Taking stock of smallholder inclusion in modern value chains

Ambitions, reality and signs of change

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The Shaping Sustainable Markets Group works to make sure that local and global markets are fair and can help poor people and nature thrive. Our research focuses on the mechanisms, structures and policies that lead to sustainable and inclusive economies. Our strength is in finding locally appropriate solutions to complex global and national problems.

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This report examines the promise and reality of including smallholders from developing countries in modern value chains as a path to sustainable development. Drawing on an extensive literature review and interviews with diverse stakeholders, we lay out the ambitions, expectations and assumptions hanging on smallholder inclusion with regard to income, gender equity and environmental sustainability. We describe the gaps between expectation and reality, suggesting that inclusion — as conceptualised and implemented — is poorly suited to the complex challenges faced by farmers. We identify five signs of change in the discussion about smallholder inclusion, and reflect on what these might mean for its future.

Contents

Summary

The inclusion of smallholder farmers from developing countries in modern value chains — ie those that are largely formal, mediated by contracts and often supply global brands and retailers — is a key strategy of rural development, and is widely considered critical for bringing investment, opportunities and better livelihoods to rural areas. But compliance with the standards of modern supply chains is costly and inherently exclusive. 'Inclusion' refers to smallholders' need to overcome these obstacles and the recognition that they need support to do so. The promise of inclusion has evolved into a 'win-win' solution, with many expectations about its ability to reduce poverty and inequity, improve the environmental performance of farming, promote gender equality and ensure reliability of supply for agribusiness.

But can inclusion in modern value chains deliver on those expectations? There is growing disquiet among different stakeholders who are starting to question the assumptions behind inclusion. **In this report we unpack those assumptions and review some of the evidence for and against them, and conclude that this concern is justified.** In this 'state of the debate' overview, we address three questions: (1) What are the ambitions, expectations and assumptions about what inclusion is and how it's supposed to work? (2) To what extent have these matched reality? And (3) what shifts are taking place in our understanding and implementation of inclusion, and what hints do these give us about its future?

To answer these questions we draw on literature and primary sources. We reviewed journal articles and other sources published between 2000 and 2022 to document how smallholder inclusion is framed, and find evidence of outcomes, impacts and results of interventions, projects, policies or programmes across multiple crops and geographies. We also interviewed 47 people representing a wide range of stakeholders, including farmers and their associations, donors and foundations, finance and investment institutions, donor country governments, non-profit organisations, large businesses and consultancies, and academia.

Key findings: expectations vs reality of smallholder inclusion

Our review contrasted the ambitions, expectations and assumptions of smallholder inclusion in modern value chains with evidence about its outcomes. The results, summarised in the table below, suggest the existence of gaps between expectations and reality, explained by flaws in the assumptions and in the implementation of interventions.

Assumptions and reality of smallholder inclusion in modern value chains

ISSUE	ASSUMPTION/EXPECTATION	REALITY
Poverty, income and equity	▪ Access to higher-value markets leads to better prices and higher incomes ▪ Training, contracts and collective action lead to farmer empowerment and agency	▪ Evidence on income is inconclusive — suggests positive but relatively small income gains ▪ Income benefits are accrued by better-off farmers ▪ Poor link between training and income ▪ Contracts can bring better prices, but imbalances in information and ability to enforce are common ▪ Cooperatives are often politicised and exclusionary
Gender	Participation in modern chains can lead to women's empowerment and greater gender equality	High awareness and efforts to apply gender lens, but little progress in terms of outcomes
Environmental sustainability	Compliance with sustainability standards leads to positive environmental outcomes	High on the agenda, but difficult to quantify progress. Emphasis on climate mitigation not adaptation

The unwritten 'theory of change' of smallholder inclusion in modern value chains is based on:

- **Expectations that farmers' income will improve** through access to high-value markets, with multiple other benefits including **better environmental outcomes** and **women's empowerment**;
- The existence of **mechanisms to support smallholders' compliance with standards**, including training, finance, involvement in producer organisations, and contracts; and
- The assumption by donors that **market-based development is more effective**, and by businesses — often under pressure or in partnership with NGOs — that smallholder inclusion **improves the transparency and sustainability of their supply chains** and their 'social licence to operate'.

Our review suggests the impacts of inclusion on farmers' income are positive but relatively small, and tend to be accrued to better-off farmers; the evidence is ambiguous and biased towards positive outcomes (negative ones don't get reported). Certification schemes, training, participation in contract farming and involvement in producer organisations all appear to have weak links to income gains. We found that, while sensitivity to gender has increased, progress towards women's empowerment is slow, and gender is a weak spot in the implementation and analysis of inclusion. Our review also suggests that, despite a rhetoric of 'sustainability', progress on environmental outcomes has been elusive, with little empirical evidence assessing what inclusion has meant for biodiversity, ecosystems and climate change.

Signs of change: what we need to pay attention to

Our interviews and review of the literature suggest that approaches to smallholder inclusion are changing, and assumptions are being eclipsed by realities in markets and supply chains. We identify **five signs of change** in the debate about the goal, tools and effectiveness of smallholder inclusion:

1) **Different actors are starting to shift their understanding of their own roles and responsibilities.** There is more caution about the role of large businesses in development, and tensions between their commitments to inclusion and the need to maintain their competitiveness, especially during a cost-of-living crisis. Many NGOs have moved from adversaries to intermediaries, and new donors such as philanthropic and impact investors are entering the scene.
2) **Attention and resources are moving more towards enterprises in the middle of the chain** (eg wholesalers, aggregators, and processors). Growth in this dynamic 'hidden middle' has been mostly endogenous, occurring outside of 'inclusion' projects. But donors and investors increasingly recognise that investments in mid-chain enterprises — especially those sourcing from smallholders — enhance scale and multiply effects.
3) **Local, domestic and informal markets are an increasingly attractive opportunity for inclusion.** There is a growing realisation that smallholder farming does not need to take the global value chain route to accumulate assets and reduce poverty. As focus starts to shift to the 'hidden middle', there is more awareness about the dynamism and opportunities in the local and domestic trade for food staples.
4) **A narrow focus on smallholder inclusion is giving way to wider supply chain responsibility and sector governance**. There is recognition that addressing the complexities of smallholder livelihoods is beyond the sphere of influence of any single actor, and requires a sector-wide approach involving farmers, businesses, financial institutions, and governments. There is a growing sense that the state needs to be brought back to provide clarity and direction.
5) **Living income is emerging as a new and potentially transformative benchmark**. It has figured in recent discussions about due diligence legislation in the EU, suggesting a possible move from a voluntary initiative to a requirement to access EU markets. Despite the possible benefits of adopting such a standard, there is concern that it might create further exclusion of smallholders linked to small-scale firms.

Looking ahead: implications for donors, policymakers, investors and NGOs

Our research found broad agreement among our interviewees that the time is **right to reflect on and reframe smallholder inclusion in modern value chains**. But recognising that the implicit assumptions of smallholder inclusion in modern value chains may not be deliverable does not mean that the goals of inclusion should not be pursued. We propose four areas where attention will be needed to define the future of smallholder inclusion.

1. **More inclusion, not less, is needed**. Farmers need more and better participation in markets of all types, but a more detailed analysis of their perceptions and needs is necessary to ensure that they can participate equitably and lucratively in supply chains. The poorest farmers who cannot participate in modern chains need a policy agenda based on investments in public goods and a robust social protection net.
2. **SMEs and informal/domestic markets are already 'doing' inclusion and need the right kind of support.** The participation of smallholders in domestic food markets does not depend on an externally driven process of inclusion, but there is still significant scope for private and public investment. Impact and other investors recognise the multiplier effects of targeting mid-chain enterprises, but the specific mechanisms for investment are uncertain and need further research. National governments, supported by donors, should focus on providing public goods such as infrastructure to enable labour, capital, information and inputs to flow.
3. **A fair deal for smallholders is needed in the face of a cost-of-living crisis.** Farmers are being squeezed between the high cost of inputs and the pressure to keep prices down to protect consumers from the cost-of-living crisis. A major stocktaking is required to understand what is happening to price premiums of certified products and who will pay for them. Global agrifood companies — with the support and vigilance of governments and other stakeholders — will need to ensure that whatever replaces certification in its current form (eg a living income benchmark) provides a meaningful benefit for farmers, not a new obstacle to overcome.
4. **A 'green transition' to climate-resilient smallholder agriculture will not be achieved just by inclusion in value chains.** The emphasis of value chain inclusion has been on smallholder livelihoods and income — but can it also help farmers cope with the climate emergency? Participation in value chains alone is unlikely to fundamentally alter the existential danger that climate change poses for small-scale agriculture, especially because corporate commitments have focused on decarbonisation of supply chains rather than on building resilience. Smallholders need more technical and financial support to manage the existential risk of climate change.

1 Introduction: why revisit and why now?

While smallholder farmers have sold into local and global markets for centuries, their participation in modern value chains (see Box 1 for a definition) is recent. Increasing and improving these business linkages with smallholder farmers has been a central objective of rural development in the last 20 years. The inclusion of smallholders in modern value chains is widely considered critical for bringing investment, opportunities and better livelihoods to rural areas.

The idea of 'inclusive' value chains is somewhat contradictory. Modern value chains are inherently exclusionary: their purpose is to protect quality, traceability and legality. They do so by setting standards that need to be consistently applied and enforced across the supply chain, and excluding producers who cannot consistently reach those standards. So while modernisation can bring opportunities for poor farmers to participate in higher-value markets, there is a danger of exclusion and marginalisation due to the costly new demands of market participation. The notion of 'inclusion' refers to smallholders' need to overcome the obstacles set by modern value chains, and the recognition that they may need support to do so.

The question of whether, and how, to include smallholders in modern value chains, and to prevent their exclusion as markets modernise, is critical because smallholder agriculture is the dominant form of farming on the planet. Even though they occupy only around a tenth of the world's farmland (Lowder et al., 2016), the estimated 500 million smallholder farms — usually defined as those under two hectares (IFAD and UNEP, 2013) — play a central role in the food system: they produce about a third of all global crops (Ricciardi et al., 2018), and between 50 and 70% of the food calories consumed globally (Samberg et al., 2016). They also play an important role in the management of land and natural resources at a global scale (IFAD and UNEP,

BOX 1. DEFINING MODERN VALUE CHAINS

'Modern' food value chains refer to the types of linkages between producers and buyers that are typical of supermarkets or global brands. These are mostly formal, often governed by contracts, and commonly involve 'higher value' products such as fresh fruits or vegetables as opposed to common food staples such as grain or root vegetables. These arrangements are sometimes referred to as 'tightly structured' value chains or, in the case of export markets, 'global' value chains. An important feature of modern value chains is that the demands of buyers are communicated up the chain to producers.

In this report we use 'modern' to refer specifically to: (1) the reorganisation and tightening of existing supply chains, for example for quality coffee; (2) the establishment of new tightly structured chains, for example for fresh fruit and vegetables; or (3) the expansion of transnational brands into low- and middle-income countries and the establishment by those brands of local and regional supply chains for ingredients.

2013). We don't know exactly how many smallholder farmers are 'included' in modern value chains, but estimates suggest it's only a relatively small proportion. By one definition — those who are in chains involving contracts — the figure is about 35 million, or 7% (IFAD, 2010), but given that not all participation in modern value chains is formalised by contracts, the number is likely to be bigger.

Smallholders, especially those living in sub-Saharan Africa, are one of the most impoverished groups of people in the world (Gomez y Paloma et al., 2020), and among the most vulnerable to climate change (Cohn et al., 2017). Globally, poverty is still largely a rural phenomenon: people living in rural areas account for two thirds of extreme poverty worldwide (https://worldpoverty.io/map); they are disproportionately more likely to suffer from under/malnutrition, and have systematically lower access to health, education, assets and information — especially if they're women (UN, 2020).

While rural poverty has been a long-standing challenge for international development, food security has recently shot up the global agenda. The quick succession of the COVID-19 pandemic, the war in Ukraine and increased climate vulnerabilities have triggered a 'perfect storm' of a spike in food prices, supply disruption and shortages and loss of livelihoods for farmers and consumers (Béné et al., 2021). But even before these crises, there was growing consensus about the need for a food systems transformation to address the growing challenges. First, with widespread hunger and malnutrition, and the consumption of highly processed and 'junk' food creating a growing crisis of obesity, diabetes and heart disease, action is urgently needed on health and nutrition. Second, food production and consumption are major contributors, and vulnerable, to climate change, water pollution and the loss of biodiversity. And third, there is a growing need for greater equity: many people who participate in the food system — from farmers to street vendors — are poor and vulnerable, particularly women (Fanzo et al., 2021).

These food system weaknesses are directly linked to the issue of smallholder inclusion. In the last 25 years, inclusion in value chains has been promoted by international organisations, donor agencies, NGOs and private companies as a way of addressing certain weaknesses in the food system, especially poverty, security of food supply, resilience to shocks, and natural resource stewardship. Indeed, participation in modern value chains has been promoted as essential for the viability of small-scale farming as a way of life (Fan et al., 2015).

The promise of inclusion has evolved conceptually into a 'win-win-win' solution, with many expectations ranging from supporting, investing in and 'upgrading' this poorest segment of farmers — including women and youth — to live better, produce more and produce better. The anticipated 'wins' include: (1) the **reduction of rural poverty** and 'levelling up' of rural areas through increasing share of value for farmers, reducing their dependence on intermediaries, improving their access to technology and finance, and generally by enhancing their attractiveness as suppliers to agribusiness; (2) **increased productivity and resilience**, especially in the face of local and global food insecurity; (3) **making farming more attractive to future generations** by making it viable as a business; (4) **environmental sustainability**, including adaptation to and mitigation of climate change, and reversing the depletion of soils and biodiversity; and (5) providing **access for agribusiness to new reliable sources of supply** in an increasingly competitive market.

But can inclusion in modern value chains deliver on those expectations? While these goals are all important, there is growing disquiet among donors, businesses, academics and civil society organisations (CSOs) — evident in many interviews carried out for this study — who are looking at the evidence and starting to question the expectations and assumptions behind inclusion.

Here we unpack those assumptions and review some of the evidence for and against them, and conclude that this concern among stakeholders is justified. In this report, which is intended as a 'state of the debate' overview of smallholder inclusion in modern value chains, we aim to address three main questions:

1. What are the ambitions, expectations and assumptions about what inclusion is and how it's supposed to work? That is, what is the implicit or explicit theory of change underpinning the idea of smallholder inclusion?
2. To what extent have these ambitions, expectations and assumptions matched reality? Here we are interested primarily in the outcomes related to income and poverty, gender equity and environmental sustainability.
3. What shifts are taking place in our understanding and implementation of inclusion, and what hints do those give us about its future? Drawing on the lessons from the first two questions, this is the forward-looking part of the exercise.

Inclusion is by no means a wasted effort: there's much good to be had from improving the position of smallholders in markets. Our claim, however, is that too many different expectations have been hooked onto the inclusion bandwagon, and that it's unrealistic for it to deliver on all those 'wins'. As we will show in this report, the benefits of inclusion appear to be relatively small, and tend to accrue to the better capitalised smallholders (mostly men); and its environmental outcomes are difficult to assess but seem mixed at best. Agribusinesses and retailers appear to be retreating from grand claims about sustainability to focus on what they can actually deliver — and use their buying power to drive down prices. Moreover, local markets will increasingly outbid global value chains for smallholder production, in response to economic growth and urbanisation. Smallholders will not bother with export markets if they can earn more locally, and countries will rightly be prioritising the domestic production of staples to reduce dependency on imports.

If inclusion is not reaching some important parts of smallholder production and livelihoods, that is not a reason not to 'do it'. But it will require using other mechanisms for addressing extreme rural poverty, reversing the degradation of soils and other natural resources and improving the performance of domestic and regional supply chains (IFAD, 2021).

The structure of the report largely follows the research questions. First, in section 2, we describe the methodological approach and sources of information. In section 3 we examine the theory of change, looking both at the supposed outcomes and the mechanisms for inclusion. After this, in section 4 we examine the evidence and assess if and how inclusion has delivered on its promise. In section 5 we identify signs of change occurring in the sector, and discuss what clues they give us about where things are heading. Finally, in section 6, we summarise some of the key unsolved questions and key implications for research, policy and action.

2

Methods and sources of information

This is an exploratory report rather than a conclusive or empirical analysis. As a state of the debate review, this report builds extensively on published literature and the — necessarily subjective — perceptions of a diverse set of actors. We aimed to listen to as many different opinions as possible, to triangulate these opinions with existing evidence, and to build a narrative that incorporates those views. We do not claim to present the authoritative last word on this complex topic, but rather a review of the current scenario according to a sample of farmers, specialists and key stakeholders.

We draw on two main sources of information: (1) a literature review, and (2) 47 interviews with key actors from the sector including farmers, traders, retailers, national governments, investors and donors, carried out between April 2021 and May 2022.

The literature review covered topics such as smallholder agriculture, inclusion, inclusive agribusiness, value chains/supply chains and development. It included journal articles, working papers, reports from international organisations and businesses, and evaluation documents, with publication dates spanning 2000–2022. We sought to cover the widest possible representation of products that are primarily grown by smallholders. Most literature centred on a small number of commodities (mainly coffee, tea and cocoa, and to a smaller degree vanilla and some oilseeds), as well as horticulture chains (including fresh fruits and vegetables). The review also aimed to cover different geographies. The literature draws on case studies primarily from sub-Saharan Africa (where much of the support to smallholder inclusion has gone), but also Latin America and south/southeast Asia.

We approached the literature review with two aims in mind: first, to look for framings, assumptions and definitions of smallholder inclusion, preferably reflecting the views of different stakeholders. We created a database where we documented how inclusion is framed according to different themes (for example: assumptions about benefits for businesses, conceptualisation of gender or understanding of consumer pressure). Second, we looked for evidence of outcomes, impacts and results of interventions, projects, policies or programmes. Here too we tried to capture results (for example about impacts on incomes or environmental outcomes) across geographies and crops. We also developed a list of possible cases for further documentation or exploration.

For the interviews, we first drew up a list of organisations or people who we thought would be able to share relevant experiences and knowledge. We started with people in our network and snowballed to other contacts as we proceeded. Due to pandemic-related travel restrictions, we were mostly limited to people we could reach and talk to online. As one of the co-authors is located in Nairobi, we were able to conduct a limited number of in-person interviews in the field in Kenya. This opportunity to hear from small-scale growers themselves provided a valuable, albeit limited, perspective which is often missing in the literature.

The breakdown of interviewees across sectors is presented below in Table 1. We interviewed 47 people from 34 organisations based across Europe (27 interviewees), Africa (13 interviewees) and the United States (7). Our sample has a European bias, as this is where most of the people in our network are located. The strong East African component in the results reflects one of our co-authors being based in Kenya, and the strong trade ties between East Africa and the UK, where the other researchers are based. This bias does mean that our analysis is informed more strongly by some crops and regions (eg horticulture in East Africa) than others (eg cocoa in West Africa).

We based the semi-structured interviews on a basic template that we developed to cover the key themes emerging from the literature review, and the template was adjusted to individual interviewees. We took detailed notes of the discussions (with prior consent), then transcribed and analysed to extract emerging themes. The material for each theme was enriched as new interviews were transcribed, and cross-referenced with the information from the literature review. To protect the privacy of our interviewees, in the analysis below their inputs have been anonymised and attributed only by stakeholder type.

Table 1. Affiliation of the stakeholders interviewed

TYPE OF STAKEHOLDER/ORGANISATION	NO. INTERVIEWEES
Donors and foundations	7
Farmer and farmer associations	6
Finance and investment	5
Donor country government	5
Local government	2
Non-profit organisation	12
Private sector and consultancy	6
Research/academia	4
Total	**47**

3

Smallholder inclusion: assumptions, ambitions and expectations

The support from private sector, donor governments and NGOs for smallholder inclusion in modern value chains is based on different understandings of the word 'inclusion' (see Box 2), and a set of implicit and explicit expectations, assumptions and ambitions about its benefits, as well as the perceived risks of not pursuing an inclusion agenda. Together, these expectations amount to an unwritten theory of change: a conceptual framework that links activities and interventions with outcomes and impacts, underpinned by assumptions about the nature and direction of change.

In this section we aim to make explicit this theory of change about smallholder inclusion. We do this by exploring (1) the purported outcomes of inclusion for farmers' livelihoods and rural development; (2) the means by which inclusion is implemented and how these benefits are supposed to be achieved; and (3) the rationale and expectations for the involvement of businesses, NGOs and donor and producer governments.

BOX 2. WHAT DO WE MEAN BY ‘INCLUSION’?

At a very basic level, inclusion is about linking smallholders to specific value chains or markets, particularly those perceived to be lucrative. Most definitions of inclusion are premised on the idea that there are significant barriers to making this happen (Kelly et al., 2015). ‘Inclusion’ is often used interchangeably with ‘participation’, ‘integration’, ‘engagement’ or ‘insertion’ (Hartwich, 2012; Clancy et al., 2013; Franz et al., 2014). Many of the definitions of smallholder inclusion we analysed go further, seeing it not just in terms of access to markets but also to other services, assets and resources, such as technology (Jezeer et al., 2019; Kaminski et al., 2020).

Inclusion is rarely defined in binary terms. More often inclusion is conceptualised as a matter of degrees, the number of smallholders included or in terms of the quality of inclusion (Kherallah et al., 2015). Inclusion can be conceptualised along a spectrum, depending on how much farmers sell into or supply particular value chains (Accountability Framework, 2019). ‘Inclusiveness’ is also used to characterise or describe businesses, business models, value chains and development approaches aimed at sourcing from, and/or benefiting, smallholder farmers (Sjauw-Koen-Fa, 2012; Paglietti and Sabrie, 2013; Dunn, 2014; Kelly et al., 2015; Kaminski et al., 2020).

The conceptualisation of inclusion is not only about the benefits of smallholder participation in modern supply chains, but also about the costs and risks of *not* including them. The standard model of rural transformation sees agriculture moving from subsistence to industrialisation, and from fragmentation to consolidation; as this progression ensues, farmers will need to ‘move up’ — ie adopt the skills and technology that allow them to supply modern chains — or ‘move out’ of farming altogether (Fan et al., 2015). According to one our interviewees working as an advisor to a global brand, inclusion in modern chains can be a ‘do or die’ thing for smallholders — if they can’t upgrade to conform to modern supply chains, they will be non-viable and forced out of farming or into negative coping strategies such as deforestation.

3.1 The expected outcomes for farmers and rural development

The central assumption of integrating smallholder farmers into value chains is that this will lead to **better incomes and profits**, and therefore less poverty. The path to higher income comes from access to more lucrative markets and the resulting higher prices — such as export markets for fruits and vegetables — as opposed to local markets for staples (Henson et al., 2008; Kherallah et al., 2015). Initially the focus was on global value chains, as the assumption was that demand would come primarily from export markets. As supermarkets and processed food started to expand across the developing world, due in part to the growth of an urban middle class, lucrative markets could also be found among the better-off population with access to modern retail (Reardon et al., 2003).

But the ambition of smallholder inclusion is broader than incomes and poverty. There is a whole **theory of rural transformation** behind value chain inclusion (eg DFID, 2015). Linking farmers with companies — mostly but not exclusively for export — is supposed to unlock the potential of the market to improve incomes, create jobs, foster investment and generate virtuous cycles of supply and demand to transform rural areas (Barrett et al., 2010; Oxfam International, 2010; Dunn, 2014; Amanor, 2019). As farmers’ profits rise, they can reinvest these in their farms and/or in other agricultural activities, increasing demand for a range of products and services and boosting job creation. In this sense, smallholder inclusion can also help to reduce disparities between urban and rural communities, and may be able to slow rural outmigration and the rapid growth of cities.

Inclusion is also meant to have **positive effects on equity**. For farmers, selling directly to (formal) businesses is supposed to increase transparency and accountability in supply chains (Ton et al., 2009), solve problems of intermediation and information asymmetry, eliminate abusive or predatory intermediation, and enhance their access to market information. These outcomes can empower farmers to benefit from participating in the market (Kelly at al., 2015; Jezeer et al., 2019), especially if it brings them together in cooperatives or other forms of collective action.

In addition to these socioeconomic aims, smallholder inclusion has been closely linked with **achieving environmental outcomes**. Environmental standards — for biodiversity conservation, soil and water management, or wildlife protection — are central to modern value chains (Marx et al., 2022), and form part of well-known certification schemes (or eco-labels) such as Fairtrade or Rainforest Alliance (DeFries et al., 2017).

Finally, over the years there has been increasing **attention to gender** in inclusion narratives, and particularly around women's empowerment in and through modern value chains. Even though women often bear the brunt of agricultural work, they also face severe inequalities in terms of distribution of household income, ownership of assets, or access to finance and other services (Schneider and Gugerty, 2010; Coles and Mitchell, 2011). Improving women's empowerment and gender equality has been a key ambition for the participation of smallholders in modern value chains (Senders et al., 2017).

3.2 How to 'do' smallholder inclusion

To achieve these ends, smallholder inclusion involves several separate but closely interrelated means. First, to access profitable markets and improve their income, farmers must be able to produce certain quantities and meet specific quality and safety (and sometimes environmental) **standards** set by the buyer. But complying with these standards is inherently exclusionary — they are an obstacle that needs to be overcome (Kelly et al., 2015). Inclusion therefore often involves **technical assistance,** including training to build professionalism and entrepreneurship, improve yields, quality, productivity and reliability, manage water and agricultural inputs, or improve post-harvest handling (Oxfam International, 2010; Swinnen, 2014), which requires improved access to **finance** (Swinnen, 2014; GIZ, 2020; Technoserve, 2021). Since farmers are chronically undercapitalised and unable to access formal credit, making smallholders bankable is critical to meeting the required standards.

Second, these standards may be verified and enforced by third-party actors through **certification**. Supporting farmers to meet standards and achieve certification has been one of the key roles of NGOs, often in partnership with businesses. Certified products can not only command a higher price in the market, but standards such as Fairtrade were specifically set up to guarantee that farmers' share of the final price was higher (DeFries et al., 2017). Certification also improves transparency, by giving buyers and sellers more information about the product and the transactions (Ton et al., 2009).

Third, inclusion often involves **producer organisations** such as cooperatives. These organisations are often promoted or initiated by buyers or their NGO partners — rather than by farmers themselves — to solve the problem of aggregation and to facilitate compliance with standards (IFAD, 2010; Nestlé, 2010; Leonard et al., 2015; GIZ, 2020). Producer organisations can also help farmers improve the agency and bargaining power of farmers — especially when they are co-owners — and enable access to finance and services (IFAD, 2010; Koh et al., 2017; Jezeer et al., 2019). To some extent producer organisations have also represented the voice of smallholders, insofar as they have often been a main point of contact for partnerships with businesses, NGOs and local government actors.

Finally, **contracts** have been a key means to govern the inclusion of smallholders in value chains. Contracts are used to agree quality, quantity, prices and mechanisms for dispute resolution. They are also frequently tied to technical assistance and other kinds of support, for example access to finance or inputs, and are seen as a key mechanism to enable smallholders to participate in value chains (Ton et al., 2017). While some experts have argued that contracts exclude smallholders because they favour large-scale producers who can more easily comply with standards, others have observed that contracts can help to reduce transaction costs when dealing with a large number of small buyers, and can be inclusive if they provide technical and financial support (Swinnen and Kuijpers, 2020).

3.3 Rationale for the involvement (and role) of private sector, donor governments and NGOs

The assumptions and expectations of smallholder inclusion described above are part of a larger framework about the role of the private sector and markets as the drivers of development. The idea that expanding markets — as opposed to expanding the reach of the state — is crucial for moving people out of poverty has been central to international development since the 1980s (Humphrey and Navas-Alemán, 2010). Although the idea has evolved, in its broad outline it is still key to how poverty is diagnosed and addressed. In recent years the concept of 'inclusive business' has come to encapsulate the idea of expanding the private sector into low-income populations, either as customers or as suppliers, with far-reaching poverty-alleviation opportunities (Schoneveld, 2022). The idea is that this relationship — for example between smallholders and the companies that buy from them — is mutually beneficial (Kelly et al., 2015).

In donor agencies of governments such as the USA, UK and the Netherlands, the idea of market primacy has shaped their contributions to international development. The notion of 'trade, not aid' (which is also seen as more palatable for an increasingly sceptical public) has turned official development assistance into a mechanism to facilitate and support the private sector, putting it very much in the driver's seat (Humphrey and Navas-Alemán, 2010; Ros-Tonen et al., 2019). In the case of rural development, this means that trading nations with big footprints in developing countries, through their demand for coffee, tea, cocoa and other goods, could use new business models to improve farmers' livelihoods. One of our interviewees referred to this as "an ideological frame that this has to be done", with an emphasis on 'how' rather than 'why' or 'when'. Most of our interviewees representing donor governments or finance institutions take business-led development as a central tenet, and are still keen to demonstrate that private-sector investment linked to smallholders can be an effective tool for rural transformation.

In the case of smallholder farming, there has been close alignment between the policy objectives in wealthy countries and the needs and interests of private companies. Food retailers and manufacturers/brands have been motivated by a desire to access new sourcing opportunities and ensure the sustainability of existing sources (Gradl et al., 2012; Technoserve, 2021). Companies sourcing commodities cultivated mostly or exclusively by small-scale producers (such as cocoa, coffee or vanilla) may invest in working with smallholders to help make farming more attractive and financially viable for future generations, and to secure long-term supply. In some cases, inclusion was framed as a way for businesses to source more competitively, given the low production costs of smallholder farming, while direct sourcing also promised to reduce margins by cutting out intermediaries (International Finance Corporation, 2019).

For companies with global supply chains, sourcing raw materials and processing them in the same country also promised to reduce complexity and avoid costs related to taxation and exchange rates (Corporate Citizenship, 2012). Inclusion has also become a means for businesses to attain a social licence to operate. Including smallholders equitably promised to help brands improve their social performance, and in doing so, attract conscientious customers. In some cases, sourcing from smallholders has also been seen as a way to gain the approval of citizens and political stakeholders in producer countries. "Capturing and keeping customers" and "managing reputational risk" are a key part of the 'business case' for inclusion set out by Oxfam in their 'Think Big. Go Small' briefing for companies (2010). This set the stage for the commercial motivations of businesses to merge with the development goals of governments, donors and non-profit organisations, as inclusion became tied up with the language of corporate social responsibility, transparency and ethical supply chains.

NGOs have been central to facilitating partnerships between businesses, donors and farmers for inclusion. One of the main roles of NGOs has been to promote and support collective action of farmers, for example by helping to set up cooperatives or associations that can be linked to agribusinesses (Hellin et al., 2009). The local credibility, contacts and knowledge of NGOs has allowed them to fulfil this role as trusted intermediaries to establish new business models. Global NGOs have also played a role in holding businesses — particularly global brands and retailers — to account and pushing for transparency and sustainability in supply chains.

4

Has reality lived up to expectation?

In this section we examine the evidence about the outcomes of smallholder inclusion in modern value chains, and the extent to which they match the ambitions and expectations described above. Our review focuses on three key questions: what has inclusion delivered for poverty, income and equity? What has it achieved in terms of gender equality? And what are the outcomes on environmental sustainability?

We find **gaps between expectations and reality.** These gaps are explained by flaws in the assumptions that drive inclusion, the rationale for interventions and the process by which they are done. Table 2 summarises the contrasts between the expectations (developed in section 3.1) and the insights about reality presented here.

Table 2. Assumptions and reality of smallholder inclusion in modern value chains

ISSUE	ASSUMPTION/EXPECTATION	REALITY
Poverty, income and equity	▪ Access to higher value markets leads to better prices and higher incomes ▪ Training, contracts and collective action lead to farmer empowerment and agency	▪ Evidence on income is inconclusive — suggests positive but relatively small income gains ▪ Income benefits are accrued by better-off farmers ▪ Poor link between training and income ▪ Contracts can bring better prices, but imbalances in information and ability to enforce are common ▪ Cooperatives are often politicised and exclusionary
Gender	Participation in modern chains is a vehicle for women's empowerment and greater gender equality	High awareness and efforts to apply gender lens, but little progress in terms of outcomes
Environmental sustainability	Compliance with sustainability standards leads to positive environmental outcomes	High on the agenda, but difficult to quantify progress. Emphasis on climate mitigation not adaptation

4.1 Limited gains on poverty, income and equity

The evidence about the impact of inclusion in value chains on farmers' income and livelihoods is mixed. If we examine what has happened overall in sectors where smallholder participation in value chains is widespread, the evidence shows that poverty is still rife. While the expansion of global value chains into low- and middle-income countries (LMICs) has overall been associated with declines in poverty (World Bank, 2020), the poverty reduction impacts of agricultural value chains for commodities like coffee, tea or cocoa are small compared to those of manufacturing value chains. According to a recent report, 24 million farmers — about two thirds of those who participate in chains involving contracts — are below the poverty line of US$3.20 per day, raising questions about "how well global value chains have contributed to poverty reduction and overall living standards in the rural areas of the countries of origin" (Farmer Income Lab, 2022: p6).

We also have direct evidence — specifically of the 'before-after' type — from the evaluation of projects or interventions aimed at enhancing smallholder inclusion, either through contract farming, participation in certification schemes, compliance with voluntary standards or a combination of those. There are hundreds of individual evaluations, but a number of recent reviews give us some clues about the general trends.

First, **the effects on income are heterogenous and very context-dependent, but appear to be positive, if small**: issues such as geographical location, crop, type of contract and type of certification all affect the outcomes of inclusion projects. Results are therefore difficult to generalise (Bellemare and Bloem, 2018). However, the systematic studies that do exist, ie those where the evidence base has been checked for comparability in terms of concepts and methodology, suggest some small positive impacts. One review of evaluation reports found a clear price premium for organic and other labels, but only modest improvements in farmers' welfare, and limited access to long-term finance (Ruben, 2017). A systematic review of studies measuring the impact of contract farming on smallholder farmers' income (Ton et al., 2017) showed that, within the sample of comparable studies, incomes increased by an average of nearly 40% after the introduction of the contract. Another review of multiple studies on the effects of different certification standards found a median increase of household income of 16% for certified vs non-certified farmers, as well as increases in farm revenue and household assets (Meemken, 2020). Reviews using a smaller sample of papers and evaluations (DeFries et al., 2017; Oya, Schaefer and Skalidou, 2018) have found similarly positive effects. These last two studies also point out that, while prices and revenues are higher, evaluations suggest that the effects on income are less clear. This might be because the costs of compliance are also higher, and because income from certified crops is 'diluted' as it's only one of several sources of income (Oya et al., 2018).

Second, **there is a strong 'selection bias' in these studies**. In other words, only positive results tend to be reported. This probably distorts the evidence base of actual effects of inclusion in value chains on smallholders' income and welfare. Cases where inclusion led to net loss of income, while probably numerous, have a far lower likelihood of reporting due to this publication bias. We were made aware of some examples of this under-reporting during our interviews.

Finally**, income gains have tended to benefit farmers who are already better off**. The review of the effects on contract farming cited above (Ton et al., 2017) also found that only in three studies were the income gains accrued to the poorest smallholders, while the 16 remaining 'success' cases were of wealthier or bigger farmers. Several of our interviews confirm this observation. Our informants, including donor governments and investors, see a clear difference between farmers with some means and those who are living in poverty. Several interviewees reported that participating in modern value chains was not targeted to the poorest of the poor, and that it was difficult to work with those "who aren't there yet". An impact investor similarly noted that they didn't work with subsistence farmers but with those "who have a motivation to grow their businesses". All agreed that the primary instrument for improving the lives of the poorest farmers was not value chain development, but social protection mechanisms.

Our interviews with farmers and their organisations in Kenya bear out the difficulties for involving the poorest farmers in value chain participation. For example, a mango grower in Kibwezi said selling to export markets had had clear and positive impacts on his life: higher income, and the possibility of educating his children to college level. Because he irrigates his crop, he is able to start selling earlier in the season and can get higher prices for his mangoes. Irrigation, however, requires an investment that poorer farmers cannot afford, so the benefits of higher prices are not evenly distributed.

4.1.1 Explaining the gap

Why hasn't reality always lived up to the expectations of smallholder inclusion in modern value chains? We identified several explanations. Some have to do with problems in the 'how to do' inclusion mechanisms that we outlined in section 3.2: these include shortcomings with certification, technical assistance, access to finance, producer organisations and contracts. We also found broader problems: a frequent misalignment between the confidence about the reach/effectiveness of modern value chains and the harsh realities of competitive markets; and a recurring 'projectisation' approach which does not lend itself to long-term change.

First, **certification has had a limited impact in improving incomes**. Although certification has been aimed primarily at sustainable production (eg reducing deforestation), food safety and good agricultural practices, it has also been seen as a passport to accessing higher-value markets. As noted above, recent systematic reviews suggest that the effect of certification on farmer's livelihoods, while positive, is small (DeFries et al., 2017; Oya et al, 2018; Meemken, 2020). In our interviews we found broad consensus about the limitations of certification to reduce poverty. A representative from a major donor organisation recognised that certification was a positive "entry point," as it unlocked a funding stream for farmers to be trained, but it only moved farmers one step up; it didn't sufficiently increase incomes. Another donor had come to realise that certification will not improve incomes or cash flows: "farmers are just being certified, but they don't actually do better". The director of a private foundation agreed that, despite all the money that has been poured into certification schemes, they haven't seen much change in terms of benefits to the farmers.

What explains the limited benefits of certification? As we have said, compliance with standards and certification favours scale and capital, putting smallholders at a disadvantage once initial project subsidies are withdrawn. Although some certification schemes have been successfully implemented with smallholder suppliers — for example in Kenya the majority of small-scale suppliers to the Kenyan Tea Development Agency (KTDA) have been certified under the Rainforest Alliance standard due to an enormous effort by KTDA and Unilever (Karuri, 2021) — the cost of compliance with some standards is prohibitive without external support, and the farmer premium associated with certification is often too low to offset the costs of compliance (Oya et al., 2018). Sometimes there is no premium, even for compliant products, because the market cannot absorb them, as was noted in an interview with an investor in speciality coffee. Because the price incentive has been eroded, certification has become — in the opinion of the head of an international investment institution — a way for brands to manage risk and for investors to "tick the ESG [environmental, social, and governance standards] box".

Second, there is a **weak link between training and improved income**. Capacity building or training — for example to attain food safety standards — is frequently linked to certification and seen as a route to higher incomes. There is an undeniable benefit in acquiring new knowledge and skills in issues ranging from soil management and water and chemical use to business practices, as was clear from the interviews we held with farmers in Kenya. However, our interviews and the literature suggest that, while acquiring new knowledge and skills can be valuable for farmers, there is no clear path between these skills and higher incomes — especially in the long term (Waddington et al., 2014; Stewart et al., 2015).

Our interviews revealed some of the reasons that may explain the weak link between training and livelihoods outcomes. There is a perception that delivering training — as opposed to increasing incomes — is much easier for businesses, donors and NGOs. In fact, 'number of farmers trained' is a commonly used indicator to evaluate the success of a programme or intervention. But training in isolation, without meaningful improvements in access to markets or to finance, is unlikely to be effective. Moreover, training has often focused on increasing yields and productivity, but this may be misplaced if there are no markets for the additional products, or farmers are unable to access credit to invest in improved production methods. The director of a foundation recognised that donors and implementors continue to use it "because it's easy to report targets and assume it will lead to productivity increases". The head of an investment firm added: "it's easy to hand over money [to an implementing firm] and count number of farmers trained, but the assumption that this will lead to changes in business models is flawed. There is no way to really check impact".

Third, **financial inclusion for smallholders has not progressed far beyond a few export commodities**. Access to finance is one of the key constraints faced by smallholders to acquire assets, invest in production and post-harvest handling and procure inputs and services. Despite some progress happening via technological innovation, such as delivering credit to farmers through mobile phone-based applications, about 70% of smallholder demand for credit goes unmet — a finance gap of around US$170 billion (Shakhovsky et al., 2019). Smallholders are widely perceived as very risky by formal financial institutions: banks see too much risk because smallholders are dispersed, remote, and there is no legal recourse if they default. Moreover, under conditions of scarce resource, smallholder households will often channel finance to children's education and dealing with health emergencies rather than productivity-enhancing technologies (Carranza and

Niles, 2019), which is a further deterrent for potential creditors. A donor interviewee noted the challenge in making a case for development finance institutions, given the small size of individual loans, high risk and level of technical assistance required. Commodity traders provide working capital to buyers, but they don't want to increase that risk.

Our interviews suggest that, despite efforts from some donors and investors to make smallholders 'bankable' through strengthening cooperatives or devising innovative financial mechanisms, formal financial inclusion for smallholders only works for a limited number of commodities (see also CSAF, 2022). These are in export-focused and certified value chains where there are contracts to facilitate collateral and value flow, or in contract-based value chains with high margins or high perishability. For example, the credit portfolio of a major investor in the smallholder sector that we interviewed was 50% for coffee, 20% for cocoa and 10% for nuts. As we discuss in greater detail in section 4.2, investments are moving away from farmers and towards the middle of the chain — for example to aggregators, as working capital to buy smallholders' harvests — where the risk is perceived to be lower.

Fourth, the gains from inclusion have been hampered by the **failure of new business models to address deep imbalances in information, power and resources.** Despite the rhetoric of 'inclusion' and 'partnership', the fact remains that there are vast inequalities between farmers and other actors in the supply chain, especially when they are multinational corporations. Contracts, one of the key features of value chains, have been posited as a mechanism for adding predictability, fairness, transparency and enforceability to the relationship between sellers and buyers, but there have also been concerns about the power imbalance of this relationship (Swinnen and Kuijpers, 2020; Cotula et al., 2021), and the fact that they tend to favour larger farms (Swinnen and Kuijpers, 2020). Contracts may not enhance farmer agency — that is, the ability to make choices and effect change according to their own priorities, whether individually or collectively (Cotula et al., 2021). This is because contracts give effect to relationships that are already determined by structural factors such as monopolistic market conditions and unequal power relations. Small-scale producers are typically 'contract takers', with key terms determined by contracts they are not party to — for example downstream in the value chain — and then 'cascaded' onto farmers through a chain of contracts (Cotula et al., 2021).

Our interviews in Kenya, while not necessarily representative, offer some pointers about the challenges of contracts. The farmers we interviewed signed contracts with export firms for mangoes, green beans and tomatoes, and conceded that contracts enabled them to access better prices and provided predictability in prices. However, they argued that these contracts were often broken, and that farmers had little recourse when this happened; the government — despite playing a role in mediating contract disputes — was often reluctant to or unable to enforce breached contracts. Farmers also complained about buyers or brokers rejecting products allegedly because of deficient quality, but in reality due to buyers no longer having the same level of demand. Two of the donors we interviewed also noted that these contracts pass risks on to smallholders: farmers tend to bear the costs of price fluctuations, disease, weather changes or changes in global demand, which puts poor farmers in an even more vulnerable position.

Cooperatives and collective action are widely seen as helping to overcome some of the imbalances described above, but we heard **some concerns about collective action**. There was agreement on aggregation as "the only way forward for working with small enterprises" (according to an NGO). The farmers and associations that we interviewed in Kenya touted the benefits of collective action, including greater bargaining power, knowledge sharing, a way to protect each other from deception and misinformation, and also a means to supply the quantities required by buyers. Government representatives stressed that growers' organisations were crucial for aggregation and for contracting.

However, some of the shine of cooperatives has rubbed off, especially in sub-Saharan Africa. Evidence from the literature suggests that membership of a cooperative or other form of farmer organisation can have a positive effect on income and improve market access (Bizikova et al., 2020), but that they are not always effective as a means of inclusion, particularly for women (Bijman and Wijers, 2019). Cooperatives can also be exclusionary of the poorer farmers, and can be co-opted by their management (Markelova et al., 2009). Our interviews with Kenyan stakeholders seem to confirm these concerns. A mango grower complained about the bureaucracy and paperwork involved, while local government officials suggested that cooperatives have become politicised and mismanaged.

At a broader level, our interviews suggest that the **ambitions around smallholder inclusion exaggerate the reach of global value chains and are stymied by the failure to address the underlying drivers of market volatility and imbalance.** We will discuss this point more thoroughly in section 5.4 below, but for now let's outline what we mean. First, there is risk of overdependency on a single product, which for smallholder households can lead to vulnerability through exposure to price, weather and other fluctuations. Income tends to come once or twice a year, and it has to last between harvests. When prices are up, farmers' cash crops offer windfall gains, but when the prices crash (as they inevitably do), farmers are ill-prepared to cope. As we shall see below, relying on a single crop — especially for export — is risky if there is no local demand, and cannot generate a living income. This was described by one of our interviewees: in a project aimed at sourcing onions from smallholders for a global brand, the quality of the onions was not suitable for processing for the local market, and the farmers were left with a product that had no alternative market.

There is also sometimes a misplaced faith in the ability of exportable 'high value' crops to lift farmers out of poverty. As we discuss in section 5.3, local markets can be more attractive. Our interviews revealed several cases — for example passion fruit in Uganda and rice in Senegal — where the local market was paying higher prices than the export market, once certification costs were taken into account.

Even businesses with the best intentions need to survive in competitive markets such as those of cocoa or vanilla. While many do think of inclusion as part of their business models, as we shall see in the next section, they can also be pulled back to their profit bottom line by shareholders. Internal tensions between the sustainability and procurement departments of big companies have also been documented (Vorley and Thorpe, 2014).

Finally, the short-term nature of many inclusion projects is not well suited to tackling issues such as structural poverty or entrenched power imbalances. The rush to declare success prematurely — and the lack of long-term monitoring and evaluation to understand what happens after projects end and donor subsidies are withdrawn, are part of the reason why we have the extremely biased body of evidence described above.

In this section we have assessed whether the inclusion of smallholder farmers in modern supply chains has lived up to its expectations and ambitions with regard to poverty and equity. The evidence reviewed suggests that this question is highly context-dependent; studies that allow for a systematic comparison suggest that inclusion has had a positive but relatively small impact on poverty and income, and that benefits tend to accrue to the better-off farmers. Our interviews point to some possible explanations: the limited impact of certification schemes on income, a weak link between training and improved income, and the limited progress on access to finance. We also heard about challenges with contract enforcement and the operation of cooperatives. Finally, our interviews suggest that ambitions about inclusion are not realistic about the underlying challenges of markets, such as boom and bust cycles.

4.2 Gender: sensitivity to gender has increased, but progress towards women's empowerment is slow

It is unclear how far inclusive agriculture interventions have contributed to improving the incomes, living standards and opportunities of female smallholder farmers, but our review suggests that **gender is a weak spot in the implementation and analysis of inclusion**. Overall we found that gender is still often treated as an 'add-on', which rarely informs the overall design and objectives of smallholder inclusion projects. As a result, it is often viewed as something that complicates interventions, rather than as an opportunity for greater effectiveness. When it comes to assessing progress towards women's empowerment, the availability of gender-disaggregated data is limited, and is often compounded by a lack of baselines against which to measure change. However, **our analysis suggests that overall, progress has been uneven and limited**.

The links between gender equality and poverty reduction have become a key area of focus within international development, particularly rural development debates, given the significant role that women play in small-scale agriculture. Women's agricultural labour on small farms is often hidden, undervalued and unremunerated, and female smallholders tend to have less power in household and community decisions about farming. They also face greater barriers to agricultural finance, inputs, technical assistance and market access.

The limited availability of gender-differentiated data doesn't lend itself well to generalisations, but what evidence exists points to a complicated relationship between women's empowerment and smallholder inclusion more broadly. Looking at the relationship between gender and value chain development, studies have found that some interventions can have positive effects on women's participation, but that such effects tend to be context-specific, and vary greatly between different types of value chains (Coles and Mitchell, 2011; Schleifer and Sun, 2020).

For example, some certifications and standards schemes have had positive effects on women's access to training, participation in producer organisations, and access to markets — even when they didn't intentionally address gender (Riisgaard et al., 2010). However, the same study found no positive connection between participation in a standard or certification scheme (and related upgrading activities) and improvements in women's household decision making power (Riisgaard et al., 2010). A review of the impacts of sustainability certification on food security identified some positive impacts on women's empowerment, including greater influence in decision making, access to formal land and property titles, and economic opportunities (Schleifer and Sun, 2020). And another study found that horizontal (eg producer groups) and vertical (eg market information) coordination and upgrading activities can, in some contexts, benefit women's market and social power, access to services and income (Coles and Mitchell, 2011). But in this case, the authors also found that participation in value chains does not lead to equitable gains for men and women, often due to underlying inequalities in household relationships (Coles and Mitchell, 2011). A 2010 review of gender dynamics in contract farming also found that women are generally not involved in contracting with agro-industrial firms and are disadvantaged in contract schemes (Schneider and Gugerty, 2010).

Our interviews reflect this mixed picture: a broad acknowledgement of the importance of gender equality, but without a clear grasp of how to achieve results on the ground. Gender equality is increasingly viewed as central to the idea of inclusion itself, both from a social and an economic perspective. One interviewee described a recent shift from promoting the development outcomes of tackling gender inequality to framing the integration of gender in terms of its contributions to business profitability and growth (eg through closing the gap between men's and women's agricultural yields).

The experts we spoke to recognise the important role that women play in smallholder agriculture, and the challenge of ensuring that they, too, benefit from inclusion in value chains. Many of our interviewees, particularly practitioners, thought that sensitivity to gender dynamics in interventions had increased in recent years, including greater commitment from food businesses. But the extent to which gender analysis is being integrated in inclusion interventions varies significantly in practice.

A few funders and practitioners have a strong focus on gender, and a nuanced understanding of how value chain interventions can (and cannot) address gender inequality. However, several funders we spoke to felt that they had not addressed gender adequately or effectively to date. Some interviewees, including two investors and a government donor, had targets for women's inclusion in business — for example, investing in women-owned businesses or those where most employees were women — but not for inclusion in smallholder agriculture.

Why is gender equality so difficult to operationalise within smallholder inclusion programmes? Our review points to some common challenges. First, targeting households rather than individuals overlooks gender inequalities among household members. Most attempts to measure the impact of smallholder inclusion on income take the farm household as the unit of analysis. However, looking at household income masks intra-household differences in labour, income allocation and wellbeing. In male-headed households, men are more likely to control income from farming, and the way in which it is spent may not benefit all members equally. By contrast, there was a perception among some of our experts, echoed in the literature, that women tend to spend money in ways that are more beneficial for household food security, children's nutrition and education (Njuki et al., 2011).

Second, different value chains offer different — and often conflicting — opportunities for gender equality. We found that when gender is being integrated, the approach differs significantly depending on which crop is the focus of the intervention. In many settings, a distinction is drawn between 'men's crops' and 'women's crops'. Although these distinctions are context-specific, usually it is higher-value, export-oriented 'cash crops', such as cocoa and coffee, that tend to be associated with men, whereas commodities destined for home consumption or for local, often informal, markets, are usually associated with women. Whether a crop is perceived as 'male' or 'female' may be determined as much by economic as social and cultural factors. For example, an interviewee working on inclusive agribusiness in Tanzania noted that women are more likely to access contract farming arrangements for crops with low upfront costs and high margins, such as rice, rather than something like coffee, which demands large upfront investments but delivers small profits.

As a result, when it comes to interventions focused primarily on value chains for 'men's crops', several interviewees felt that the most effective way to address women's economic inclusion was to focus on alternative livelihood activities for women, or different value chains beyond the core cash crops. The focus in these interventions is investing in diversification from the main cash crop, rather than in making services related to that crop, such as training, more accessible to women. When it comes to crops cultivated by both men and women, such as vanilla, we heard that although women are doing the work, and are sometimes involved in decision making, men still tend to control the income. A mango grower from Kibwezi, Kenya, noted that in his experience, the women who do benefit from export arrangements tend to be the heads of their households (eg widows or single mothers).

A third challenge mentioned by our interviewees was the difficulty of addressing what they perceived as deep seated and/or sensitive cultural practices. One area of contention was how to address the issue of gender inequality within households through value chain interventions. While several interviewees (practitioners, NGOs and academics) felt strongly about using such interventions to start conversations with households about gender equality, one funder was apprehensive about moving into what they saw as a 'cultural domain' outside their mandated sphere of operation.

Another difficult topic is the question of land rights and land tenure as a barrier to women's economic empowerment. Laws and cultural norms around land ownership often discriminate against women, meaning that women farmers often cultivate land owned by a male partner or relative, who in turn tends to control income from that land. In other cases, women may not be able to access land at all, or cultural norms may limit their mobility, thereby constraining what they can grow or what livestock they can raise. Again, this isn't something that most interviewees felt they could intervene on; rather, most worked around it, by working within women's constraints or accepting that value chain interventions would simply not be able to empower women in those contexts.

4.3 Environment: the missing piece

Climate change is already having severe impacts on global agriculture, and these are expected to be exacerbated in the coming years (IPCC, 2019). Smallholders have several traits that make them particularly vulnerable to climate change: they are overwhelmingly located in tropical areas, where the extreme climate effects are projected to be stronger and more frequent; they depend on natural rainfall; and they are financially constrained to adapt, either by adopting new technology or skills or by diversifying and/or migrating (Cohn et al., 2017). At the same time, smallholder agriculture is a significant driver of environmental change, including deforestation, soil degradation and habitat loss (Godar et al., 2014; Socolar et al., 2019).

Smallholder inclusion was meant to deliver environmental as well as social and economic outcomes. Both in the literature and in interviews, we found widespread recognition that the success of smallholder inclusion ultimately depends on healthy, resilient ecosystems. **But there is a gap between awareness and action when it comes to the environmental implications of smallholder inclusion, particularly climate change.** Tracking progress on environmental outcomes of interventions has been elusive, with little empirical evidence assessing what inclusion has meant for biodiversity, ecosystems and climate change. Likewise, while the implications of climate change were a critical concern for many of the people we spoke to, there was a feeling that the scale and scope of action is not currently living up to ambition.

Sustainability — broadly defined — is central to the successful participation of smallholders in value chains. Environmental benefits have been seen as the other side of the coin to social benefits, and in many ways the idea of smallholder inclusion makes no distinction between the two: proper stewardship of natural resources is as crucial to smallholder livelihoods as greater incomes.

Within the context of smallholder inclusion, environmental sustainability has been conceptualised as both a means and an end. A key assumption is that inclusion should be achieved **through** environmentally sustainable means, without harming nature or contributing to climate change. Sustainable intensification — the idea of increasing productivity without further environmental damage (Benton and Harwatt, 2022) — has been framed as a social and environmental 'win-win' and underpins many inclusion projects. Climate change and environmental degradation are framed as risks — for farmers and their farms, but also for businesses — that can be managed through inclusion.

Smallholder inclusion in modern value chains has also been promoted as a strategy to mitigate and minimise environmental damage linked to small-scale agriculture: the idea that through participation in value chains, farmers work towards environmental sustainability. For example, a guide on smallholder inclusion suggests that 'for smallholders, participation in supply chains covered by companies' ethical supply chain commitments can provide an opportunity to increase the stability and sustainability of their livelihoods while avoiding deforestation' (Accountability Framework, 2019). This view assumes that farming needs to be made more productive and profitable in order to deter negative coping strategies, such as land expansion, and that farmers lack knowledge about the environmental impacts of agricultural practices. However, farmers may also opt out of value chain participation when they perceive modern agricultural practices (eg monocropping) to be at odds with their traditional production systems (Clancy et al., 2013).

Certification schemes and voluntary standards have had the explicit aim to promote environmentally sustainable production, but there is limited evidence of environmental outcomes of such schemes for agricultural supply chains with a high proportion of smallholders. In part this is due to a bias towards measuring economic and social variables over environmental ones (Elliott, 2018; Alvarez and von Hagen, 2011). There are just a handful of systematic reviews that focus on the environmental dimension of certification and standards, particularly as it relates to smallholders, and these tend to draw on the same small number of studies (Jaffee et al., 2011; Loconto and Dankers, 2014; Brandi et al., 2015; DeFries et al., 2017). In general, environmental certifications and standards for agriculture have been linked to positive environmental effects, but these are often small and highly context-dependent (DeFries et al., 2017; Traldi, 2021; Marx et al., 2022). Certification is often just as, or more, likely to be linked to neutral effects or no impact (DeFries et al., 2017; Traldi, 2021; Marx et al., 2022).

Environmental outcomes related to certification have also been narrowly conceived. Studies tend to evaluate changes in smallholders' environmental *practices*, such as proper use of chemical inputs, waste management and soil and water conservation, rather than *outcomes* on the environment per se. This is in line with the framing of environmental sustainability as a means, rather than an end or outcome, of smallholder inclusion. Out of the six articles that referenced environmental variables analysed by Defries et al., only two include variables that don't relate to farmers' environmental practices (these were net tree gain and probability of deforestation) (DeFries et al., 2017).

Training in so-called good agricultural practices — which may be part of certification schemes — is often linked to value chain participation, something which was confirmed to us by interviewees. In particular, three farmers we spoke to mentioned training on the safe use of agricultural chemicals as a typical form of technical assistance provided through contract farming arrangements. A local government official in Makueni county (Kenya) highlighted the reduced number of hazardous chemicals being used as a key environmental benefit brought about by contract farming; this sentiment was echoed by two of the growers we spoke to, one of whom linked it to pollinator health. However, for other growers training was more about compliance with standards, rather than protecting worker health or the environment.

Another key mechanism for addressing environmental issues through inclusion has been producer organisations. A systematic review of the contributions of farmers' organisations to smallholder agriculture found that a quarter of studies identified improvements in environmental parameters, compared to 6% of studies which identified neutral or negative impacts (Bizikova et al., 2020). Improvements were related to 'resilience-building' and climate change, including flood protection, wetland management, water and land conservation practices, water quality, soil quality and erosion (Bizikova et al., 2020).

Despite consensus on the relevance of the environmental dimension for smallholder inclusion, our interviews pointed to a gap between awareness and action, particularly when it comes to climate change.

Several funders and finance providers identified climate change as an important cross-cutting theme, and tackling climate change as a high-level aim. However, those we spoke to were at different stages of operationalising climate change issues across their streams of work. For two donors we interviewed, climate change is part of the bigger picture, but has not been a focal area for work to date: one interviewee implied that it had not always been perceived as a priority issue for specific interventions, while another acknowledged that a lack of internal expertise on the topic has been a barrier to action. Another interviewee went further, saying that climate risks threaten the very existence of the supply chains that smallholder participate in, for example tea producers in India, and that this existential threat has not been fully addressed.

On the other hand, three donors we spoke to agreed that there has been a disproportionate focus on climate change mitigation, including within food and agricultural value chains in general — with repercussions for smallholder inclusion. As a result of this perceived mismatch, two of those three have chosen to focus almost exclusively on climate adaptation and resilience, including adaptation financing, and to advocate for greater investments at high-level events such as the UN climate Conference of Parties (COP).

5

Signs of change: what we need to pay attention to

Our review suggests that, while the ambitions for smallholder inclusion are still pertinent, the discussion about who and how to do it is shifting. As markets and supply chains change, the assumptions of value chain inclusion are becoming eclipsed by realities. Both attention and resources need to shift accordingly.

We have identified **five signs of change** in the debate about the goal, tools and effectiveness of smallholder inclusion: first, we are seeing **changes in how different actors, especially businesses, understand their own roles and responsibilities**, as well as the emergence of new influential actors. Second, we see a **shift of attention and resources towards enterprises in the middle of the chain** (eg wholesalers, aggregators and processors) that are thriving outside of inclusion projects. Third, **local, domestic and informal markets are an increasingly attractive opportunity for inclusion**, outside of donor-supported projects. Fourth, there is a move **from a narrow focus on smallholder inclusion to wider supply chain responsibility** and sector governance. And fifth, **living income is emerging as a new and potentially transformative benchmark**. Below we develop each of these in detail.

5.1 Changing actors: new realities, shifting roles and new entrants

Our review suggests that perceptions of the roles, responsibilities and scope of action of different stakeholders — farmers, businesses, NGOs, donor governments and national governments — are evolving beyond the assumptions and expectations that we outlined in section 3.3. In addition, we heard about the entrance and increasing importance of philanthropic and impact investors in this space.

There is more caution about the role of large businesses in supporting development outcomes, and questions, including among businesses themselves, about the impact of their actions. The private sector, however, still looms large in the agendas of the major European donor countries. In the words of a representative from a government donor agency, the private sector is still the one creating employment, and has to be part of the development agenda. But this enthusiasm, which until recently has been a sort of article of faith among development circles, is becoming much more qualified.

Questions about the role of the private sector have come, to a large extent, from traders, manufacturers/brands and retailers themselves. On the one hand, global agriculture and food businesses have made a significant range of commitments to inclusion and climate change — for example, Unilever's Planet and Society strategy 2020 and Danone's efforts to achieve B-Corp status (whereby a company's social and environmental performance are weighted equally with their economic performance). On the other hand, some stakeholders reported that businesses are aware of the limits of their sphere of influence, and the perils of trying to solve too many problems. For example, the two companies mentioned above have come under fire from activist investors: Danone's CEO, Emmanuel Faber, was removed from his position, accused of not managing "to strike the right balance between shareholder value creation and sustainability" (Abboud, 2021). In January 2022, Terry Smith, founder of Fundsmith Equity Fund that holds 0.8% of Unilever's stock, claimed that the company's focus on sustainability and brand purpose is "ludicrous" and led to the giant's underwhelming performance in 2021 (Agnew, 2022).

As businesses change, NGOs also move into different roles. NGOs have played a central role in enabling the participation of smallholder farmers in value chains. This partly resulted from a shift from playing an adversarial role towards a collaborative approach with international companies. NGOs recognised that the 'naming and shaming' approach could be replaced by what some call 'insider advocacy', that is, working for change from within. There has been an acknowledgement that businesses can have an impact on development objectives, and that NGOs can try to shape their behaviour constructively.

There are two other important shifts happening. First, a 'social tipping point' has been reached, whereby pledges to sustainability targets have become (or been seen to have become) the norm: part of companies' licence to operate rather than a market differentiator. On paper all high-profile businesses have made commitments to sustainability. Consumer choice is no longer the main target of sustainability initiatives — all products are expected to be produced sustainably as part of companies' 'core values'. One NGO representative told us that this presents a singular challenge for NGOs: while they recognise and applaud the fact that companies start to use this language, they also need to ensure these commitments are followed through. The second shift is that, as we will see in section 5.3, the attention of businesses and donors is moving away from the high-profile brands and into less visible middle-of-the-chain operators. NGOs, which have built deep networks with farmer associations and local groups, are also shifting to a more intermediary role of providing links with farmers and delivering technical assistance. But there are emerging questions about NGOs' ability to do partnerships at scale.

Finally, **philanthropic and impact investments are becoming increasingly important to mobilise finance for smallholders**. These 'new' investors are still a small fraction — less than 1% — of the almost US$70 billion financial market for smallholders (Shakhovsky et al., 2019). However, impact and philanthropic investors are using their capital strategically to help mobilise commercial investments, for example by making 'first-loss' investments or providing guarantees for risky lending. One of the impact investors we spoke to described their role as "creating markets so that other actors can come in without taking the risk". 'Blended finance', the combination of public and philanthropic capital, is increasingly being used to increase private or commercial investment in smallholder agriculture. As we noted in section 4.1.1, the main targets of these new investors are currently certified export crops like coffee, but our interviewees suggested increasing interest in other markets, including for food staples.

5.2 Targeting SMEs in the middle of the chain

We found a **growing recognition of the importance of enterprises in the middle of the supply chain and an accompanying shift of attention and resources towards them**. The middle of the chain — ie the aggregation, transport, processing, packaging and wholesaling that connect production with retailers and consumers — is one of the most dynamic parts of the food economy in LMICs regarding smallholder farmers. These functions have been called the "hidden middle" (Reardon et al., 2021) not just because they are usually out of sight of consumers in urban centres, but because they are rarely part of policy debates and strategies (Liverpool-Tasie et al., 2020; Brockington and Noé, 2021). The importance of mid-chain enterprises is growing as improvements in infrastructure, education and communications allow food supply chains to penetrate deeper into rural areas, opening up connections, access and, most of all, cash. Urbanisation and the increased demand for food have been some of the key drivers of these changes.

These changes have been driving a profound transformation in rural areas dominated by smallholder agriculture, where opportunities for commercialising agricultural products have opened up and improved their access to cash, goods and services (Brockington and Noé, 2021). The agency of farmers and traders is seen day to day in the way in which they include or exclude themselves from market opportunities under conditions of limited finance. For example, cotton farmers in Zambia may break contracts with ginners if they perceive that a fairer deal is available in the informal market (Kabwe et al., 2020). Importantly, the entrepreneurial dynamism and trader finance are not just occurring in cash crops like coffee or cocoa, but also in staples and fresh vegetables. As described in an interview with an academic, producer agency and entrepreneurialism can be unleashed by government provision of basic public goods — roads, economic stability, healthcare and education — without necessarily extending specifically agricultural chain development.

The support from small and medium enterprises (SMEs) — especially those linked to food processing or value addition — is not new in the international development agenda (Curtis, 2016; Alibhai et al., 2017; Slabbert and Ketley, 2020). Investments in SMEs have been a crucial part of a broader strategy for job creation, income generation, and skills and technology transfer. What is new, according to a range of stakeholders in our interviews, is the argument that, to help smallholders, you need to support SMEs.

Instead of providing goods or services directly to farmers, some donors and investors are targeting the aggregators, processors and other enterprises which buy from smallholders. The expectation is that SMEs will in turn provide finance, knowledge or services up the chain to producers. As one investor said, "I'm a firm believer that if you have an SME on the ground processing goods, then that SME can take care of that smallholder supply base" by providing training, fertilisers, and improving quality specifications. The director of a foundation spoke of their emphasis on "rural impacting SMEs", and a framing of their programming around one question: what does the SME need to thrive? Impact and commercial investors, as well as donor-backed financers, are stepping up their lending to mid-chain SMEs as they recognise them as credible and (sometimes) profitable targets of investment. Impact investors are lending to agricultural SMEs that source from smallholders — especially coffee and other high-value cash crops — but investment, including by large donor-funded programmes such as the UK's Commercial Agriculture for Smallholders and Agribusiness Programme, is also being channelled to staples and fresh vegetables.

There are different types of ongoing investments and interventions in the middle. While many of the targets are SMEs, there is also support for larger agribusinesses that source from smallholders. In Malawi, for example, smallholders are being brought into the supply chain of chicken feed by selling to large agro-processors, and Kenyan smallholders are supplying grain for large domestic beer breweries. According to interviewees, interventions are not limited to providing finance to agro-processors (SMEs or otherwise), but are also helping them to buy assets or providing training. One of the impact investors that we talked to described a project in which they supported a cooperative to set up a mill that could process their members' products — something that the cooperative would not have been able to afford. As a result, SMEs can then provide goods and services up the chain to the smallholders that supply them.

Why are investments to smallholder inclusion moving towards this 'hidden' middle? Our interviewees cited support for SMEs as a way to reach scale, increase multiplier effects and make interventions more replicable. An impact investment firm which is lending to an agricultural SME sourcing coffee from smallholders said the reason they invest in aggregators is because they have a larger possible scale of impact, and are able to work with more women. If aggregators have reliable finance, this investor said, they can grow and offer more to farmers.

The shift is also related to risk management for investors or donors. According to some of our interviewees, working with small-scale farmers, and particularly providing them with finance, was perceived as onerous and risky for investment. Working with SMEs reduces the number of transactions and is logistically easier, as most of them are urban based.

This shift in attention and resources towards the 'hidden middle' has several important implications. First, as we discuss in section 5.3. below, it is demonstrating that **farmers do not need to be tied to export and corporate-driven value chains to get benefits**: there is value in local and domestic, mostly informal, markets for food staples.

A focus on the mid-chain raises **questions about standards and how they are enforced**. Under what conditions are smallholder farmers 'included' in the supply chains of SMEs? SMEs won't have the same standards or compliance mechanisms as larger firms, so how do we know if farmers are getting a fair deal? One foundation noted that knowing that an SME interacts with a certain number of farmers doesn't say whether the interactions were good or improved: "you reached them, but did you exploit them?" Another interviewee from an NGO also pointed out that focusing on mid-chain aggregators and processors loses some of the transparency and visibility that businesses had been developing by sourcing directly from smallholders.

As the action moves away from big brands and reputation into the 'hidden middle', **the role of some NGOs has also changed**. Instead of exposing bad practices or working with businesses to improve standards, NGOs also perform intermediary or implementer roles — with concern among some of our interviewees that this is straying beyond the core mission of NGOs and beyond what they can deliver. Moreover, mid-chain dynamism shows that the critical role of the state is easy to miss within donors' narrow inclusion programmes and interventions: the 'hidden middle' is flourishing where the state has invested in public goods like roads, electrification and market infrastructure.

5.3 Finding value in local, domestic and informal markets

The assumption that inclusion in modern value chains is always preferable for smallholder farmers is beginning to be questioned. As we saw in section 3.1, one of the key assumptions is that involvement in organised supply chains (ie largely formal, contract-based) can help farmers gain access to higher-value markets (often for export) thus leading to higher incomes. We have also discussed (section 4.1) that many of these benefits have not materialised as expected. Our review suggests a growing realisation that smallholder farming does not need to go the global value chain route to accumulate assets and reduce poverty. As focus starts to shift to the 'hidden middle' (section 5.2), there is more awareness about the dynamism and opportunities in the local and domestic trade for food staples.

Recent longitudinal studies have shown that smallholder-based rural development can build assets and improve wellbeing, supported by some straightforward investments in public goods such as roads or electrification, stable economy, education and health services (Brockington and Noé, 2021). Notably, this accumulation of assets is not tied to externally driven inclusion interventions, but is instead driven by growing demand for food, and may involve cash crops in trader-mediated chains like sesame or sunflower oilseeds, or fresh fruits and vegetables for local markets replacing coffee.

Despite the widespread perception that intermediaries in local chains — from aggregators to transporters and wholesalers — are predatory and add little value, the evidence suggests that they perform a crucial role in the food economy (Vorley, 2013; Schoonhoven-Speijer and Vellema, 2020; Vorley et al., 2020). Intermediaries and traders provide outlets for farmers' products of all quantities and qualities. Increasingly, as there is more capital in the economy to go round and transportation infrastructure improves, traders are providing finance and advance capital for farmers. They also pay on time, in cash, and frequently beyond what formal markets pay.

These factors, added to the costs associated with certification and compliance with standards in global value chains (see section 4.1), mean that participation in local markets could become a more lucrative proposition for farmers than inclusion in high-value chains. Existing evidence does suggest that urbanisation is driving a huge increase in demand for food, and that, at least in the case of Africa, this demand is being met by repurposing production towards local and regional markets (Wiggins and Keats, 2013; Allen and Heinrigs, 2016). A big proportion of interregional trade (30–40%) takes place informally, outside modern value chains (Koroma et al., 2017). However, recent evidence also suggests that even smallholders who are set up to supply high-value export markets are opting for a 'multichain approach', whereby they sell to both Northern and Southern value chains, often in an effort to reduce the risk of having their products rejected based on stringent standards (Pasquali et al., 2021).

In our interviews, donors and investors signalled a flexible approach with regard to the types of crops and markets involved. The head of a donor-backed lending institution told us that they are convinced of the opportunities for entrepreneurial smallholders in local and regional value chains and are working to identify support mechanisms. A representative of an international financial institution said that their focus on chains for food staples can be more impactful and sustainable because women and marginalised people cannot meet the higher requirements of multinationals for volume or quality. An NGO employee noted that farmers who are producing for export markets will often have other products to sell in local markets as a risk assurance.

This growing ascendance of regional and local markets — a partial deglobalisation or 'slowbalisation' as *The Economist* has labelled it — has come into sharper focus in the context of the war in Ukraine and the global shortage of grain and fertiliser. Turning attention away from global commodities trade to local food provisioning is becoming a much more strategic and existential issue for national governments. The question of how to best support these local and domestic chains, as we discuss in the conclusions, is becoming all the more important.

5.4 From smallholder inclusion to inclusive supply chains and sectors

Our review points to another sign of change in the discussion from a narrow focus on smallholder inclusion to a broader concern about inclusive markets. Much of this has been driven by a growing recognition of the limits of businesses as development actors. As we saw in section 3.1, one of the key expectations was that participation in modern value chains would unlock the power of markets, allowing investment, goods and services to flow without the interference of the state. Our review suggests that this expectation has been challenged as businesses are reminded about their own limits and the perils of getting drawn into ever-increasing interventions to make inclusion 'happen'. There is also a broader recognition that addressing all the complexities and multiple dimensions of smallholder livelihoods is beyond the sphere of influence of any single actor, no matter its size or importance. Addressing the wider dynamics of inclusion requires the participation of a whole sector, including the farmers and their associations, businesses, financial institutions and governments. The declining confidence in the potential of certification as a tool which can deliver economic benefits to smallholders (see section 4.1) also appears to be tied to the shift in focus from individual supply chains to commodity sectors. Through this perspective, the question is not how to improve the participation of smallholders as sellers in a specific value chain, but how to create the context in which all actors, farmers included, can thrive.

According to one view, which was shared by several interviewees, the development of value chains requires a **holistic approach**. This refers to the provisioning of a bundle of services to smallholders, such as finance, inputs, skills, access to markets and more. We heard different versions of this, for example from an impact investor who defined it relatively narrowly as services or products that enable smallholder participation, to more extensive ones which referred to all aspects affecting farmer livelihoods — from healthcare to education to gender and everything in between. One of the donors interviewed stated that when working with farmers it's important to look not only at the cash crop but at the whole farming system through what they called a 'holistic package' that includes training, input supply and finance.

While this systemic approach seems appropriate, some of our informants were concerned about the appropriateness — and ability — of individual companies to provide such holistic support. As we discussed in section 5.1, businesses are walking a tightrope between the need to meet social and environmental standards and the pressure to deliver profits. One of our interviewees has detected a reluctance of businesses to overpromise, and pressure to remain within their narrow sphere of influence. Another informant who runs a foundation noted that "it's so hard to resolve the suite of problems faced by smallholders through the vertical route of value chains. Unless the system is working and structures around it are viable, your route to have impact on the ground is hard."

Businesses' concerns about getting drawn into ever-expanding holistic approaches are also underlined by an acknowledgement that in certain circumstances smallholders don't bring benefits to large corporate buyers. In section 3.3, we argued that businesses were looking at sourcing from smallholders to secure their supply and to improve their social licence to operate. In interviews, some of our sources said that smallholders are actually likely to add costs and responsibilities, and that companies will generally source from smallholders only when there is no alternative, such as when the product does not suit plantation scale, for example cocoa or vanilla. In these cases, **better inclusion of existing suppliers has a higher priority than more inclusion of new suppliers**. One of our interviewees who worked for a global corporation added that it's not easy for a big brand to shift procurement to smallholders due to the fragmentation of production, the difficulty in achieving certain standards, and price competitiveness.

This tension between the need for a comprehensive approach that ensures reliability of supply and companies' recognition of their own limitations has led to the growing significance of multi-stakeholder, or sectoral, approaches. As a donor explained, for companies with a high reputational risk it pays to invest in a holistic approach. But they are also aware they won't be able to solve all the problems themselves, and that they risk having to step in to fix one problem after the other — through technical assistance, education, inputs, finance, and more. The acknowledgement that there are things that a single company, and a single supply chain are not able to do has led to a focus on living income, which we discuss in section 5.5.

Several interviewees agreed on the need for **improved sector governance** as a way to deal with some of the problems associated with commodity markets — and the wider dynamics of inclusion — where little or no progress has been made in alleviating farmer poverty. There are few examples of 'working' sector institutions; exceptions include KTDA and the Colombian Federation of Coffee Growers. The case of KTDA is notable because 50,000 farmers own 70 processing factories, capturing around 75% of the made tea price. This has been possible due to a combination of bargaining power, income, co-ownership, technical support, oversight, supply management and attention to quality that allowed KTDA to **capitalise and upgrade the sector** — as compared to interventions that focus on the individual farmer. KTDA is an example of pro-smallholder privatisation of state-owned institutions done during a time when market liberalisation was only starting, but would be much more difficult today. An interviewee from a foundation noted the difficulty in supporting a KDTA-type model for privatisation in Rwanda within a sector that has already been liberalised.

Another key challenge in governing certain sectors, especially those of commodities like coffee, cocoa or vanilla, is the volatility of prices and overdependence on one cash crop. As discussed in section 4.1.1, farmers who depend on a single commodity are vulnerable to 'boom and boost' cycles and other shocks. Diversification of crops has been seen as a solution to overdependency, but as we heard from several interviewees, it's unlikely to help if there is no market for the secondary crops. Someone working on the vanilla sector commented that diversification "is both essential and a trap", meaning that it is necessary, but cannot solve the fundamentals of price volatility in the primary crop.

Finally, there is a growing sense that the state needs to be brought back into sector governance. While many sectors were organised by the private sector partially as a remedy to government inaction, our interviews suggest that businesses, investors and NGOs now want, and need, the government to step in to provide clarity, direction and support. Commodity sectors such as coffee, tea or cocoa tend to have lots of small sellers and a handful of large, powerful buyers. The director of a foundation questioned the notion of "big companies getting into social stuff in producer countries", arguing that this is the responsibility of country governments. However, some interviewees see national governments as creating an unfavourable environment, for example by exacerbating volatility by introducing minimum prices (as is the case of Madagascan vanilla) or by introducing temporary subsidised inputs for electoral gain in crops such as cotton.

5.5 Is living income the 'new' standard?

As we saw above, there is increasing realisation that the problem of inclusion is beyond the sphere of individual supply chains, and must include a broader view of smallholder livelihoods. The idea of living income reflects this changing view. According to one of our interviewees, the approach of achieving living income grew out of a recognition that despite all the money and effort going into development work, "the needle wasn't moving at aggregate level" on smallholders. The term 'living income' has been defined as "the net annual income required for a household in a particular place to afford a decent standard of living for all members of that household" (www.living-income.com/the-concept). One of the key characteristics of the living income benchmark — which is also the source of its great potential — is that it shifts the focus from process (inclusion) to outcome.

The profile of living income has increased rapidly in the last few years. It has been endorsed by major business groups, including the World Business Council for Sustainable Development, and featured prominently during the 2021 UN Food Systems Summit. The reason living income is better suited to a holistic approach to smallholders is that it recognises that the income from a specific commodity or cash crop is seldom enough to properly sustain a farming household. A recent study suggests that a doubling of the market price for cocoa would only bring an additional 17% of households to a living income line in Ghana and Côte d'Ivoire (van Vliet et al., 2021).

What has been driving the push towards living income? There have been several drivers. NGOs and advocacy organisations have been campaigning for living wages for some time (Fairtrade, 2022), so this is an extension of that movement from wage workers to smallholder farmers who sell their products rather than their labour. In a recent report (Gneiting, 2021), Oxfam welcomes the private sector's interest in and support of living income, but argues for the need to move from rhetoric to action.

Companies have also been moving towards living income for various reasons. According to a donor we spoke to, many businesses, especially in commodities like cocoa and coffee, claim that living income is their 'North Star', giving them a clearly defined benchmark that can be tracked and measured. It allows them to manage reputational risks in their supply chain by ensuring that their suppliers meet a minimum, transparent standard. An investor we interviewed said he had "high hopes for living income in those reputational risk supply chains such as tea or coffee".

A movement towards living income also improves the reliability and resilience of supply, especially in sectors that are prone to price volatility and cycles of boom and bust. But as we outlined above, there are limits to what individual companies can do to improve livelihoods. The fact that living income can be measured doesn't mean that it's easy to achieve, and leads to questions about the role of businesses. The intervention of a single actor to promote living income is unlikely to have traction without coordinated actions across the sector, including from government (Kiewisch and Waarts, 2020).

More recently, the push for living income has moved from voluntary adoption to legal requirement. Recognising that voluntary efforts have not worked, the EU is advancing on legislation that would require companies to ensure due diligence processes in their supply chains (European Commission, 2022). This legislation and its associated discussions have been framed around human rights and the need to ensure that products imported into the EU meet minimum social and environmental standards. This legislation would supersede differing national-level requirements for companies, and create a 'level playing field' which they have been demanding. If applied, these regulations could have significant impacts beyond EU borders. For example, the EU cocoa talks, a dialogue between the EU and Ghana and Côte d'Ivoire (the two top cocoa producing nations) aims to eliminate child and forced labour in the cocoa sector and to ensure a living income for farmers. A senior staff member of a European development agency suggested that organisations like theirs are focusing their efforts on the EU rather than their own national government, as the EU is seen as a more powerful actor.

While the push towards a living income standard was widely supported, some interviewees mentioned possible downsides. A donor/investor noted that, like other standards, living income can be exclusive, particularly concerning the cocoa sector. If West African governments don't comply, cocoa businesses will move elsewhere, meaning the living income standard will not have the intended effect. According to this interviewee, the momentum around due diligence and living income requires having a global strategy. As a national policy, living income could make a country uncompetitive and therefore excluded from global markets. Another donor worried that living income will have the unintended consequence of widening the gap between those who are 'included' in a way that leads to living income and those who are excluded — who are likely to increase. This could happen, for example, if firms move away from smallholders who are unlikely to achieve living income, leaving them even more marginalised.

Living income also highlights some of the problems associated with a holistic approach. As we have seen, a holistic involvement risks companies being drawn into a cascade of big project interventions that try to address the other contributing factors to living income such as secondary crops, off-farm income and education.

One of our interviewees noted that the narrative about living income is mostly about internationally traded commodities rather than locally consumed crops, and that the trend is driven by large corporates that are operating internationally. This raises the question about the effects of living income standards on local markets for food staples, which are dominated by informal and small enterprises. While SMEs are nominally excluded from due diligence legislation such as the EU's directive, many smaller firms — especially in LMICs — which make up part of supply chains of bigger companies, may be unable to comply with these requirements and be further marginalised (Verbrugge et al., 2022). Moreover, this opens up a broader question about the terms under which smallholders are included outside of corporate-led value chains.

Living income also presents an important challenge with regard to gender. Measuring income at the household level masks important differences in men's and women's control over income from global value chains, and how that income is spent. The review by Oxfam (Gneiting, 2021) shows that the impact of living income commitments is still measured at household level, and that few companies are producing gender-disaggregated data. There is therefore a danger that a living income framing is a missed opportunity to advance the gender-inclusive agenda.

Finally, if living income is replacing other tools such as certification, how will environmental sustainability factor into this new measure?

6

Looking ahead: implications for donors, policymakers, investors and NGOs

We started this review indicating the broad agreement from our interviewees that the time is **right to reflect on and reframe the theme of smallholder inclusion in modern value chains**. We sought to address three questions: (1) what is the implicit theory of change of inclusion, and what is it supposed to achieve? (2) has this theory of change lived up to reality? And (3) in what directions are things changing?

We found that there are multiple expectations hanging on smallholder inclusion. For farmers, inclusion has promised better incomes and livelihoods through accessing high-value markets, and a more equitable and transparent distribution of benefits along the supply chain. Inclusion has also been promoted as a tool for women's empowerment and to achieve environmental sustainability goals. For businesses, inclusion of smallholders in their procurement chains is meant to ensure the reliability of supply, and it also offers a social licence to operate.

Unsurprisingly, we have found how hard it is to resolve the whole suite of smallholder problems through value chains. The evidence indicates that participation in modern supply chains has had a modest impact on farmers' income, and that the benefits tend to accrue to better-off farmers — and men in particular. Certification schemes, contracts, training and involvement in cooperatives do not appear to straightforwardly lead to better incomes. We also found a weak link between smallholder inclusion and environmental outcomes.

Our interviews and review of the literature show that the debate about smallholder inclusion is dynamic and evolving. The COVID-19 pandemic and the war in Ukraine have given it an added sense of urgency. We found that the roles of different stakeholders are changing: large businesses and NGOs are more conscious of their own spheres of influence and are adjusting their approach to inclusive business models, while new entrants like philanthropic and impact investors are shaking things up. We heard of increasing attention to the dynamic 'hidden middle' of SME processing and aggregation, a lot of which is happening not in export crops but in local and regional markets for staples. Faith in the transformative effect of smallholder inclusion in specific value chains is being replaced by a recognition that the complex challenge of improving smallholder livelihoods requires multiple actors in sectors — businesses, governments, donors, civil society and farmers — across multiple dimensions. The increasingly relevant concept of living income encapsulates the need for a holistic approach — and also calls for caution to avoid its pitfalls.

Recognising that the original implicit assumptions of smallholder inclusion in modern value chains may not be deliverable does not mean that the goals of inclusion should not be pursued. Based on the lessons drawn from this review, below we propose four areas where attention will be needed to define the future of smallholder inclusion in the next decade.

1. More inclusion, not less, is needed

This review of smallholder inclusion has at times been critical, but it is important to stress that the aspirations and ambitions, if not the tools, for inclusion are still highly relevant. Improving rural livelihoods will be essential to fulfilling the UN Sustainable Development Goals, from poverty to food security and environmental sustainability. Our small sample of Kenyan farmers does not reflect the diversity of views among farmers, but it does suggest that farmers' perceptions are nuanced. The farmers spoke about the many challenges of supplying value chains, but also the many benefits that this brings. Not one farmer suggested that they wanted less inclusion — to the contrary, they want more and better participation in markets of all types. A detailed analysis of smallholders' perceptions and needs — far more than is possible in this report — is necessary to ensure that they can participate equitably and lucratively in supply chains.

We also recognise that many farmers will remain, or become excluded from markets as these evolve. If value chains have not been able to 'include' the poorest farmers, that doesn't mean that they can be written off as 'non-viable'. There is a policy agenda to benefit the poorest farmers that doesn't require much capital, labour or land. As we argue below, investments in public goods, rather than donor-funded and NGO-mediated projects are needed to enable the widest possible participation in food markets. A robust social protection net is an essential component of this process.

2. SMEs and informal/domestic markets are already 'doing' inclusion and need the right kind of support

The 'hidden middle' of agricultural chains has been in plain sight. It's grabbing more attention as demand for food grows and its intrinsic value becomes more evident. The upheaval in global food systems partly created by COVID-19 and the war in Ukraine will only increase attention to domestic production. The participation of smallholders in domestic food markets does not depend on projects or interventions. There is no need for an externally-driven process of inclusion because small-scale farmers already are included in these markets. But there is still significant scope for support and investment. The question is, what do support mechanisms look like?

First, there are opportunities for private investment, both philanthropic and commercial. Impact and other investors recognise the multiplier effects of targeting mid-chain enterprises, and the employment potential for women and young entrepreneurs. But among investors there is still uncertainty about how to invest in SMEs, and lack of understanding about domestic and informal markets. Furthermore, these SMEs may not necessarily be bound by concerns about due diligence, corporate responsibility and reputation, so investors will need mechanisms to screen companies for labour standards and environmental performance. This is an important area for further research.

National governments, supported by donors, should focus on gaps in public goods. If roads, electricity and other infrastructure are in place, capital will flow, as well as labour, information and inputs. In addition, government investment in water and sanitation could go a long way in addressing concerns about food safety in these (primarily informal) markets.

3. A fair deal for smallholders (and wider farmer/farmworker population) is needed in the face of a cost-of-living crisis

The present 'perfect storm' battering the food system has exposed the unremitting price pressure from food processors and retailers on farmers in supply chains, in the name of protecting consumers from the cost-of-living squeeze. Farmers are facing a huge rise in input costs and uncertain demand.

We have discussed questions around the effectiveness of certification and standards, but today's situation makes these questions even more stark: what price premium will certified products attract — or rather, who will pay for them? As farmers get even more squeezed to deliver prices to consumers, what money is left in the supply chain to do anything substantive about the incomes and livelihoods of producers? A major stocktaking of standards and certification is required. If certification is becoming redundant — simply because the downwards pressure on prices makes it irrelevant, even as a social licence for companies — what will replace it? Whatever comes next, whether in the form of a new living income standard or something else, has to provide a meaningful benefit for farmers, not a new obstacle to overcome.

Global agrifood companies have been key drivers of smallholder inclusion. This review suggests that, despite their considerable power, they alone cannot fix the myriad problems affecting smallholder farmers — nor should they. A stronger role for national governments is needed not just to improve corporate accountability, but because the realisation of ambitious social and sustainability commitments requires public investment, clear rules and good governance.

4. A 'green transition' to climate-resilient smallholder agriculture will not be achieved just by inclusion in value chains.

Any goal of a 'green transition' of smallholder agriculture is far from a reality. **Our review suggests that the environmental dimension of inclusion is weak and poorly understood**. As we show in section 3.1, some of the tools for inclusion, such as certification and voluntary standards, are coming under scrutiny for the weak link between process and outcome. The emphasis of value chain inclusion has been on smallholder livelihoods and income, but the need to respond effectively to climate change — especially adaptation — is comparatively weak. This raises the question of whether inclusion can also be environmentally sustainable.

Rules about due diligence in supply chains, such as the one currently being discussed by the EU (see section 5.5), may bring some positive changes to the environmental performance of value chains more widely, including those in which smallholders participate. As we have seen, however, new standards and regulations may be exclusionary for smallholders. This is especially true if — or rather when — businesses decide to diversify their sourcing locations rather than work with existing suppliers.

Participation in value chains alone is unlikely to fundamentally alter the existential danger that climate change poses for small-scale agriculture. Smallholders in tropical regions are globally one of the largest populations exposed to climate change, not only because of direct impacts on their livelihoods, but also because it will exacerbate the risks of investing in small-scale agriculture. However, the debate about food systems transformation, including calls for corporate commitments to decarbonise their value chain, have been almost exclusively focused on mitigation rather than adaptation. The need to reduce emissions from agriculture must not hide the fact that smallholders carry almost all the risk of climate change, and have very few tools, including financial and technical, to manage that risk.

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This report examines the promise and reality of including smallholders from developing countries in modern value chains as a path to sustainable development. Drawing on an extensive literature review and interviews with diverse stakeholders, we lay out the ambitions, expectations and assumptions hanging on smallholder inclusion with regard to income, gender equity and environmental sustainability. We describe the gaps between expectation and reality, suggesting that inclusion — as conceptualised and implemented — is poorly suited to the complex challenges faced by farmers. We identify five signs of change in the discussion about smallholder inclusion, and reflect on what these might mean for its future.

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