Hivos people unlimited iied Briefing
Small Producer Agency in the Globalised Market
JUNE 2012

Small-scale farmers' agency: how the poor make markets work for them

Many of the people attending the 2012 Earth Summit (Rio+20) in June see promise for sustainable development through private-sector initiatives — and expect that improved links to markets can reduce poverty among half a billion small-scale farmers who feed much of the developing world. But most of the 'inclusive business' models already set up to do that are reaching only a narrow minority of farmers. To get the future right for the other 90 per cent, policymakers, businesses and nongovernment organisations must ask the right questions. Instead of thinking about how to make markets work for the poor, we must look at how the poor make markets work for them.

Policy pointers

- Delegates to the Rio+20 summit have high expectations of the private sector including linking smallholders to modern markets through 'inclusive business'.
- Evidence suggests that value-chain initiatives usually reach only a small percentage of small-scale farmers.
- Improving the performance of informal markets may provide broader development outcomes for both small-scale producers and low-income consumers compared with working with formal markets and value chains.
- Development programmes should view 'the poor' as active economic agents rather than as beneficiaries of their interventions; and understand how small-scale farmers make their own decisions in the face of big changes in agrifood markets and rural economies.

A small-farm story

Agriculture is still a small-farm story: half a billion farmers, working plots of less than two hectares, produce a significant proportion of the world's food — estimated at more than 90 per cent in sub-Saharan Africa, and 50 per cent in India. Poverty reduction, too, is closely linked to small farms. Three quarters of the world's 1.2 billion poor people live in rural areas, and most are small-scale producers who depend partly or completely on agriculture and natural resources for their livelihoods.

Since the food crisis of 2007–2008 and its aftershocks galvanised interest in the future of agriculture, small-scale farmers have risen high on international agendas. Surging commodity prices have underlined the vulnerability of the world's food supply to global change, and lent immediacy to the challenge of feeding a growing population under tightening environmental constraints. On top of these challenges, globalisation has opened borders and exposed small-scale farmers directly to the opportunities and risks that come with direct exposure to world markets.

Governments, donors and the development community at large, as well as many in the private sector, have embraced the need to support small-scale farmers in agricultural markets; and recent G8 negotiations and discussions leading up to Rio+20 have all heard the argument that private companies should play a much greater role in sustainable development. Advocates of 'market-based' development argue that, through market inclusion, small-scale producers can survive and even prosper in the face of major shifts in agriculture and food markets ushered in by globalisation. In this new agenda, small-scale producers are seen not only as the key to reducing rural poverty, but also as a pillar of global food security, stewards of natural resources and biodiversity, and part of the solution to climate change.

For international businesses, establishing relationships with small farmers is a chance to secure supplies of agricultural produce, and develop new markets for seeds and other farm inputs. Some of the world's biggest companies, including Walmart and Unilever, have announced ambitious goals to bring small-scale farmers into their supply networks.

Developing the poor?

The wide interest in market-based approaches to supporting small-scale producers has driven a wave of public-private partnerships. There has been considerable advance in our understanding of how to adapt business models for inclusion of small-scale farmers. But not all analysts agree that building

bridges between smallholders and private business is the best approach.[1] Some assert that the adaptive capacity of the rural poor is being undermined by exposing small-scale producers to highly demanding and volatile markets; many of these advocate alternative rights-based approaches that focus on strengthening democracy and food sovereignty built on human rights. Other camps of analysts debate whether small-scale farmers can be central players in future agricultural markets; they favour large-scale agricultural investments, with small-scale farmers serving as niche producers — or moving out of farming, including as labour on large farms and estates.

To get the future right we must look at how the poor make markets work for them

Often these arguments have one point in common: they continue a tradition of viewing 'the poor' paternalistically. Small-scale producers are seen as victims of emerging crises, who may be 'developed' as beneficiaries of government, donor and private initiatives.

But by treating small-scale farmers as victims or beneficiaries, these programmes miss producers' role as economic actors and business partners in their own right. Given the entrepreneurial nature of agriculture, small-scale producers are analysing their options, managing risks and making their own decisions — even in the face of incomplete information and unfavourable policies. A recent joint knowledge programme of IIED, Hivos and Bolivia-based Mainumby has focused on this capacity of producers — as individuals and collectively — to make effective choices in the face of external agendas and powerful actors, and to act on those choices; in other words, the 'agency' of small-scale producers. The programme uses an agency perspective to understand the strategies and constraints of small-scale farmers — information that can help in designing more appropriate policies and business interventions.

Cooperating to compete

In Uganda, growers of 'matoke' — cooking banana, an East African staple — coordinate their activities only at harvest time. The farmers use mobile phones and networks of relatives to research markets in nearby cities, and appoint community representatives to assess the volume of product, organise sales, negotiate prices and handle money. The negotiators survey households to assess the amount and sizes of matoke expected at harvest then contact buyers to discuss volumes and price, establish collection centres and designate days to bulk the harvest.

Such informal organisation highlights the fact that small-scale farmers need not be passive price takers, subject to rapacious traders and waiting for the benefits of a top-down development programme. Rather, these farmers often take an active and creative role in deploying their own resources to deal with evolving markets.

How inclusive is 'inclusive business'?

During the last decade we have seen an increase in market-based initiatives seek to link small farms vertically to large buyers; smallholders and rural labourers are integrated into formal, coordinated supply chains, or value chains, via 'inclusive business' models that aim to earn buyers a healthy profit while also improving farmers' incomes. In this way, development interventions aim to 'make markets work for the poor'.

This usually depends on gathering producers into cooperatives or other formal organisations — seen as the best partners for modern business. More broadly, the view is that modernised, formal and global commerce sweeping through the developing world will displace the traditional, informal and local trading networks of the past. Small-scale farmers, it is believed, need to be formally organised and brought into value chains to stand up against their global competition.

Inclusive business schemes can offer good opportunities for agrifood firms, and for some small-scale farmers. But there is evidence that when this approach works, it tends to benefit mainly a narrow minority of farmers — perhaps two to ten per cent — who are capitalised, educated, closer to urban areas and infrastructure, and strongly oriented toward commercial rather than subsistence farming.[2]

Realities of rural change

The reality of economic transformation is more complex than the globalisation narrative often has it. Informal food markets still predominate across most of Africa, Asia and Latin America. Flexible informal channels link poor producers with poor consumers. Many modern retail supply chains in emerging economies also have roots in informal deals between farmers and traders. By some measures, informality is growing, not shrinking.[3]

Such growth is in part driven by demographics: globally, a large cohort of rural youth has met with few formal jobs, while farm sizes have fragmented in many developing countries.[4] This has only reinforced one of the most basic strategies of the rural poor: multifaceted livelihoods that use diversity of economic activities to hedge risks and make the most of scarce land, cash and other resources. Farmers may rent various plots and grow multiple crops; move in and out of different informal (and sometimes formal) markets; and combine farm income with off-farm jobs and remittances from migrant family members.

And farmers now may have more options beyond global supply chains, in dynamic local, national and regional markets. Growing demand for food — including the growth of urban markets, cross-border trade and middle-class consumer groups demanding more quality and safety — fuels increasing competition for supply and pulls more traders into the countryside. In addition, the decentralisation of many developing-world governments has given local authorities their own budgets, which they are more likely to deploy toward creating and strengthening local markets.

Although most small-scale producers are not formally organised in the market, many still 'cooperate to compete', using informal arrangements that can become quite sophisticated (see Cooperating to compete). But such informal organisations are rarely recognised as legitimate and have limited ability to shape the policies that affect them. Without political agency to change the rules of the game, small-scale producers remain vulnerable to policies that don't differentiate their interests from those of larger-scale producers, such as trade agreements and the opening of national markets.

Why agency matters

Understanding the agency of small-scale producers — how the poor make markets work for them — can help in perceiving this complex reality, and in responding to it. In both private business initiatives and social enterprises, we need to rethink assumptions about 'upgrading' small-scale producers through formal organisations and up-scaling inclusive business one value chain at a time.

Some evolving private interventions and policies suggest how strategies might be changed by a clearer view of small producers' choices as economic actors. Some businesses working with small-scale farmers, for example, have already found they need to alter their approach to procurement. In West Java, the specialist vegetable supplier Bimandiri originally expected all its stock would come directly from small-scale farmer groups organised, trained and equipped by the company. To complete the value chain, the company works closely with high-value retail buyers. But the firm has struggled to form its producer organisations and to maintain continuous supply. Vegetable farmers in the area often rent their land, so they frequently move and change crops — a strategy that relies on flexible trading relationships, often with informal and traditional buyers.

The company has adapted by diversifying its supply sources: Bimandiri now buys only a third of its produce from farmer groups, and half from traders and wholesale markets.[5] By understanding how small-scale producers make markets work for them, Bimandiri has adapted its business model.

The idea of upgrading small-scale producers chain by chain may need to give way to more effective action across an entire product agricultural sector (see Raising a whole sector).

A few governments have begun to appreciate how small-scale producers use informal markets, and have adapted policy to accommodate this reality. Before about 2000, Kenya's approach to traditional small-scale milk vendors was to crack down on them in an attempt to eliminate unhygienic practices. But more recently the state has become far more supportive of these sellers, who procure milk from some 800,000 dairy farmers and supply most of the domestic market. New legislation acknowledges their central role and aims to improve processing standards in the informal sector and offer safety training and accessible certification. Local officials have begun advising small-scale vendors rather than punishing them. The results are not only improved relationships between traders and regulators, but lower transaction costs and greater volumes of milk sold.[7]

Reaching the 'other 90 per cent'

Innovative policies like those in Colombia and Kenya explore how to reach the 'other 90 per cent' of small-scale producers who cannot readily participate in modern value chains. A recent debate on 'Rural youth,

Raising a whole sector

In Colombia, the non-profit national federation of coffee growers (FNC) has worked to raise the whole sector's economic and social performance. FNC represents the majority of the 560,000 coffee-growing families in the country, nearly two-thirds of whom farm less than 1.5 hectares. Quality control managed by the FNC has meant that Colombian coffee has consistently received a price premium on world markets. The positive impact on coffee-growing communities in comparison to other countries, in terms of income, public services, literacy and political stability, is recorded in a number of studies.[6]

A key element to the FNC's approach is The National Coffee Fund, a tax on coffee production managed by FNC on behalf of the government. The fund is used to stabilise producer incomes and invest in social and infrastructure programmes in coffee-growing communities. Rather than creating 'islands' of inclusion that leave out most farmers, this sector-wide approach raises all boats through federating producer interests and institutional building

farmers tomorrow?' highlighted the need to look not only to agricultural production and productivity as in the current international agenda but also to the different income activities of smallholders' portfolio, which are mostly informal. China has shown that better employment conditions can be built when policies look in the long term and support diversification, mobility and new skills mainly for the rural youth.[8]

To get the future right for the 90 per cent, policymakers, businesses and the development community must recognise the complex context for small-scale agriculture and rural communities in different regions and countries. Globalisation and modernisation are not sweeping the world economy clean, but spreading in parallel with vibrant informal and local economies.

The benefits of informality — access, flexibility, resilience — can be built into policy and business frameworks that overcome its dark side of poor traceability and food safety, poor environmental record, worker welfare, corruption, criminality, monopolies and cartels. But designing interventions that work requires understanding how farmers navigate both formal and informal, global and local markets — their strategies, interests, expectations and limitations, and how they make choices in the dynamic context of a restructuring agrifood sector.

Informality matters particularly in the present context of increased youth unemployment; and it presents an urgent challenge for developing and emerging economies and their food security. We are starting to become more conscious of the links between decent job creation, the informal sector, political stability and economic democracy, without which sustainable development is at risk.

● **BILL VORLEY, ETHEL DEL POZO-VERGNES, ANNA BARNETT**

Bill Vorley (bill.vorley@iied.org) is a principal researcher and Ethel del Pozo-Vergnes (ethel.delpozovergnes@iied.org) is a researcher in IIED's Sustainable Markets Group.

Anna Barnett (abarnett@gmail.com) is a freelance writer and editor specialising in science, environment and sustainable development; and a consultant for the IIED/Hivos Knowledge Programme on Small Producer Agency in the Globalised Market.

Notes

● [1] Murphy, S. 2010. *Changing perspectives: Small-scale farmers, markets and globalization.* IIED, London and Hivos, The Hague. ● [2] Seville, D. *et al.* 2011. *Under what conditions are value chains effective tools for pro-poor development?* IIED, London and Sustainable Food Laboratory, Hartland, Vermont, USA. ● [3] Jütting, J., de Laiglesia, J.R. 2009. *Is Informal Normal ? Towards More and Better Jobs in Developing Countries.* OECD Development Centre, Paris. ● [4] Proctor, F., Lucchesi, V. 2012. *Small-scale farming and youth in an era of rapid rural change.* IIED, London and Hivos, The Hague. ● [5] Sandredo. 2012. Experience of CV Bimandiri in Developing Farmer Agency to the Modern Market. Presentation at International Conference on Small-Scale Producer Agency in the Globalized Market, Bandung, 16 February 2012. ● [6] Bentley, J.W., Baker, P.S. 2000. *The Colombian coffee growers' federation: organised, successful smallholder farmers for 70 years.* Overseas Development Institute, London. See www.odi.org.uk/resources/docs/5126.pdf; Deshpandé, R. 2004. Café de Colombia. Harvard Business School case 9-502-024. ● [7] Hooton, N., Omore, A. 2007. *Policy innovations in small-scale milk markets in Kenya and East Africa.* IIED, London. ● [8] Huang, J., Wang, X., Qiu, H. 2012. *Small-scale farmers in China in the face of modernisation and globalisation.* IIED, London and Hivos, The Hague.

Further reading

● Knowledge Programme on Small Producer Agency in the Globalised Market: www.hivos.net/Knowledge-Programme2/Themes/Small-Producer-Agency ● www.iied.org/small-producer-agency-globalised-market ● www.mainumby.org.bo/en/nuestro-trabajo/pequenos-productores-y-mercados

The Knowledge Programme Small Producer Agency in the Globalised Market aims to map, elicit and integrate knowledge on the dilemmas confronting small-scale producers in global, regional and national markets. The programme works with different actors to bring new voices, concepts and insights into the global debate. It seeks to support the development community, including policymakers, producer organisations and businesses in their search for better informed policies and practices.

The programme is led by the Humanist Institute for Development Cooperation (Hivos) and the International Institute for Environment and Development (IIED).

Hivos
Raamweg 16, PO Box 85565
NL- 2508 CG, The Hague
The Netherlands
info@hivos.net
www.hivos.net

International Institute for Environment and Development
80-86 Gray's Inn Road
London WC1X 8NH
United Kingdom
info@iied.org
www.iied.org

Hivos
people unlimited

iied