerlee et al., 2014; Ceddia et al., 2014; Phelps et al., 2013; Rudel et al., 2009). In a recent comparison of 12 CF schemes, Schoneveld et al. (2021) find that when participants manage to intensify, they become more inclined to also extensify – even within more environmentally-conscious IABs. While they partly attribute this to positive net income effects and lack of alternative investment options, they also find that many IAB participants expand their landholdings to reduce dependency on a single buyer and crop. This can worsen land scarcity and produce land-related conflicts.¹²

This suggests that even when IABs start meaningfully contributing to SDG 1 (reducing poverty) and 10 (reducing inequality), much more needs to be done to transform IABs into integrated SDG solutions. Therefore, IABs may well contribute to some SDGs but frustrate progress toward others. This is likely more problematic at scale as monitoring capacity declines. As such, effectively aligning IABs with the Post-2015 Development Agenda requires a more holistic perspective that accounts for IAB’s wider impact on the landscapes in which they touch down. The SDGs were after all designed to be ‘integrated and indivisible’ (UNGA, 2015).

5.1.3. Integration of sustainable food systems principles

Lack of appreciation for scaling dilemmas, inclusion risks and socio-ecological trade-offs reflects, more broadly, the compartmentalization of responsible business discourse. In practice, responsible business initiatives and policies tend to be themati-

¹² Many CF schemes impose a minimum acreage requirement. This forces especially smaller farmers to devote much of their land to the CF crop. New land then needs to be acquired and converted to cultivate other crops, notably staple crops.

cally delineated. These typically converge around one of three thematic areas: greening supply chains, smallholder inclusion and tenure rights. This thematic siloing inhibits the type of coordinated action that is needed to resolve trade-offs that are so fundamental to achieving inclusive development within planetary boundaries. If anything, lack of integration and nesting may deepen trade-off risks. Smallholder integration not only poses tenure security and environmental risks (e.g. due to extensification and resultant land scarcities) but major environment-oriented initiatives – voluntary certification, carbon neutrality and zero deforestation, for example – may also perversely incentivize businesses to become less inclusive of smallholders and/or reject IAB models entirely (Gnych et al., 2015; Jopke & Schoneveld, 2018; Ponte, 2020).¹³

IAB (mainstreaming), done right, can certainly help advance and unlock private capital in support of the SDGs and a sustainable food system transition. Deliberately positioning IAB and other responsible business movements within sustainable food system agendas will challenge IAB proponents to take socio-ecological trade-offs seriously. Since food systems sustainability lies at the heart of the SDGs (e.g. by attempting to reconcile economic, social and environmental sustainability issues associated with food production to consumption systems) and given the risk, but also opportunities, IABs present to sustainable food system development, sustainable food systems principles deserve to more explicitly feature in IAB and supply chain sustainability frameworks, policies and agendas in future.

The principles proposed by the High Level Panel of Experts on Food Security and Nutrition (HLPE, 2019) that now form the basis of the Unifying Framework for Food Systems Transformation (IPES-Food, 2021) deserve particular consideration. Endorsed by over 300 organizations, this framework also calls on companies to adhere to the 13 agroecology principles outlined in HLPE (2019). These relate to, amongst others, resource efficiency (e.g. recycling, reduced input use), resilience (e.g. soil health, biodiversity, economic diversification, healthy and diverse diets) and social equity (e.g. bottom-up participation, co-creation and fairness). Because frameworks such as these are grounded in systems perspectives that recognize complex trade-offs and synergies between different sustainable food systems dimensions, conceptualizing IAB as a food systems solution helps redirect IAB momentum and investments towards larger societal challenges, as well as drive the development and mainstreaming of business models and safeguarding strategies that in the least ensure that working toward one particular principle does not jeopardize another.

5.1.4. Reimagining definitions

Definitions matter. As previously shown, unconsidered definitions are beginning to percolate and shape public incentives, technical support programs and development finance. The recent definitions distinguishing between IBs and SMEs/social enterprises and emphasizing scale/scalability, for example, are, ironically, pro-

¹³ Smallholders often lack the knowledge and skills to comply with private regulation without external support and are due to their number (relative to their output) and geographic dispersion expensive and difficult to monitor and trace (Jaffee et al. 2011; Lee et al. 2012). Since most businesses looking to green their supply chain lack smallholder inclusion safeguards (Jopke and Schoneveld 2018), many businesses are as a result incentivized to reduce the number of smallholders in their supply base to manage reputation risk and traceability and monitoring costs. The IAB and environmental movements can, and some cases do, converge, however. Some environmentally responsible IABs have developed supply chain traceability systems, supported smallholder compliance with public and private standards and are involved in the dissemination of climate smart and resource saving technologies (Schoneveld et al. 2021; Weng et al. forthcoming). Select certification initiatives, most notably Fairtrade, have also developed standards that promote IABs, as well as food security and environmentally-responsible production (Blackmore et al., 2012). Similarly, for development organizations such as the Sustainable Trade Initiative, IAB development is a cornerstone of their deforestation-free supply chain initiatives.

foundly exclusionary. They also fail to sufficiently problematize and account for the various IAB implementation risks and how IABs can more holistically contribute to sustainable food systems.

A complete reimagining of IAB definitions and values is therefore justified. This could involve placing social missions, principles of non-discrimination and not only direct, but also indirect, outcomes at the heart of IB definitions and (policy) frameworks. A definition along these lines is offered in Schoneveld (2020). There, IBs are conceptualized as self-sustaining business entities that productively engage and create net value for income-constrained groups by (a) ensuring value creation is not offset by value destruction; (b) reinvesting economic surplus into impact deepening; (c) providing solutions to neglected problems and (d) not privileging specific social groups (Schoneveld, 2020). Changing discourse along these lines requires a departure from processual perspectives (e.g. smallholder integration as an end goal) and re-evaluating current upscaling assumptions and strategies. Ultimately, failing to consider *actual* value creation and destruction risks rendering any business that buys from and provides services to smallholders inclusive, even when doing so leads to adverse incorporation and environmental degradation. Schoneveld, for example, argues that a genuinely inclusive business should actively monitor and respond to perverse outcomes and direct negative externalities and be held to account not just for the value they create but also the value destroyed 'along the path to value creation'. Emphasizing social missions furthermore ensures IABs prioritize value creation over value capture. This safeguards against mission drifts and incentivizes depth scaling while also protecting against breadth scaling strategies that compromise value creation objectives. Not least, it brings social enterprises back into the conversation.

Furthermore, by framing IABs as private food systems innovations also fundamentally changes the dominant IAB theory of change. As opposed to merely enhancing incomes through intensification and improved market access, IABs would - in the spirit of the above definition - instead seek to offer 'utility-enhancing solutions' to neglected problems (Schoneveld, 2020). As mentioned, smallholders can derive substantial utility from improved resilience to shocks and food and nutritional security without deriving any additional income from IAB participation.

Finally, the current scale/scalability bias deserves to be reexamined. It risks excluding smaller more mission-driven enterprises such as MSEs and cooperatives, and also poses myriad sustainability challenges. Seeing how few IABs are genuinely inclusive, emphasis should shift from upscaling unproven innovations to mainstreaming impact deepening values and strategies (e.g. 'depth mainstreaming').

5.2. Actions

Ideas need to be translated to action to have meaning, and actions need ideas for direction. There are no 'right' IAB actions, however. Predefining these would impede innovation and produce maladaptation problems. Rather, what this sub-section argues is that impactful actions emerge through collaborative innovation and should correspond with the nature of the intended solution, the context and the resources and capabilities to an IAB's disposal. In designing, adapting and implementing their actions, IABs are highly dependent on cross-sectoral partnerships and multiple partnerships coming together as value networks.

5.2.1. Cross-sectoral partnerships

IABs generally operate in uncertain and high-risk environments characterized by weak governance and judicial systems, an underdeveloped service sector and insecure property rights. Because marketing relations in most rural areas are typically informal and governed by social contracts, IABs also often struggle to

navigate and reconcile the informal-formal market divide and divergent social and legal norms (London & Hart, 2010).

Cross-sectoral partnerships with organizations from other sectors help IABs address these regulatory vacuums and gain access to the resources and capabilities they need to bridge these divides (Schoneveld & Weng, 2021). They are similarly needed to manage negative externalities and deepen positive impacts. Few IABs will possess the resources and capabilities needed to effectively monitor and respond to efficacy issues, especially when these are difficult to anticipate or materialize in sustainability or societal domains beyond the IAB mandate and expertise. As many have shown (e.g. Huxham & Vangen, 2004; Glasbergen, 2011), businesses that operate across different societal and sustainability domains require a 'collaborative advantage' to be commercially viable and impactful. In other words, external resources and capabilities need to be leveraged to generate core *complementary* competences. By creating a collaborative advantage, internal resource and capability gaps can be filled and more innovative and adaptive business models can be designed.

Cross-sectoral partnerships are commonly established with regulatory partners that help protect against risks, facilitatory partners that provide farmer capacity development, monitoring and mediation support and/or productive partners that provide inputs, credits and markets (Vellema et al., 2020; Schoneveld & Weng, 2021; Weng et al., 2022). Because long-term success of CF and cooperatives is strongly influenced by social capital between farmer and business (Fu et al., 2018; Kunte et al., 2017; Wuepper & Sauer, 2016) and transparent communications (Saenger et al., 2014), cross-sectoral partnerships with grassroots civil society organizations (CSO) and lower-level government are of particular importance - especially during formative stages of project development when local knowledge and existing relations need to be leveraged to design context-appropriate business models and service packages.¹⁴ London and Hart (2010), for example, find that companies engaging low-income groups within informal market settings cannot rely on the protective boundaries of the firm and host country legal systems, and must therefore identify, leverage and gain *exclusive* access to pre-existing 'platform-type assets' in order to establish what they term a 'co-mingled competitive advantage'. Such assets include, amongst others, network infrastructure such as existing distribution systems and farmer groups and social infrastructure such as relational capital and local leadership.

Research conducted under the Inclusive Business Priority of the Forestry, Trees and Agroforestry (FTA) research program consistently showed that while important such cross-sectoral partnerships can be a source of conflict and produce additional efficacy issues.¹⁵ Many local CSOs and government agencies are often chronically under-funded and under-staffed and lack experience engaging the private sector. This not only risks creating uneven partnerships but also fosters new types of dependencies that can compromise their ability to independently fulfill their facilitatory roles within IAB partnerships. Moreover, since many such partners also have societal duties beyond their IAB partnerships, diverting scarce human resources to IAB activities also tends to divert resources from other activities, especially if exclusive access - as London and Hart claim - is so important to IB success. That said, such cross-sectoral partnerships can at the same time produce numerous important co-benefits. For example, when private sector partnerships help strengthen the partners' resource and capability base that can

¹⁴ While such cross-sectoral partnerships are especially important to businesses with weak local embeddedness (e.g. many CF businesses), cooperatives too often rely on such partnerships to manage heterogeneous preferences and engage the formal sector. Resolving equity issues, managerial capacity constraints and upgrading barriers may also demand engaging financial and technical partners.

¹⁵ See <https://www.foreststreesagroforestry.org/research/fta-priorities/>.

improve their social and political legitimacy, as well as strengthen their ability to deliver services to other vulnerable groups and engage other types of private sector actors (Schoneveld & Weng, 2021). This usually only really happens through multipartite partnership arrangements involving donors or technical partners offering training, technical backstopping support and/or financial assistance to CSO and government partners.

While challenging and time-consuming, not establishing such cross-sectoral partnerships is risky. IABs are then more inclined to perform these activities themselves and thereby risk treading into the domain of civil society and/or the state. When IABs provide private as well as public and/or club goods, government and civil society risk being crowded out (Schoneveld, 2020; van Tulder & Pfisterer, 2013). Conversely, unintended consequences could enhance pressure on limited public and third sector resources. These can materialize when IABs erode public and club goods (e.g. through environmental degradation or land conflicts) or fail to transform private goods into public goods, for example. Bringing partners from other societal domains into the IAB network enables the various partners to better align their activities and respond collaboratively to implementation problems (as opposed to IABs making it somebody else's problem). This is especially relevant when food systems principles are integrated into IAB business models. IAB value propositions then become more ambitious and multi-dimensional, requiring IABs to attract various partners to co-design and implement actions that support a food systems transition, as well as monitoring systems and safeguarding mechanisms capable of signaling and responding to trade-offs.

5.2.2. Partnerships as value network building blocks

The 'value network' concept from the field of strategic management offers a compelling entry point for identifying partnership needs and performance (Schoneveld & Weng, 2021). Understood as the network of actors engaging in activities and exchanges of value (e.g. goods/services, money and credit and intangibles) in pursuit of a common value creation goal (Allee, 2008), value networks are the manifestation of IAB business models and how an IAB creates value in practice (Schoneveld & Weng, 2021)¹⁶. IAB value networks generally consist of multiple cross-sectoral partnerships (Weng et al., 2022), which come together to create a complex web of relations, activities, flows and rules.

IAB value networks are largely overlooked. Academics and practitioners are generally concerned with bilateral cross-sectoral partnerships – public–private partnerships in particular – and not cross-sectoral partnership *constellations* (van Tulder & Pfisterer, 2013). In practice, value networks comprise a mix of CSOs, financial institutions, knowledge institutions, donors, technical agencies and government institutions, whose actions are normally aligned and intended to be complementary. The current focus on public–private partnerships arguably overstates the import of the state within value networks and to collaborative advantage. Excessive emphasis on public–private partnership development at the expense of others could result in misalignment problems, cooptation or, as discussed above, dependencies and resource diversions.

More intricate value networks are however highly susceptible to goal incompatibility problems (Huxham & Vangen, 2004; Lashitew et al., 2018; Manning & Roessler, 2014). Poorly aligned goals could engender conflict, mission drifts, and long-term legitimacy and viability challenges (Austin & Seitani, 2012; Murphy

et al., 2012). This can be avoided by ensuring partners derive benefits that resonate with their institutional logics (Den Ouden, 2012). This can be achieved through collaborative business model design and innovation (Chesbrough, 2007; Miles et al., 2006). This necessitates value network (governance) structures that facilitate partner dialogue, problem-solving, joint ideation and the development of network-level adaptive and dynamic capabilities (Schoneveld, 2020; Velter et al., 2020). This could include anything from joint management structures to dedicated multi-stakeholder working groups.

Network goals are, however, fluid. Especially in more adaptive networks, goals change as projects move along the project lifecycle. This implies that the goals that hold networks together during inception may well become sources of conflict during a scaling phase. Because a value network's resource and capability needs invariably evolve over time, so do partnership needs. This can make certain partnerships obsolete. For example, during piloting and early implementation, partners with a stronger mutual interest orientation are needed to deepen relations with participants and facilitate more collaborative, bottom-up, business model innovation and effectively integrate local knowledge, practices and interests. While such partners can remain relevant to upscaling, 'delocalizing' necessitates new types of partnership (e.g. with organizations that have a general interest orientation and a larger geographic scope of operation). When confronted by external breadth scaling pressures, IABs are often unable to effectively stage-gate and develop new partner(ship)s. To prevent conflict and disruption, IABs may be compelled to use partners that lack the capabilities and reach needed to expand into new geographies. Early phase emphasis on growth trajectories, evolving partnership needs and expectation management could assuage such risks, but demands considerable advanced planning and foresight.

5.3. Business ecosystem transformation

5.3.1. Enabling development of inclusive value networks

As the G20 and ASEAN IB frameworks illustrate, the main entry point for policy intervention is the IAB: 'what can CSOs, government and financiers do to facilitate and support IAB development?'. While relevant, what is rarely asked is 'what can IABs do to advance the goals of CSOs and government' or 'what support do CSOs and government need to engage IABs, effectively?'. The value network perspective is useful because it helps to reframe dominant narratives and approaches. For value networks to achieve their common goals and to develop collaborative advantages and deliver impact, stakeholder roles, rules, goals, activities, resources and capabilities ultimately need to be aligned and, in many cases, developed. When IABs are viewed as networks, more targeted support can be provided. This requires some form of network diagnosis that aims to identify whether partners' roles and activities are consistent with their goals, resources and capabilities or whether role and activity distribution across the network is consistent with the network's overarching value proposition, among other things. Where gaps or alignment problems are signalled, more effective partnership brokering or partner capacity development support can be provided.

Development stakeholders with boundary-spanning networks are strategically positioned to support and facilitate cross-sectoral partnerships and value network development. This could involve partnership brokering, early-stage mediation support and business model and institution development assistance (e.g. to develop multi-stakeholder governance and/or innovation structures). Given the importance and the risk of engaging CSOs and local governments in IAB value networks, building the capacity of local/grassroots institutions to effectively participate in IAB value networks (without compromising their autonomy and other soci-

¹⁶ Value networks are not the same as business models. Business models, as strategy abstractions and conceptual frameworks, do not have physical properties. The term is often used erroneously in the development (studies) community, and is intended to mean systems of production. CF, for example, is not a business model. Contracting smallholders can be part of a company's business model but only partially captures how a company intends to create and capture value.

etal duties) also deserves more attention. Capacity development support – especially when informed by more progressive IAB values – is also instrumental to mainstreaming ‘genuine’ IABs since it inspires business and investor confidence that the types of partnerships, complementary competences and collaborative advantages needed to design and deliver on a viable yet impactful business model can be built.

In the case of cooperatives, support is similarly needed to bring downstream businesses like supermarkets into cooperative value networks, or vice versa. This will enable cooperatives to bypass intermediaries and encourage downstream businesses to invest in backward linkages. CF businesses engaging cooperatives are also more likely to provide long-term technical and financial assistance to cooperatives than most development stakeholders (e.g. since their own commercial viability depends on cooperative performance), though external mediation is likely needed to safeguard cooperative autonomy and prevent lock-in.

5.3.2. Coordination

Value network and capacity development support alone will not drive transformational change, especially when that support is disjointed and inconsistent. Many donors, philanthropic organizations and development finance institutions are engaged in this space already (Schoneveld et al., 2021; Weng et al., forthcoming). While many impactful IABs have emerged their interventions, such stakeholders are rarely neutral and independent since many are financiers at the same time. Consequently, IAB business models and growth/scaling strategies risk becoming products of external values, performance metrics, outcome targets and funding cycles. This could result in business model lock-in and undesirable upscaling pressures, as well as undermine the adaptive capacity of networks. Because development stakeholders differ in their expertise and strategic interests, alignment between different business support initiatives tends to be weak. Often, technical support provided to IABs is motivated by clearly delineated external objectives, which can range from strengthening food security, to raising standards compliance rates or enlarging opportunities for women. This frustrates IAB innovation (e.g. toward more integrated solutions), produces conflicting messages and expectations, and undermines capacity to leverage lessons and synergies between different IAB ventures.

Improving coherence between IAB technical and financial support initiatives, as well as existing regulatory and incentive structures, begins by institutionalizing a common understanding of what it means to be an impactful and genuinely inclusive IAB value network, but this is unlikely to happen without explicit coordination. The need for strengthening coordination within the development sector is being acknowledged, however. It features prominently in the Post-2015 Development Agenda and is the cornerstone of the World Economic Forum’s Great Reset. ASEAN member states and partners have also demonstrated that a coherent regional approach for IAB development is certainly possible. To date, however, the collaboration emerging within the IAB community has not yet helped challenge the linear and traditionalist assumptions and approaches that stand in the way of transformational change. For that, greater coordination between different communities of practice is needed. The ASEAN Inclusive Business Guidelines, for example, was developed through its Coordinating Committee on MSEs, consisting almost exclusively of representatives from ministries with industrial/commercial mandates.

As we face multiple crises, there is more appetite than ever for breaking down siloes and engaging in disruptive horizontal collaboration. At the country-level, participatory processes to develop (more progressive) national IAB strategies and support structures is an important entry point for that. Despite their shortcomings, the accreditation systems emerging in ASEAN can be instrumental

to aligning and designing business support initiatives and appropriate IAB incentive and regulatory structures. For example, by operationalizing IB using both process (e.g. backwards linkages) and outcome indicators (e.g. welfare), they help harmonize and mainstream IAB values, approaches and performance indicators. This enables more coherent and consistent financial and technical service provisioning and performance monitoring that, at the same time, align with and are explicitly nested within public (food systems) policies and national IAB interpretations. Broad-based public sector buy-in that participatory processes can help achieve will furthermore facilitate development of policy regimes that capitalize on inter-ministerial synergies. However, if the assumptions, norms and principles informing the design of current accreditation systems are not revisiting, such systems may instead serve to further institutionalize and legitimize big-business centric CF policies. More inclusive co-creation initiatives involving national representatives from diverse societal (e.g. public, private, civic), sectoral (e.g. agriculture, land, commerce) and sustainability domains (e.g. economic, social, environmental) can help ensure more integrated and nested solutions grounded in systems perspectives are identified.

The synergies with the sustainable supply movement (e.g. deforestation-free and carbon neutral supply chains) are an under-explored opportunity for strengthening coordination at the more global scale. Not only could such movements help further anchor business inclusivity norms, but they too help open doors to climate financing and additional sources of IAB institutionalization. Not least, nesting an IAB agenda into such movements would go a long way to ameliorating social exclusivity risks inherent to many sustainability standards and zero deforestation commitments. Cross-thematic working groups and multistakeholder platforms converging around larger societal challenges, for example, would foster the spaces needed for more effective knowledge sharing, learning, coordination and cross-sectoral partnership development.

5.3.3. Role separation

At the country-level, greater separation between external financial and technical assistance is arguably warranted; this would rein in vested interests frustrating coordinated action, while at the same time minimizing the effect of external priorities on the design of IAB business models and performance/growth targets, for example. Channeling country-level technical assistance through dedicated (semi-)autonomous responsible business service centers/incubators bereft of any meaningful financial servicing functions is one way of doing that.

Centralization of business support also permit countries to more effectively generate, synthesize and communicate learnings amenable to mainstreaming and replication. Despite recent interest in business model replicability, business models are rarely, if ever, replicable to other businesses, geographies and sectors. Because genuinely impactful and competitive business models involve institutional innovations that account for place-, market- and partner-specific needs, interests and circumstances, recreating these under different conditions will produce maladaptation problems.¹⁷ Because business models should be consistent with available internal and external resources and capabilities, business model replication is only feasible under an identical set of institutional, agroecological, socio-cultural and infrastructural conditions. As van Tulder and Keen (2018) put it “cross-sectoral partnerships aiming for systemic change will not be able to deliver replicable models. At best, they produce key insights (improved theories) into how change can be realized” (p. 329). The innovation processes,

¹⁷ Since business models are one of the most important sources of competitive advantage, attempting to replicate a particular model from one business to another also poses ethical and legal questions that can be construed as market interference.

partnership constellations and governance structures used to develop impactful business models are therefore more replicable than the business models themselves. Centralized technical service provisioning would help more systematically generate learnings on successful approaches to develop these.

5.3.4. Targeting strategies

When finite resources are available to develop or improve IAB policies, incentives and technical and financial service structures, sectoral targeting is generally needed. For that purpose, much can be learnt from past CF and cooperative scaling and mainstreaming experiences. History shows, for example, that IAB success is influenced by value chain (governance) structures and factor market conditions. Smallholders participating in international niche markets, producing perishable crops that demand close coordination and/or compliance with quality (e.g. supermarket chains) and sustainability standards (e.g. cocoa, tea, coffee) are, for example, particularly reliant on backwards linkages, explicit coordination and collective organization. Such conditions are conducive to IAB development since problems associated with side-selling and intermediaries are less acute. This is especially the case in countries and/or sectors where demand cannot be satisfied by large-scale plantations.

But, if IABs are to be regarded as food systems innovations, IAB targeting strategies should account for chain length and potential to advance sustainable food systems objectives. Shorter more localized food supply chains, for example, are often more climate friendly, produce fewer food losses and waste, contribute more to (sub)national food security and systems resilience, are less prone to intermediary-related problems and are, as the COVID-19 pandemic has shown, less susceptible to global shocks (Blay-Palmer et al., 2020; Jarzembowski et al., 2020; Pato, 2020).

Short supply chains for nutrient-rich products contributing to healthy diets, have circular production potential and would particularly benefit from strengthened backward linkages to adapt to climate change, reduce emission intensities and address food losses are prime targets for intervention. This includes, for example, horticultural crops (e.g. linked to local supermarkets), dairy and nutrient-dense agroforestry products. These supply chains experience either high waste due to perishability (e.g. horticulture, dairy), have a particularly large climate footprint (e.g. dairy) or are integral to the development of agroecological farming systems (e.g. agroforestry), and all contribute towards healthier diets. Being comparatively labor intensive and less mechanizable, smallholders within such systems are also better equipped to exploit their unique comparative advantages (e.g. reliance on non-wage labor or agroecological knowledge) to remain competitive within dynamic free markets. Since the production of these commodities is associated with comparatively high returns to land and labor, they are also more likely to contribute to closing living income gaps, especially in the many contexts where land is becoming scarcer and more fragmented. In this respect, certain perennial crops, such as cocoa, oil palm and coffee, also have distinct advantages. Despite delayed returns and not contributing meaningfully to food security and healthy diets, such crops do generally offer reasonable returns on small land parcels and provide important ecosystem services when cultivated within agroforestry systems and not replacing forests.

6. Conclusion

IABs are pivotal to a sustainable food systems transition. By enlarging smallholder access to markets, inputs and technical services, they ameliorate some of the market failures and coordination problems that prevent vulnerable populations from

participating in and benefitting from modern food systems. In doing so, IABs can reduce economic inequality and enhance resilience to shocks, while also closing yield gaps.

Thus promising to lift some of the most marginalized social groups out of poverty and to simultaneously produce more food to accommodate the needs of growing populations, IAB strongly resonates with many development actors. Nonetheless, this article questions this narrative. In demonstrating how mainstream IAB policy and discourse fail to sufficiently account for structural inclusivity challenges, scaling dilemmas and socio-ecological trade-offs, this article raised critical questions about IABs' capacity to incite systemic change - at least, under current conditions. Despite decades of CF and cooperative support, the recent interest in business inclusivity and sustainable food systems has yet to radically moved the needle on IAB development and scaling approaches.

This article does not intend to discredit IABs or the IAB movement. With numerous highly innovative IABs positively transforming livelihoods and landscapes in recent years, there is much to be optimistic about. With more and more development actors and investors supporting IAB development, a shift in corporate social norms is becoming increasingly apparent. This is clearly manifested in the declining support for plantation production systems, with the legitimacy of agribusinesses operating in development country contexts increasingly tied to their ability to productively integrate smallholders. This has facilitated many important business model innovations. While the opposition of peasant social movements such as La Via Campesina to corporate-controlled agribusiness is partly justified - as the weak inclusivity of particularly CF also demonstrates - public and civic resources alone cannot transform modern food systems. Better leveraging private capital is undeniably important. Successful IABs show that the private sector can make meaningful contributions, but without a profound shift in global IAB discourse and polity, these risk being the exception and not the rule.

What this article argues is that recent political momentum can be better channeled by shifting the focus from upscaling to depth scaling and mainstreaming. Research conducted under the Forests, Trees and Agroforestry Program illustrated that socially embedded and mission-driven IABs that can anticipate, signal and respond to unintended outcomes, negative externalities and inclusivity problems, while continuously innovating on their service offering, are better equipped to deliver on their triple bottom line and respond to larger interconnected food systems challenges. This takes years of value network development and collaborative business model innovation, and an acute understanding of the scale at which the IAB (value network) can remain impactful and viable.

The policy challenge ahead is not to upscale or replicate such IABs but to mainstream their commitment and approach to impact deepening. This requires institutionalization of more progressive and coherent IAB values that are consistent with food systems principles. Such values can help steer the design of technical and financial support structures, policy instruments and targeting strategies that promote and support the development of inclusively governed, shared purpose value networks with the resources and capabilities needed to gain collaborative advantage and continuously adapt and innovate. With agribusinesses often lacking the capacity to effectively engage stakeholders from other societal domains and stakeholders from other societal domains often lacking the capacity to engage and support agribusinesses, (re)orienting development support towards bridging this divide will help unlock private capital by enhancing agribusiness confidence in their ability to develop the necessary cross-sectoral partnerships needed to be both impactful and viable.

Of course, these are by no means the only ingredients for transformational change. Myriad 'how-to' questions remain for development scholars. Our current understanding of value network

composition, capabilities, governance and innovation structures amenable to depth scaling and replication, structural constraints to equitable benefit distribution, the dark side of 'co-mingling' and upscaling thresholds, amongst many others, continues to be weak. All of these would make fertile grounds for future research.

Furthermore, the direction laid out in this article is largely premised on the assumption that IAB stakeholders are willing to engage in coordinated action and challenge the status quo. Despite recent shifts in the right direction, vested political and economic interests, the agribusiness lobby and sunk cost fallacies will unquestionably frustrate disruptive collaboration and innovation, or motivate political and corporate capture of the IAB conversation. This would threaten progress or, conversely, drive IAB business model and regulatory innovations into directions that merely further corporate interests over those of smallholders and MSMEs, as has arguably been the case to date. It is not inconceivable that the seed and agro-chemical mega-firms so adept at shaping the technologies, rules and agendas of the global food system (Clapp, 2021) will consider IABs a strategic opportunity to penetrate new markets and lock small farmers into their technology packages. As outlined in this article, the various perversities characterizing the IAB movement to date certainly suggest that closer attention may need to be paid to the stakeholders - and their motives and strategies - shaping IAB discourse and policies.

Conflict of interest statement

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