



COMMITTEE ON WORLD FOOD SECURITY

Forty-third Session
"Making a Difference in Food Security and Nutrition"

Rome, Italy, 17-21 October 2016

**CFS 42 HIGH LEVEL FORUM ON CONNECTING SMALLHOLDERS
TO MARKETS, JUNE 2015 - BACKGROUND DOCUMENT**

*This document can be accessed using the Quick Response Code on this page;
an FAO initiative to minimize its environmental impact and promote greener communications.
Other documents can be consulted at www.fao.org*



mr300

CFS

COMMITTEE ON
WORLD FOOD
SECURITY

CFS HIGH-LEVEL FORUM ON CONNECTING SMALLHOLDERS TO MARKETS

25 June 2015

Background Document



WWW.FAO.ORG/CFS



COMMITTEE ON WORLD FOOD SECURITY

HIGH-LEVEL FORUM ON

CONNECTING SMALLHOLDERS TO MARKETS

25 June 2015

Background document

CONTENTS

Introduction.....	1
Chapter 1: Current Challenges and Opportunities for Smallholders to Access Markets	4
Smallholders and their livelihoods.....	4
Markets, agrofood systems and smallholders	7
Ways ahead: mitigating risks and seizing opportunities for smallholders.....	12
Chapter 2: Good Practices and Case Studies.....	14
Local food systems and access to markets linked to territories	14
Public procurement and local purchase from smallholders	18
Collective action, smallholder organizations and cooperatives.....	22
Supporting services and linkages in value chains	27
Business partnerships as a strategy to sustain smallholders' access to markets	31
Public investment in infrastructure, research and development and policy frameworks	35
Chapter 3: Synthesis of Findings & Direction for Future Discussion Among CFS Stakeholders	39
Synthesis of case study experiences	39
1. Smallholders are essential for achieving food and nutrition security	39
2. Smallholders turning challenges into opportunities.....	41
3. Providing appropriate conditions and addressing major constraints.....	42
Guiding questions for the High-Level Forum 25 June	47
Message for the day.....	49
Bibliography.....	50
Photo Credits	51

This report has been presented by the technical task team assigned by the Committee on World Food Security (CFS), in preparation for the High Level Forum on Connecting Smallholders to Markets. The task team comprised (in alphabetical order): Philipp Baumgartner (IFAD), Isabelle Coche (PSM), Andrea Ferrante (CSM), Katy Lee (PSM), Panagiotis Karfakis (FAO), Barbara Pfister (WFP), Patricia Kennedy (WFP), and Florence Tartanac (FAO), supported by the CFS Secretariat. The views expressed therein reflect the various perspectives on the issues discussed on the part of the task team, but they do not necessarily express those of their institutions and mechanisms. The document does not attempt to formulate recommendations but rather to suggest a set of questions to stimulate discussion about potential and feasible ways forward.

Acknowledgements: *The task team is grateful to the numerous colleagues in their respective institutions who contributed with background research by providing case study material as well as revised parts of the draft, and for the comments provided by the CFS Bureau and Advisory Group members.*

INTRODUCTION

Background: Smallholders, including those that are **family farmers**¹, are at the heart of the agricultural sector in developing countries, and also in many developed ones. Of the 1.4 billion extremely poor, 70 percent live in rural areas (HLPE, 2013). Smallholders constitute 75 percent of these rural poor, while a much smaller proportion of them reside around urban areas. In low and lower-middle income countries, small farms are responsible for a large share of food and agricultural production (FAO, 2014a),



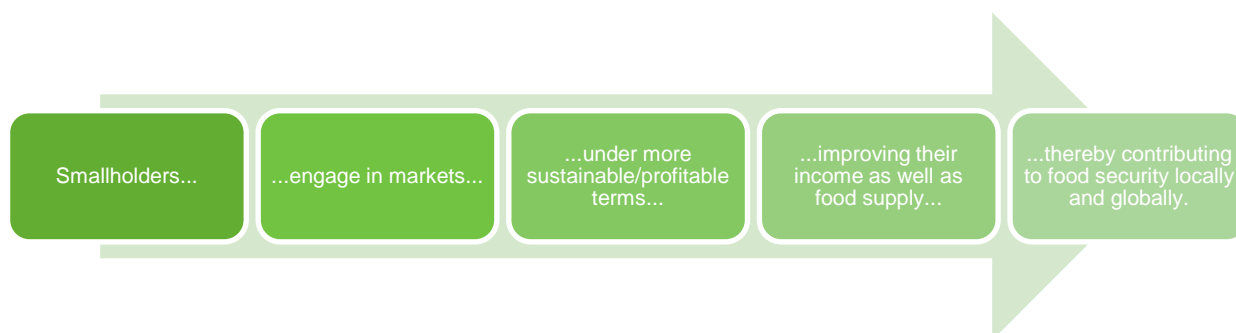
although they usually have limited access to modern production technologies and receive limited support from public policies. **Smallholders are engaged in a variety of markets.** They are present above all in local informal markets which are easier for them to access; this is particularly the case for women. Some are also engaged in formal value chains involving both the input and output side, where the linkages are not always strong enough to generate lasting relationships. Views differ as to whether or not the terms of their incorporation into these value chains are sufficiently beneficial to translate into increased incomes, building up of assets or contributing to food security for themselves and the population. The **International Year of Family Farming (IYFF)** policy dialogue process in 2014 has promoted greater awareness of the crucial contribution of the more than two billion smallholders, especially family farmers, to sustainable development, food security and nutrition. The IYFF has leveraged strong political commitment at the highest level across the world, in favour of smallholders. All stakeholders were encouraged to support the creation of an enabling policy environment, starting with the enhancement of the capacity of smallholders to supply and access markets, especially at local and domestic levels, and to generate jobs and incomes.

Rationale: Strengthening and improving smallholders' linkages to markets should be seen as a contribution to food security and poverty reduction for the farmers themselves, for the rest of the rural people and for urban populations as a whole. The existence of markets — and participation in them — means much more to smallholders than simply the exchange of goods: it means that a range of options is available, and choices are made that can change or improve their livelihoods and contribute to overall food security and nutrition (Rapsomanikis, 2014). **Food security should be considered in relation to its four dimensions and the main question of the report should be: “How could better access to markets increase food production (availability), provide livelihoods and better income (access), diversify diets (utilization) and act as a buffer to price volatility, market related and other shocks (stability)?”.** This

¹ Following the definition from the IYFF, we agree that family farming includes all family-based agricultural activities, and is linked to several areas of rural development. Family farming is a means of organizing agricultural, forestry, fisheries, pastoral and aquaculture production which is managed and operated by a family and is predominantly reliant on family labour, both women's and men's (FAO, 2014b). In the following text, the terms smallholder and family farm are interchangeable.

CFS HIGH-LEVEL FORUM ON CONNECTING SMALLHOLDERS TO MARKETS

requires recognizing that the relationships and outcomes associated with markets are highly context-specific. It also implies examining which kinds of markets and what conditions of access work best for smallholders.



Conceptual framework: The starting point for the background document is the rural reality of smallholders. They are active in **different types markets** for (i) outputs, such as local, regional, urban and export markets, and (ii) inputs, such as labour, seeds and fertilizers, technology, services and credit. **These markets have varying forms**, ranging from very local informal, to international, formalized market relations. In addition, markets can fulfill important social and cultural functions. Smallholders engage in these under varying conditions and rules, which are dependent upon their relations with other actors, upon government regulations, as well as upon the farmers' own capacities and degree of organization.

Over recent decades, economic development and sustainability concerns, globalization and the emergence of integrated value chains both in domestic and international markets, and the actors and



regulations that accompany them have changed the agrofood systems². These changes have brought about increased challenges, but have also created new opportunities for smallholders.³ The new global agrofood system tends to be knowledge and capital-intensive, oriented to business and marketing practices, with complex logistics and strongly dependent on good infrastructures and distribution networks. At the same time, local varieties and short linkages have generated renewed interest on the

² We define the agrofood system as the “a combination of institutions, activities and enterprises that collectively develop and deliver material inputs to the farming sector, produce primary commodities, and subsequently handle, process, transport, market and distribute food and other agro-based products to consumers” (Caiazza & Volpe, 2012).

³ See for example discussion in Wiggins & Keats (2013) and Arias et. al. (2013).

CFS HIGH-LEVEL FORUM ON CONNECTING SMALLHOLDERS TO MARKETS

part of consumers. Smallholders are at the centre of the agrofood systems, mainly as producers, but also as consumers and labourers, and increasingly as processors, traders and marketing entities – either individually or through their organizations. Hence, they are strongly affected by these system changes, but views differ regarding the manner and the extent to which they are affected. It is within this scenario that the discussions of CFS are taking place, and their timeliness is self-evident.

Objectives: The High-Level Forum on Connecting Smallholders to Markets and this background document build on earlier considerations of the topic within CFS, particularly in the report produced by the High-Level Panel of Experts on Food Security and Nutrition (HLPE), “Investing in Smallholder Agriculture for Food Security”, and the policy conclusions adopted by CFS 40. They also take into account other literature and ongoing research on the role of small-scale farmers in the modern agriculture and food system. The aim of the HLF and this background document is to present good practices and lessons learned that illustrate the potential for smallholders to benefit from access to markets. The evidence ranges from varying types and forms of markets, some show the significance and potential of rather localised and informal exchanges in often informal markets, while other indicated the potential for smallholders to engage in commercialised value chains and cross-border trade. In all cases, the conditions for smallholders' engagement were key. The HLF should stimulate discussions within CFS on how best to move ahead, and what role CFS stakeholders can play.

The first chapter of the background document describes the characteristics of smallholders, along with the challenges they face in accessing different kinds of markets. The second chapter presents good practices illustrating the very diverse possibilities for smallholders to turn challenges into opportunities. Finally, the third chapter draws upon some general findings and identifies broad areas of policy actions that need to be explored further. We conclude with a set of questions to stimulate discussion among CFS stakeholders and engage the audience.



CHAPTER 1: CURRENT CHALLENGES AND OPPORTUNITIES FOR SMALLHOLDERS TO ACCESS MARKETS

This chapter entails three sections. The first section elaborates on the context and characteristics of smallholders and family farmers. The second discusses the types and forms of markets they engage in and how these are changing within the agrofood system. The third discusses ways ahead, and sets the scene for the following chapters.

SMALLHOLDERS AND THEIR LIVELIHOODS

The majority of the 570 million farms in the world are small and most of them are operated by families (Lowder et al, 2014). According to IYFF 2014 data, **smallholders supply 70 percent of overall food production** (FAO, 2014b), through 470 million farmers, artisan fisher folk, pastoralists, landless and indigenous peoples. There is no universally accepted definition of smallholders, or widely accepted threshold regarding their size. Quite often farms are assessed as being small in the sense that the size of the land they operate is less than 2 hectares. Such a classification ignores the fact that the size distribution of land across countries varies considerably, given unique agro-ecological characteristics, historic and current economic and social conditions, as well as the types of technologies used in agriculture (HLPE, 2013). This imposes challenges, as in some countries the majority of farms are categorized as small, while in others a small number of large farms operate a significant portion of agricultural land.

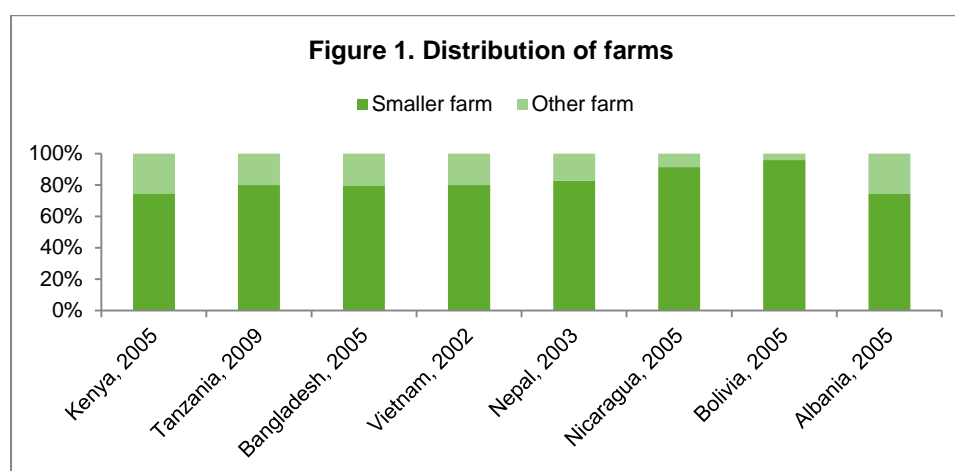


Figure1: Distribution of farms

Source: FAO-ESA. Dataportrait of Small Family Farms: <http://www.fao.org/economic/esa/esa-activities/esa-smallholders/smallholders/en/>

Figure 1 employs the hectare-weighted median as the threshold of size, to portray the size distribution of land and farms across a range of developing countries using household surveys. The threshold classifies farmers according to the proportion of land used in the country. So, for example, 75 percent of farmers in Kenya and 91 percent in Nicaragua are small and operate 50 percent of the cultivated land. In Vietnam, 80 percent of farmers are smallholders and they operate half of the land. The threshold size

CFS HIGH-LEVEL FORUM ON CONNECTING SMALLHOLDERS TO MARKETS

is 1.2 hectares in Kenya, 35 hectares in Nicaragua and 0.96 hectares in Vietnam. Production technologies based on rainfall in the case of Africa, modern irrigation techniques and high population densities in Asia, along with rainfed agriculture and livestock production in Latin America, are among the factors that lie behind these differences in the three major regions. In addition, thresholds based on the size of the land operated ignore characteristics that refer to the scale of operations, as well as *the way in which* agricultural production is organized and developed. This is why some authors prefer to use the term “peasant agriculture”, which describes an approach to production that is grounded on the quantity and quality of labour and in which labour investments (e.g. in the building of irrigation systems and terraces) play a central role. Peasant agriculture tends to be labour-intensive and resource-efficient. It usually minimizes the use of external inputs in order to be as autonomous as possible, and it shows low levels of losses and emissions.⁴

Household characteristics: Most smallholders face constraints in their access to credit and to appropriate physical capital and equipment. The level of formal education and skills tends to be low, although their empirical knowledge and experience is often extensive. A significant part of the time spent on the farm is contributed by women, who are not sufficiently compensated for this work (FAO 2011). Small farms that are headed by women are frequently poorer and more vulnerable than the male-headed ones. Throughout human history, discrimination based on gender in many parts of the world has prevented women from accessing resources and assets. Most smallholders have limited access to information on prices of crops or fertilizers, or on weather conditions. Usually, they produce staple crops sold locally or consumed at home. Finally, and importantly, smallholders that are family farms, rely on the labour of their members to operate their plots and undertake related activities. The practice of smallholders of multicropping their farm plots enables them to secure more diverse and nutritious diets and to contribute to the preservation of different local varieties of plants and crops. Their primary goal is ensuring their own food security and that of their communities. They practice different sociocultural approaches towards the exchange of services and goods (in markets – often under informal/semi-formal arrangements, e.g. sharecropping, etc.). All this underlines that smallholder livelihood strategies rely on a diverse set of livelihood activities and that “diversification is the norm” (Barrett et al., 2001, p. 315).

Smallholders’ operational model tends to be labour intensive: Farmers in Vietnam devote 5.6 person days in each hectare they cultivate while larger farmers cultivate only 1.2, and the pattern is similar in other countries across all developing regions. This contributes to the intensive cultivation of land and to increasing its productivity. However, it is not the most efficient way to use labour time; evidence shows that the value the last labour unit added to the output is much smaller than the cost of this unit if it was paid the market wage rate (Karfakis et al., 2013). Moreover, if all this excess labour time were able to find its way to the market and earn the prevailing wage rate, rural income would nearly double. Therefore, no matter how intensively labour is used on their farms, its productivity is low. These considerations are, of course, theoretical to the extent to which alternative employment possibilities are

⁴ Some argue that peasant agriculture represents resilience and persistence: e.g. when the main tendencies in the markets are negative, peasants do not immediately de-activate their farms but tend to persist and adapt (see Van der Ploeg (forthcoming)); others question the efficient use of labour invested in small plots (see discussion below).

CFS HIGH-LEVEL FORUM ON CONNECTING SMALLHOLDERS TO MARKETS

not available. Indeed, one of the major assets of family farming is its capacity to generate employment. This points to the importance of functioning rural labour markets, and policies to provide and incentives to develop opportunities, that allow members of a family farm to move out of agriculture, at least on a partial or seasonal basis, to earn additional income.

Agriculture is not the only income source for smallholders, even though it still accounts for a major share thereof. It is estimated that from 45 to nearly 90 percent of smallholder income comes from agriculture, including wages earned, usually from seasonal labour supplied locally to other farms. A range of other sources helps them diversify and manage risks. Smallholders are often involved in small-scale activities outside agriculture. In addition, remittances from householder members working in other locations can make a significant contribution to household livelihood (FFR 2013). Despite the diverse activities in which they are engaged, they are poorer than large-holders. The poverty rate among smallholders ranges from 28 percent in the case of Tanzania to 83 percent in Bolivia. In the case of smallholder farms headed by women, poverty rates are frequently higher than in farms headed by men. Smallholders farmers are more likely to be malnourished, particularly women farmers. Malnutrition represents a human capital constraint, as farmers who are malnourished are less productive and the impacts of malnutrition can extend to future generations.

Research has shown that the opportunities of various choices provided through access and linkages to markets for products, labour and off-farm activities enhance the likelihood to move out of poverty, increase farm production and hence contribute to poverty reduction and food security⁵. However, taking into account developments in agrofood systems and technology it is necessary to examine (i) how best to stimulate these linkages, (ii) which markets are best to engage with, and (iii) under what conditions engagement is most likely to be beneficial and sustainable for smallholders.⁶

Irrespective of the size or scale of their operations, smallholders' share of national agricultural income, which includes farm output and wages, is significant. Evidence from household surveys indicates that this ranges between 60 and 87 percent (figure 2).⁷ Smallholders are responsible for consumption and production linkages which contribute to multiple dimensions of food security and nutrition. Their demand for non-agricultural goods can assist in supporting incomes and promoting growth in other sectors, while by supplying markets with their produce they promote availability of food. Moreover, with their productivity potential they are able to contribute to



⁵ See seminal work by Haggblade and his colleagues at IFPRI (e.g. Haggblade et al., 1989).

⁶ See for example the extensive discussion in a special edition of World Development on “the future of small farms”, as well as the continuing controversy about the role of large-scale investments and their linkages to smallholders. (e.g. Hazell et al., 2010; Deininger & Byerlee, 2012, Baumgartner et al., 2015).

⁷ These numbers do not account for the contribution made by corporate agricultural farms.

CFS HIGH-LEVEL FORUM ON CONNECTING SMALLHOLDERS TO MARKETS

lowering food prices for the poor and vulnerable population groups in rural and urban areas, contributing to better access to food on the part of these sectors.

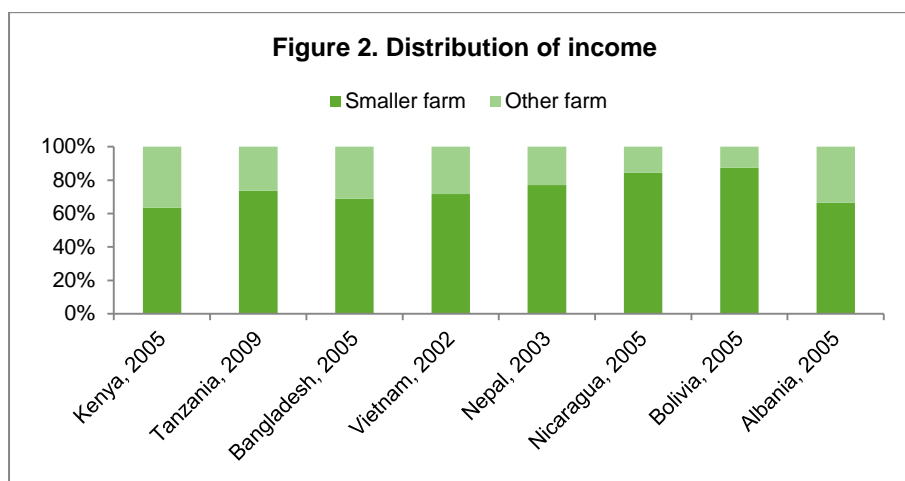


Figure 2: Distribution of Income

Source: FAO-ESA. Dataportrait of Small Family Farms: <http://www.fao.org/economic/esa/esa-activities/esa-smallholders/smallholders/en/>

MARKETS, AGROFOOD SYSTEMS AND SMALLHOLDERS

Smallholder farms follow a diversified set of livelihood activities. Across these activities they engage in a number of transactions and exchanges of services and goods. These take place at a range of different kinds of markets and involve monetary and non-monetary exchanges. One way to think of these markets is to distinguish among different **(i) types of markets, based on the product/service traded** and **(ii) forms of markets, based on the conditions under which the exchange takes place**. The first distinction illustrates that there are not only markets for smallholder outputs (e.g. local wet markets, urban markets, international export markets), but also markets for inputs (e.g. fertilizer, seeds, etc.), to access needed services (e.g. veterinary support) and finance (e.g. credit, saving), as well as markets for land and labour. The second distinction underlines the conditions of exchange and hints to de facto and de jure rules governing the exchange of goods. The exchange can entail ownership (sales markets) or simply use (rental); they can happen through formal contracts, or be based on face-to-face informal agreements. They may also be regulated by government regulations or international standards, or simply be agreed upon by the two transacting parties. Such simple typology indicates the universe of varieties of markets in which smallholders are able to engage.

A significant share of the food produced by smallholders is not marketed in formal markets, either due to their absence or because costs of entry are too high (transaction costs). Since many transactions take place through rather informal channels, assessing their full value is difficult (Arias et al., 2013).⁸ Evidence

⁸ A proportion of the food produced by smallholders is self-consumed. Since smallholders constitute the majority of the food insecure, promoting market approaches that allow them to maintain their capacity to produce and consume diversified diets is an essential objective from a food security perspective.

CFS HIGH-LEVEL FORUM ON CONNECTING SMALLHOLDERS TO MARKETS

shows that the share of produce smallholders are able to sell overall, on various kinds of markets, can be significant. It varies considerably though, from 11 percent in the case of Nepal with a mountainous terrain and poor transportation network, to 66 percent in the case of Tanzania (figure 3).

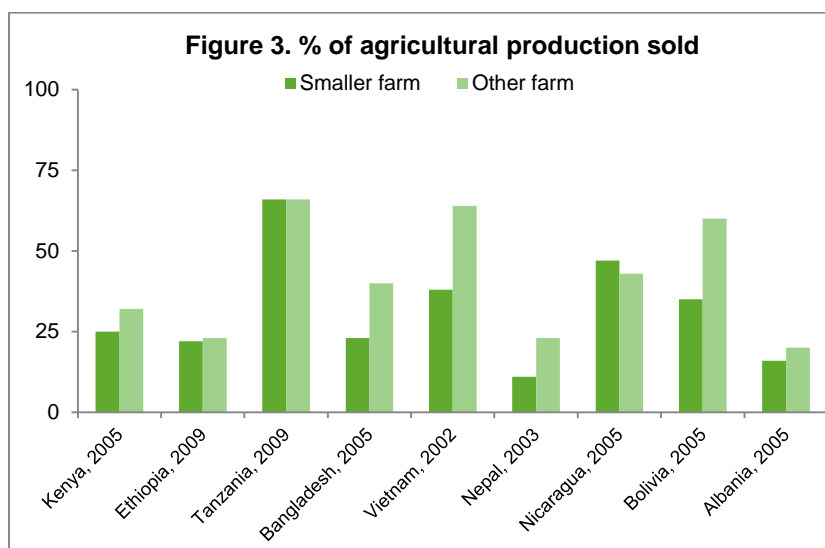


Figure 3: % of agricultural production sold

Source: FAO-ESA. Dataportrait of Small Family Farms: <http://www.fao.org/economic/esa/esa-activities/esa-smallholders/smallholders/en/>

Informal markets are often considered “inefficient” but the criteria for this assessment need to be further discussed along with the potential for public sector support – which has been largely lacking – to address their deficiencies. Their role is multidimensional and can be particularly important in situations where food shortages emerge. An important part of the smallholders’ exchanges takes place in markets governed by smallholders themselves, or other local actors. These market places are characterized by both monetary and non-monetary exchanges. Although most of the food consumed in entire continents like Africa transits through local “food provision” systems, relatively little information is available on how they function, because little attention has been given to them in official data collection (EAFF et al., 2013). Within these local, often informal market systems, smallholders tend to have greater control over the conditions of exchange and prices they can obtain. However, these markets are limited in terms of capacity to absorb both the quantity and the type of produce demanded. Hence, there exist opportunities for smallholders to engage in other and more distant markets, e.g. urban centres and export.

High transaction costs for entering markets are a function of the existing infrastructure including the institutional framework, the characteristics of the producer and her/his relations to buyers within a given market system. These can involve aspects such as limited access to information on prices as well as taste preferences or seasonality of demand; diseconomies of scale related to high transport, bulking and processing costs; entry barriers to market places (e.g. registration fees, traceability), as well as quality and food safety standards. Some refer to “nested” systems of markets, which can be located within country borders or regions and are embedded in socio-economic and ecological contexts. These systems promote rural development dynamics both in developed and developing economies and can be

CFS HIGH-LEVEL FORUM ON CONNECTING SMALLHOLDERS TO MARKETS

considerably resilient and remunerative for smallholders. As long as proper infrastructure is in place, they can extend to neighbouring cities and other urban areas (Van der Ploeg et al. 2012).

One core element to link local producers to urban centres or even export markets is proper infrastructure. In addition, the increasing distance often implies that other market actors and service providers are required to render the deliverable of a product to the consumer functional (e.g. transportation, storage, packaging, etc.). The entire process from input, production and processing, up to marketing and consumption is often referred to as a **value chain**.⁹ Smallholders play multiple roles in commodity value chains: they can be producers that sell their products to specialized chain actors, such as traders, and they can also take on other functions along the chain, e.g. do processing or packaging, or even market their produce directly. Depending on the number of steps and actors involved, long and short value chains are distinguished. Smallholders are part of value chains, but the conditions under which they can engage play a core role in deciding if their participation is beneficial and sustainable for them. When they produce for the market, the terms they are able to obtain can be unfavourable as a result of the small quantities sold, limited bargaining power, difficulties in engaging in value-adding processes, or pressing needs for cash. Negotiating these conditions often depends on the relative

Markets are an important tool to help smallholders diversify their sources of income, earn cash to secure services, and improve food security. Markets should not be considered as monolithic: they take different forms and shapes depending on who participates in them and the institutional and legal frameworks that define them. Through markets, supply chains and value chains, smallholders can access buyers and consumers, and through interaction with other private sector actors have opportunities to improve production practices, gain new skills and knowledge, and access services and technologies. Relationships with other private sector actors in the agrifood sector can be supported and mediated by governments. For example, the creation of commodity exchanges, such as those in Ethiopia, has helped smallholders to access markets through a system that addresses their needs for cash advances, storage and transport. Farmer organizations, as described in chapter 2, perform a similar function. It is also important to recognize that smallholder farmers will adopt risk mitigation strategies, whereby they mix cultivation for subsistence with cultivation of some crops for selling to markets.

market power of the respective actors, as well as legal frameworks, access to information and government policy focus. It is expected that CFS discussion may evolve around many of these aspects.

Drivers of change in the agrofood systems and rural transformation: Growth and increasing incomes, including in developing countries, have not left small farms unaffected over recent decades. In descriptions of the classical pathway for economic and agricultural transformation, development is

⁹ There are different views regarding the meaning and the logic of “value chains”. Some experts prefer to speak of “food webs” or “food systems” as terms which highlight the complexity of food provisioning, the interrelatedness among the actors involved, and the territories in which they are located.

CFS HIGH-LEVEL FORUM ON CONNECTING SMALLHOLDERS TO MARKETS

associated with lower shares of agriculture in GDP, urbanization and exit from agriculture. As different population groups climb the income ladder, food preferences change as well, towards meat and dairy products, which in turn affect the agrofood system by increasing demand for feed while putting additional pressure in land. Demographic pressures resulting from population growth increase demand for agricultural products, and stimulate even farmers in areas with poorer infrastructure to participate in local markets. Finally, the adoption of new technologies and the modernization of production, increase the output and productivity of smallholder farmers. The 2013 HLPE report highlights the heterogeneity of the transformation paths based on evidence across countries (Figure 4, source: HLPE 2013, p. 63).

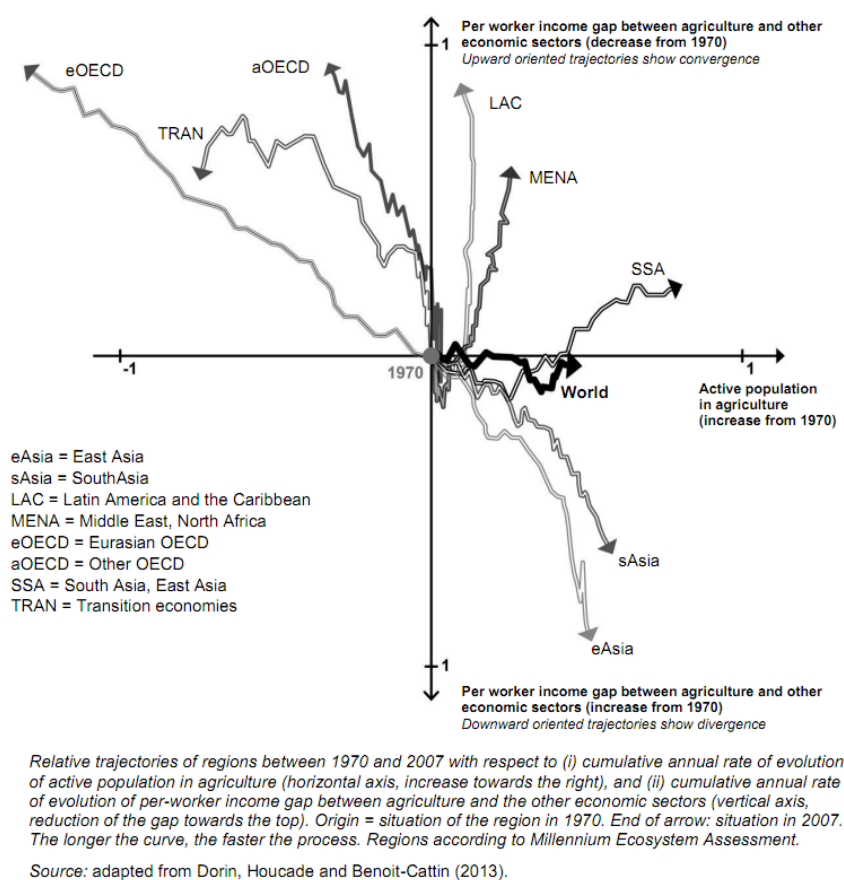


Figure 4 Structural transformation pathways (1970 – 2007)

These forces may result either in increasing or declining average farm sizes with the latter usually being the case (Masters et al., 2013). Much depends on which of the different drivers that transform national economies and the sector dominates, but also on the development strategies and policy programmes that governments follow. For example, smallholder agriculture is the trend in Asia and some Central African countries, with farms becoming smaller as a result of population growth, but at the same time market oriented. On the other hand, policies that supported a dualistic structure in agriculture contributed towards creating a highly commercialized sector in countries such as Brazil and Mexico. A third path is recognized through the emergence of a modern agriculture sector based on medium-sized

CFS HIGH-LEVEL FORUM ON CONNECTING SMALLHOLDERS TO MARKETS

farms as in the case of Chile. Lately, sustainability concerns have shaped a novel path in developed countries and some areas in Latin America and Asia focusing on high quality local foods. Finally, there are cases where smallholders are left behind and marginalized without any resources being invested in them.



Economic development and globalization have transformed the agriculture and food systems creating challenges as well as opportunities for smallholders. Together with the opening of markets and increasing demand, greater competition has emerged along with increased private sector participation, which lies more and more behind investments in agriculture, and in the food and marketing chains (vertical integration)¹⁰.

An increasing proportion of the food trade takes place through vertically organized cross-border chains, even in developed and transition countries (EU 2009). Yet, 77 percent of food is still not traded, or is traded within country borders. It is estimated that only 23 percent of the food produced for human consumption in the world transits through the global market (D'Odorico et al., 2014). Volatility in prices of globally traded food commodities has increased, and affects food markets and food security and nutrition in developing countries.

The modern agrofood system relies heavily on processing, storage and packaging of food before going to the final market. When smallholders are able to join these chains, for example through contract farming, this may be accompanied by support services including the provision of fertilizers and credit. Research indicates, however, that a small proportion of smallholder farmers – mostly better-off men – are able to participate in contract farming arrangements (Herrmann et al., 2013). Issues of financing, accessibility, transport, as well as a range of standards regarding the quality, traceability, and certification, and the consistency in the quantities of food produced and traded, make participation in value chains a challenge for them (see World Bank 2012, and IFAD 2009). These challenges differ depending on the country's economic system in general and the agrofood chain in particular, as well as the type of commodity traded.

¹⁰ This results in mixed outcomes for the smallholders, as the example of commercialization of potato production in Peru illustrates (see Escobal & Caverio, 2012).

CFS HIGH-LEVEL FORUM ON CONNECTING SMALLHOLDERS TO MARKETS

Clearly, agricultural development is associated with more than one path to facilitate the connection of farmers to markets, and not all of these paths are beneficial for – or based on – smallholders (Dercon & Gollin, 2014). Most, if not all, of the paths, however, reflect specific strategic policy choices. The significance of the High Level Forum is to provide an opportunity to explore the various factors that come to play in this complex, essential, and inadequately studied area.

Participation in modern value chains which trade crops within or across country borders requires business oriented approaches. This includes a set of skills in managing the farm both at the production as well as the marketing stages. It requires ability and investments to handle the logistics necessary to become – and remain – a member of the value chain. Often cooperatives and other farmers' organizations are set in place to support smallholders in meeting these challenges. Even though cooperatives have been criticized for their effectiveness in the past, their modernization and reorientation towards modern market practices could offer a serious opportunity to smallholders to profit by participating in markets either within country borders or in a globalized food chain.

The modern value chain approach is one of the different visions on how best to link smallholders to markets that have been expressed in CFS debates since 2011. This approach, largely based on the trade of food through integrated chains that connect all stages of the agrofood system, is valued by some stakeholders of CFS and contested by others. The HLF discussions can provide an opportunity to debate these issues and initiate an in-depth review of the evidence in CFS in the future.

WAYS AHEAD: MITIGATING RISKS AND SEIZING OPPORTUNITIES FOR SMALLHOLDERS

The 2013 HLPE report and CFS policy roundtable conclusions in 2011 and 2013 underline the fact that smallholders themselves are the most important investors in agriculture. There are different views regarding the degree to which and the conditions under which smallholder participation in different markets and globalized agrofood systems can be beneficial to them. The starting point, in any event, should be supporting the creation and supply of domestic markets including local and urban markets. Domestic markets integrate indigenous people and peasants and can be very localized, but sometimes extend to a greater area or even to cities. They require appropriate institutional support and governance by rules that are suited to their character. These markets can be sustainable in social, environmental and economic terms. In addition, "new relations between consumers and producers should also be acknowledged as well as the opportunity this is going to create for small-scale producers".

As mentioned earlier, population growth puts increasing pressure on natural resources used in agriculture. Such pressures are intensified by climate change and extreme weather events which affect the product cycle as well as the quantity and quality of the crops harvested. Agro-ecological practices and the establishment of risk management strategies such as insurance mechanisms, early warning systems, drought monitoring, etc., are able to improve smallholders' adaptive capacity to manage the consequences of natural resource degradation and climate change. Preserving natural resources used in agriculture and adapting to climate change is another critical challenge for policy-makers, for the development community but also for farmers themselves that needs to be faced.

Small farmers enjoy a production efficiency advantage relative to larger farms in the use of their land. Plenty of evidence from agriculture and household surveys and across many countries points to this result (Larson et al., 2014). Abundant supply of labour for everyday farm activities, provided for the most part by family members, and low supervision costs contribute to the higher land productivity of

CFS HIGH-LEVEL FORUM ON CONNECTING SMALLHOLDERS TO MARKETS

smallholders relative to larger farms. There is also evidence of smallholders who are able to innovate, to organize themselves for accessing new market opportunities, to upgrade to processing activities and to increase their power in market negotiations (HLPE 2012).

Over recent decades, a number of business models, value chain organizations within or across country borders, institutional arrangements and farmer support services and policies have been developed with the declared aim of providing incentives to producers in developing countries for increasing food production using sustainable practices, and improving the provision of goods to consumers in local, urban and international markets (FAO, 2010, 2012a, b). These include new institutional and market intermediaries who take on a wider range of roles in linking farmers with markets for their produce. Chapter 2 provides examples of participatory guarantee systems (PGS), marketing cooperatives, training centres, private traders or local public procurement that fill these roles. These examples would suggest that the strengthening of local infrastructures and institutions is important for enabling small farmers and enterprises in developing countries to increase their share of value for sustainably produced products.



CHAPTER 2: GOOD PRACTICES AND CASE STUDIES

The discussion that follows centres on the case of the smallholders; their engagement in markets within a changing rural context (rural transformation), and the challenges and opportunities this poses for them. This chapter is comprised of six sub-headings, each of which reflects a broad underlining mechanism regarding how challenges have been addressed and opportunities have been seized. Following the introduction of each mechanism, a number of positive examples are presented, showing how smallholders were able to address difficulties and engage into sustainable, beneficial linkages to markets.

LOCAL FOOD SYSTEMS AND ACCESS TO MARKETS LINKED TO TERRITORIES

Smallholders in developing but also in developed countries frequently sell their goods and labour or buy inputs in markets that are in proximity to their farms. Trade includes non-monetary exchanges, as well as sales to informal small or larger traders. These markets are part of everyday life, rooted in the social institutions, shared cultures and inherent values of the society and the local environment. Often they constitute a complete agrofood system in itself in the sense that all stages in the food chain, from planting until final consumption, take place locally.

In developing countries, market processes are usually informal as the rules around their functions are tacit rather than codified. They are often assessed as inefficient, not easy to predict and for trading lower quality goods. However, this ignores their multifunctional aspect, as they ensure local food security and can play an important role when shocks result in food shortages. Such markets, often termed “traditional”, are normally rooted in social institutions, shared cultures and values. They are under stress due to decades of neglect by public policies, investments and lack of data collection, as highlighted in a publication prepared by a consortium of the African Farmers Organizations¹¹. On the other hand, formal markets are sometimes biased towards one stakeholder if the rules governing them do not account for the welfare impact resulting from participants with a dominant position in the market.

These markets are nonetheless important in providing the options necessary to local buyers for food security including food variety, along with a significant source of income for food sellers. Beyond food security and economic goals, they are able to serve sustainability objectives, as the food system is adapted to local agro-ecological conditions, and needs to respect biodiversity and conserve resources for the benefit of the participants.¹² They are under stress due to decades of neglect by public policies,

¹¹ EAFF, PROPAC and ROPPA (2013).

¹² An example of the recognition of local and traditional food systems is provided by the agrobiodiversity and nutrition initiative in Bolivian indigenous communities surrounding Lake Titicaca area. As part of IFAD project together with Bioversity, this initiative focused on neglected and underutilized species (NUS), which are often not yet at the commercial stage, but contribute to local production systems and are exchanged locally. Through the project, the Andean communities strengthened the management of crops and varieties, registered their agrobiodiversity – i.e. varieties of crops and species cultivated - multiplied seeds, and stored them in community seed banks, which are linked to the National System of Genetic Resources. In addition, the project strengthened the up-

CFS HIGH-LEVEL FORUM ON CONNECTING SMALLHOLDERS TO MARKETS

lack of investments and infrastructure that could connect them with bigger and more remunerative markets. Given the benefits they confer on smallholders and rural economies it is important to recognize and support them.

Despite their localized structure and character, innovative marketing systems have been emerging over recent decades in developed countries and in some parts of Asia and Latin America, which reflect approaches related to voluntary standards and labels such as organic, Fair Trade, Mountain products, Farmers labels, Geographical Indications and quality linked to origin labels.¹³ These are considered as new forms of differentiation for products from small-scale farming, requiring investments in infrastructure but also in building the human capital necessary to participate in these markets.

Besides these new forms of differentiation for products from smallholders and especially family farming, newer systems are also emerging even in developed countries with, for example, community supported agriculture models where smallholder farmers are organized for supplying directly to consumers through local food systems and short channels. Internet-based marketing as well as gastronomy led models figure in this category. Through the construction of new institutional arrangements that directly involve consumers as active participants, new market segments are being created that are nested in the general markets. These include high quality food products as mentioned before but also agrotourism services, green energy, care services, maintenance of landscape and nature and the production of biodiversity. By carefully “nesting” the corresponding flows and transactions, a wide range of benefits can be generated for small farmers.¹⁴



take of traditional food systems through cooking courses, showing new ways of preparing quinoa and cañahua-based dishes.

¹³ GI is not only limited to small-scale production, as the example of the “Pinggu” peach in China demonstrates.

¹⁴ HLPE, 2013 citing Van der Ploeg et al., 2012.

Box 1: Barter markets in Peru

One example of local markets that respond not only to profit motives but also to a wider range of values are the self-organized barter markets in Peru, where indigenous peoples have developed their own institutions to meet their needs in the context of global capitalist markets. In the Lares valley (south eastern Andes in Cusco) nearly 50 tons of goods are traded each market day, becoming the second most important source of food for households after their own fields (ten times the volume of food distributed by the national programme of food assistance). Principles of solidarity and reciprocity guide the economic exchange of a diversity of foods, ensuring that the needs of people and the land are met in culturally unique ways. Key benefits include: 1. access to food security and nutrition by some of the poorest social groups in the Andes; 2. conservation of agricultural biodiversity (genetic, species and ecosystem), through continued use and exchange of food crops at the markets, and maintenance of ecosystem services and landscape features in different agro-ecological belts along altitudinal gradients; 3. local, autonomous control over production and consumption and, more specifically, control by women over key decisions that affect both local livelihoods and ecological processes. Economic exchanges are embedded in other institutions such as reciprocity relations, spiritual values, cultural values, politics and ethics, which are specific of the Lares Valley (Alejandro et al., 2010).

Another example is provided by the alliance between Colombian peasant organizations, nuns who promote ecological farming, and academic researchers in the city to promote good public support for farmers' markets in the capital of Bogotá.

In the mid-2000s, the mayor's office wanted to restructure the distribution of fresh produce in the capital by creating a series of "inter-nodal" transfer point markets between rural agribusiness and giant supermarket chains. It looked as though the peasants, who had traditionally supplied Bogotá's wholesale markets with produce, were about to be squeezed out of business. But the rural-urban coalition alluded to above advanced a counter-proposal calling on the city government to open and support ten new peasant farmers' markets. The mayor's office balked at this proposal, on the grounds that the peasants would turn the city's beautiful plazas into "shanty towns." But pressure tactics persuaded them to accept one trial market. Much to their surprise, the peasants were orderly and well organized and urban consumers, starved for quality fresh produce, loved it. These good results and the outcome of new mayoral elections led the city government to open more markets. By 2010, some 2 500 peasant families were producing more than US\$2 million in annual business.

One goal of this peasant initiative was to have markets in neighbourhoods representing all social classes with agreed-upon prices that are lower than those of supermarkets yet still very profitable for farmers because of the lack of middlemen. They have achieved just that. Another goal was to change the image of peasants in eyes of city dwellers from subversives to valued and trusted producers of healthy and affordable food. Surveys have shown that this change is indeed taking root. The peasant organizations have used the markets to organize and sensitize peasants. As a result they have returned to their rural townships to demand farmers' markets there as well. They have organized themselves in associations to share the cost of transport, which in many cases has successfully pressured rural municipalities to provide trucks to bring produce to market. Finally, the markets have helped promote the transition to ecological farming. Ecological farmers sell under a big green tent, with an agreement that their prices will be no higher than those of the conventional farmers in the other tents. Not surprisingly, the consumers flock first to the green tent, and only begin to buy in the other tents when everything "green" is sold. The other farmers become curious pretty quickly; when they spontaneously express interest in agro-ecology they are directed to the nuns who set them up with other peasants who become their agro-ecology mentors (Nyeleni, 2013).

Box 2: Saffron of Taliouine in Morocco

The case of Saffron of Taliouine supported by FAO in Morocco provides a practical demonstration of the value-creating potential using Geographical Indication denominations, as they combine territorial with value chain strategies, in order to improve smallholders' market access.

In Morocco, the promotion of origin-linked products is a key aspect of the government strategy for agriculture development (Green Morocco Plan), which includes the support of small-scale family farming in order to improve well-being in rural areas as one of its two main objectives. FAO has provided technical support for the Geographical Indication system at national level and in the case of the Saffron of Taliouine, in the arid mountains of the Anti-Atlas.

With the Geographical Indication recognition through the Protected Denomination of Origin registered by public authorities in April 2010, the price of Taliouine saffron increased fivefold. The programme involved investments to restructure the local landscape. It also promoted the organization of a well-structured federation gathering all stakeholders, allowing for a stronger position for price negotiation. This process has considerably boosted job creation, with the involvement of young people through cooperatives and small and medium-sized enterprises, leading also to renewed confidence in the potential of agriculture in mountain and oasis areas.

The example of Taliouine saffron is remarkable as the Geographical Indication recognition enabled every category of small-scale producers, together with local traders and communities, to be involved in the optimization process. FAO's technical support has been crucial in mobilizing local and national skills within government, the private sector and civil society in order to build an exemplary model of local development (FAO 2010).

Box 3: Participatory Guarantee Systems and direct sales through short value chains in Bolivia

One innovative example which connects both organic certification and the short value chain is the institution of Participatory Guarantee Systems and direct sales in local markets through short value chains in Bolivia. It was created with the aim of promoting agro-ecological farming practices and facilitating small farmers' access to markets.

The Participatory Guarantee Systems is an alternative to third-party certification that is based on a system of peer-review (social control) among members within a multistakeholder group at the municipal level (including farmers, consumers, researchers and public officials). Field audits are conducted by farmers to verify and monitor compliance with the national organic standard, while the certification decisions are taken by the municipal level group. The short value chains are used as one of a variety of marketing strategies to link the PGS groups directly with consumers through monthly farmers' markets dedicated to organic and traditional products.

The use of the Participatory Guarantee Systems mechanism has facilitated the uptake of organic practices by small farmers because the costs and documentary burdens of third-party certification have been eliminated for the sale of agricultural products in local and domestic markets. The key factor for facilitating market access for small farmers is the engagement by different levels of public actors in legitimizing the PGS standard and label within the national system.

Box 4: Earth Markets in Mozambique

Another good example regards Earth Markets supported by Slow Food and created and promoted by locally based alliances, such as the one of Maputo in Mozambique. The organization of this market has been presented as a really innovative project, able to launch virtuous mechanisms of enhancement of products and local producers, while helping to improve the income of families in rural areas.

The Earth Market of Maputo was created as part of a project for the promotion of sustainable agriculture funded by the Emilia-Romagna Region in Italy and coordinated by the Italian NGO GVC, with the support of the National Union of Mozambican farmers, UNAC, the NGO Essor and Slow Food. It encompasses a small number of producers from the entire province of Maputo who sell products of all kinds directly to consumers. Seasonal and high quality products are traded in conformity with the Earth Market rules. These rules impose (i) direct selling (products grown, raised, harvested, caught, preserved or transformed by local producers); (ii) good quality of products (evaluated by tasting commissions); (iii) natural products (only products which are obtained using traditional production processes that respect the environment); (iv) local origin, and; (v) fair prices to both producers and consumers.

PUBLIC PROCUREMENT AND LOCAL PURCHASE FROM SMALLHOLDERS

Public food procurement, public food distribution and price stabilization schemes are essentially subsidy programmes that have made important social contributions despite their costs. Decades of experience indicate that such programmes were able to improve welfare, although only marginally in most cases, while trade liberalization did not eliminate the need for intervention that many expected. Overall, their use remains under debate, even though they are a popular policy instrument. Strict conditions need to be taken into consideration in order to justify their use. Such conditions refer to the direct or indirect effects of the political economy, market distortions, targeting and leakages, scale and time span of their use and their fiscal cost.

These programmes were initiated as a response to weak infrastructures that limited smallholders from connecting to markets, as well as to facilitate access to information, to promote shock coping and risk management strategies, to facilitate technology diffusion, to cope with volatility in international and local markets, to support local market expansion and to enhance eventual integration into international markets. A range of other social objectives in supporting vulnerable or sensitive consumer groups and food security were also important. Recent divers challenges such as climate change and increased price volatility in international markets may call for renewed interventions of this type.

These programmes were occasionally effective in stabilizing prices both for consumers and producers, but they were also criticized for distorting competition as well as for crowding out resources from other productive uses that could involve investments in education, health or infrastructure. In addition, at times, poor targeting and leakages were significant, corruption problems emerged, and the fiscal costs remained high. They were also criticized for hindering diversification of small farmers into other crops that could be more profitable. In other cases, their continuation for long periods of time resulted in corruptive practices, and severe market distortions that hindered competition and independent development of the sector. Nevertheless, a range of such programmes were able to stabilize prices especially in difficult circumstances (in times of poor harvests, other shocks or in persistently poor areas) providing benefits to both producers and consumers even though significant price slumps were often observed during harvesting periods.

Box 5: Government-led Programmes: Brazil and India

Brazil was one of the first countries to develop an institutional food procurement programme, in 2003, connecting the institutional demand for agricultural products and its food security strategy to smallholder producers. The Food Procurement Programme (PAA) is a key element in the Brazilian national strategy on food and nutritional security, Fome Zero (Zero Hunger). Fome Zero started with the aim to fight hunger but has progressively broadened into a concerted effort to guarantee the Right to Food. Particularly noteworthy in its development was the pressure from, and engagement of, civil society organizations that was crucial in putting food and nutrition security at the centre of government policy.

The PAA has three main objectives: (i) to support family farmers and family rural entrepreneurs' production and access to markets; (ii) to distribute food for people suffering from food and nutritional insecurity; and (iii) to build up strategic stocks. It uses direct and smallholder-friendly procurement modalities to buy food from smallholder farmers' organizations at market prices and distributes it to hospitals, schools, other public institutions and families in need.

Building on the PAA, the Brazilian Government launched PNAE in 2009, linking its school feeding programme with smallholder agriculture policies. States, municipalities and federal schools are required to purchase at least 30 percent of food for school meals directly from smallholder producers, following a smallholder-friendly procurement approach similar to the one adopted by PAA.

Both Brazilian IPPs allow producers to access institutional markets individually as well as through formal and informal groups but priority access is given to formal organizations. Vulnerable social groups and agro-ecological and organic production are also prioritized.

Over 190 000 smallholder producers benefitted from the PAA in 2012, with over BRL970 million used in resources. Under PNAE, resources used for procurement from smallholder farmers reached around BRL958 million in the same period. Although a nationwide impact evaluation of the Brazilian IPPs is still lacking, several qualitative case studies have identified common impacts of these programmes on the local economy and life of family farmers, including diversification and increase of production; increased income; and strengthening and development of collective organizations.

India legislated the National Food Security Act, 2013 (NFSA) in 2013 which broadly follows a life cycle approach and covers almost every age group of resident Indians. The NFSA guarantees free school meals to all the approximately 120 million children studying in government and government-aided schools; free meals to 160 million children under the age of six, free meals to all pregnant and nursing mothers in the country, and a one-time maternity entitlement of approximately \$100 for every pregnant and nursing mother in the country.

The NFSA also provides a legal guarantee to 820 million people, which represents 67 percent of the Indian population, to food grains at highly subsidized prices. Each individual is guaranteed at least 5 kilograms per month of (rice, wheat or millets at US\$ 0.05, US\$ 0.03 and US\$0.02 per kilogram respectively). Additionally, roughly 20 million of the poorest households receive an extra 10 kilograms of food grains at the same rate, making it 35 kg of subsidized food grains per family. The total food grain required to be procured for the NFSA stands at approximately 60 million metric tons.

The Food Corporation of India (FCI) is the nodal central agency of the Government of India which undertakes procurement of rice, wheat and cereals along with other state agencies. Before harvest during each crop season the FCI announces the Minimum Support Price (MSP) based on the recommendations of the Commission for Agricultural Costs and Prices (CACP). The Government of India sometimes gives a bonus above this MSP. Individual state governments can also give a bonus on the MSP, and the price at which the farmer sells to the government is the MSP plus any bonuses given by the central and state governments. The grain is purchased through procurement centres established by state governments. On average, India has been procuring close to 55 million metric tons over the past few years, each year from farmers. Many state governments also procure directly from farmers as part of the Decentralized Procurement programme (DCP) instead of procuring through the Food Corporation of India. To provide an incentive to farmers, state governments often declare a bonus for farmers over and above the MSP given by the FCI. This cost is borne entirely by the state governments. [CONTINUED ON NEXT PAGE]

Box 5: Government-led Programmes: Brazil and India (continued)

The DCP scheme is seen to have a number of advantages. Firstly, it reduces costs of procurement, particularly on freight and minimizes transport and storage losses in distribution in the PDS. It allows states a share in the revenues from levies and taxes and generates local employment. The DCP enhances production and procurement in those states that choose to be part of the scheme. It also provides the opportunity to expand the food grains that are procured by the government, thus not restricting them to rice and wheat in order to meet local tastes and preferences.

Public procurement programmes are recognized as having the potential to create, stimulate and support the transformative development of smallholders as long as they are well targeted, temporary and efforts are made to minimize market distortions. The main idea behind public procurement programmes is that connecting predictable sources of demand for agricultural products (structured demand) to smallholder producers can reduce risk and encourage improved quality, leading to improved systems, increased incomes and reduced poverty. The predictable source of demand can be provided by the public sector and its institutions (such as schools, food reserve authorities, food aid and relief development agencies, prisons, hospitals), as well as other actors such as non-governmental organizations. Good examples are government-led programmes such as those in Brazil, India or Rwanda, but also initiatives from development agencies such as P4P/WFP and Home Grown School Feeding Programmes implemented by governments and development partners.



Box 6: Initiatives by Development Agencies: Purchase for Progress (P4P) and Purchase from Africans for Africa (PAA)

An innovative approach using procurement to support smallholder producers was also presented by Purchase for Progress (P4P), a five-year pilot project launched in 2008 and implemented in 20 countries by the UN World Food Programme (WFP). P4P aimed to identify ways of using WFP's food purchases more effectively to spur improvements in smallholder agriculture and increase smallholder farmers' access to public and private sector markets, thereby increasing their incomes and livelihoods.

Alongside WFP's demand, a crucial component of the pilot was to leverage the strengths and specializations of a wide range of partners. This collaboration provided smallholders with the skills and knowledge to improve agricultural production, and an incentive to do so, as they had an assured market in which to sell their surplus crops. During the pilot, WFP bought US\$148 million worth of commodities for its food assistance programmes more directly from smallholders. Defaults on P4P contracts decreased from 59 percent in the last quarter of 2008 to 19 percent by the end of 2013 .

Applying WFP's global and national food quality norms to all purchases, P4P established a high participation threshold for market engagement by smallholders. This effectively served as a catalyst for sustainable engagement by smallholder farmers in commercial value chains, paving the way to other markets in need of quality inputs. Commodities sold by P4P-supported Farmers' organizations (FOs) to buyers beyond WFP exceeded US\$60 million. This is particularly notable as few FOs were selling collectively before engaging with P4P. In addition, farmers have increasingly started to perceive farming as a business opportunity, which is another critical factor for more sustainable market engagement. FOs holding WFP contracts were also recognized by financial institutions as being less risky than other FOs and were able to negotiate loans at more attractive interest rates, using their contracts as collateral.

Impact assessments undertaken in three pilot countries found that FOs registered significant increases in key organizational capacities and associated services provided to members leading to positive marketing capacity outcomes. These included increased sales to buyers beyond WFP, greater availability of storage infrastructure and equipment, greater volumes of quality grain sold collectively and greater provision of post-harvest financing to members. Outcomes at the smallholder level were less pronounced. The assessments found that the transmission of the positive impacts observed at FO level was constrained by a range of structural factors prevalent in many rural areas. [CONTINUED ON NEXT PAGE]

Box 6 continued

Throughout the pilot, P4P has also grown from a gender-conscious project to a gender-transformative one, specifically targeting women farmers and testing models that benefit them. In collaboration with partners, P4P has supported women producers in gaining greater control over their lives, as well as an enhanced voice at community and household levels. Women's participation in P4P-supported FOs tripled during the pilot. However, the experience demonstrated that numerical participation, while necessary, does not directly translate into a positive impact on the lives of women farmers, nor does it provide them with the same financial gains as their male counterparts. Instead, a range of interventions are needed to address underlying inequalities, empowering women farmers socially, economically and through capacity development, and assisting them to access markets and benefit financially from their work. P4P employed a variety of activities to tackle some of the challenges, including context-specific action plans; new methods for targeting women farmers; including men in gender sensitization efforts, and providing women with time- and labour-saving technology.

Nutrition-sensitive approaches were another component of the pilot. In several countries, P4P-supported smallholders market their crops to processors and millers for the creation of fortified flour and nutritious foods such as high-energy biscuits. Government investment has been vital to these efforts, as has the involvement of the private sector. In addition, WFP's insistence on quality standards and awareness-raising campaigns on the dangers of consuming grain contaminated with aflatoxin contributed to an observed reduction in this practice. The potential of P4P has been widely recognized by governments, with a number of them starting to adapt the P4P concept to their broader policy commitment to smallholder farmers and incorporate components of the programme into national strategies. The most sweeping embrace of P4P has been by the Government of Rwanda which scaled the P4P approach nationally. Some governments, including Rwanda, Tanzania and Burkina Faso have started procuring a share of their strategic grain reserves more directly from smallholder farmers. Alongside continuing implementation in the former pilot countries and the expansion of P4P to other countries, WFP is increasingly providing governments with technical support for the design and implementation of these programmes.

In collaboration with governments, WFP has also linked smallholder farmers to school feeding programmes in at least 10 of the 20 pilot countries. In a few countries, this approach was supported by the Purchase from Africans for Africa (PAA) pilot initiative which is modelled on Brazil's PAA and also draws on lessons learned through P4P. Now entering its third year, PAA Africa is supported by Brazil and implemented in Ethiopia, Malawi, Mozambique, Niger and Senegal with technical leadership and expertise from WFP and the Food and Agriculture Organization of the United Nations (FAO). To date, over 5 500 smallholders have been supported: food was provided for school meals for 128 000 students. Farmers benefited from capacity development, enabling them to produce greater quantities of higher quality food, with average productivity rates reportedly increasing by some 115 percent. PAA also strengthened inter-agency collaboration and fostered government ownership, such as in Malawi where it was adopted as part of the national strategy to strengthen school feeding coverage.

COLLECTIVE ACTION, SMALLHOLDER ORGANIZATIONS AND COOPERATIVES

Over the last 20 years, national farmers' organizations of all continents have structured smallholder farmers into regional and global networks. Farmers' organizations exist in all countries and in most rural areas although at different levels of development and capacity. From local to national level, farmers' organizations have developed services for their smallholder members while governments have disengaged from the agricultural sector in many developing countries.

The starting point of any farmers' organization and successful cooperative is a common objective. Such a collective goal acts as a "bonding factor" that brings together a group of producers and encourages collaboration. The rationale for collaboration is to overcome coordination failure, information

CFS HIGH-LEVEL FORUM ON CONNECTING SMALLHOLDERS TO MARKETS

asymmetries or to react to power imbalances. In other words, cooperation is frequently set up to overcome a market failure by allowing a group of actors to collectively reach a beneficial situation. There are broadly three reasons for forming a group: (i) economic incentives, (ii) securing access to natural resources¹⁵ and (iii) political influence and advocacy.¹⁶ Some cooperatives even meet more than one of these objectives, but often their initial common objective can be subsumed under one of the three.

The historical perspective on smallholders' organizations is that these groups faced considerable problems because of lack of capital that hindered their effectiveness and expansion (in particular physical capital for value-added activities in processing and manufacturing), poor managerial skills and governance, and finally because of competition in markets where the traditional organizational structures and the bureaucracy of farmers' organizations made it difficult to survive.

Nevertheless, the factors supporting smallholders' collective action efforts remain valid – in particular when considering the ability to exploit scale economies at production, marketing and managerial levels, eliminate barriers to entry in markets and reduce transaction costs. Even though decision-making processes can be challenging, new generation cooperatives are able to provide solutions. Such forms are based on alternative management practices and structures, and are able to access financial resources from a range of sources (for instance external equity, bondholders with financial stakes or donor support).

Among the lessons learned from past experience with farmers' organizations is the fact that their traditional social role should be separated from economic objectives. In new models of smallholders' cooperatives, social roles can be recognized through indirect links within the value chain in which they participate. In addition, such roles can be recognized when farmers' groups are organized with the support of donors or NGOs and are able to bear some additional economic cost in order to fulfil social, environmental or sustainability objectives.

The evidence indicates that in order for farmers' groups to succeed and expand, thresholds in terms of assets and skills should be surpassed, and an institutional framework including a new legislation may be necessary. In addition, sectoral policies, new technologies and new challenges such as climate change, favour economies of scale, so that small farmers' organizations in new forms have considerable chances of success if policies are carefully designed and implemented respecting business practices. For smallholder organizations in developing countries, the focus on local or domestic markets is much more important than that regarding international and export markets.

¹⁵ PAKISAMA in the Philippines is an example of a peasant movement that started off by securing land rights during a period of agrarian reform. Building on that bonding factor, the group formed a cooperative and developed a very strong entrepreneurial approach. Today, many members have become "millionaires" by Philippines standards and currency values.

¹⁶ The Burundian *Confederation des Associations des Producteurs Agricoles pour le Développement* (CAPAD) encompasses 20 130 household members in 72 cooperatives, covering key sectors such as potatoes, manioc, rice, maize, cassava, peanut, vegetables. CAPAD managed to achieve key policy outcomes contributing to the strengthening of the Burundian farmers' movement and having an impact on national policies.

Box 7: The Dynamics of Cooperatives in the Potato Sector in Sikasso

The “Union of Sikasso Potato Producers’ Cooperatives”, hereinafter referred to as USCPPS, (*Union des Sociétés Coopératives de Producteurs de Pomme de Terre de Sikasso*), was founded in the mid-1990s as the farmers’ organization “Association of Sikasso Potato Producers”, hereinafter referred to as APPS (*Association des Producteurs de Pomme de terre de Sikasso*), in order to defend the interests of all family farms producing potatoes in the Sikasso Circle. APPS organized the first general congress of all villages and hamlets of potato producers in the Sikasso Circle together with their partners, including the production services cooperative *Cikela Jigi* from Sikasso. The congress was facilitated by resource persons from the “National Coordination of Peasants’ Organizations” (CNOP) and the sub-regional “Network of Farmers’ and Agricultural Producers’ Organizations of West Africa” (ROPPA). The congress allowed participating farmer delegates to take stock of the situation in the sector, by identifying the main constraints and possible ways to exit the crisis.

Participants strongly recommended that family farms in the sector be better organized by establishing cooperatives in every potato producing village and hamlet, by strengthening them, and by creating unions of municipal cooperatives and a federation of unions within the APPS. They also recommended establishing a “Fund for Natural Disasters and Insurance” (*Fond de calamité et de garantie*) at the cooperative level, backed by sales revenues.

All congress participants considered the implementation of these recommendations to be a prerequisite for family farms to develop further, by enhancing the sector. This has led to the set-up of about fifty cooperatives since 2006 and the transformation of the APPS to the USCPPS.

Since then, the USCPPS continues to promote the establishment of farmers’ cooperatives in all potato producing villages in the Circle, and plays a key role in improving income, food security and the living conditions in approximately 12 000 family farms. The farms span about one hundred villages and hamlets, concentrated in a radius of 50 km around Sikasso, and a total population of about 90 000 people. Approximately 3 441 hectares of land are farmed, and 90 000 tonnes of potatoes are grown every year, amounting to an annual turnover of 11.22 billion CFA Francs. In the lowlands, patches of land with potatoes that are harvested during the cool dry season are used for rice crops during the rainy season, thus benefitting from the fertilizer carryover. Potato crops therefore play a significant role at an agronomic level due to crop rotation and the maintenance of soil fertility in the lowlands.

At a social level, by enabling the occupation of family farms throughout the entire dry season, they also contribute to a reduction in rural exodus, and an consequent increase in household stability, which is a condition for ensuring food security.

Since 2010, thanks to the organization of cooperatives and to the partnership with the production services cooperative *Cikela Jigi*, the USCPPS is able to provide member family farms with access to seasonal credit offered by the savings bank *Kafo Jiginew*, in accordance with an agreement reached between the two entities.

Box 8: UGCPA and Faso Jigi: the Collective Marketing System

The Union des professionnels agricoles pour la commercialisation des céréales au Mali, or Faso Jigi, is an organization created in 1997 to redress the inability of poor cereal farmers in Mali to obtain credit without falling into heavy debt and to negotiate fair prices for their produce. It comprises more than 200 cooperatives including more than 5 600 producers.

The Union des groupements pour la commercialisation des produits agricoles de la boucle du Mouhoun (UGCPA) was created in 1993 in Burkina Faso in a context characterized by strong price volatility on the markets. It comprises 2 100 members from 85 grassroots groups. In the past 20 years, Faso Jigi and UGCPA have developed into professional and efficient FOs ensuring collective marketing of their members' cereals through a wide range of services and a strong organizational structure. The Faso Jigi today produces more than 28 000 tonnes of grain, they market more than 7 000 tonnes and have an annual sales volume of 1,4 billion CFAF. The UGCPA stores and sells annually more than 3 000 tonnes of grain and participates in the constitution of the national security stock of Burkina Faso contributing with more than 5 percent of its resources.

The two organizations developed a collective marketing system (CMS), combined with advance payments to farmers, common purchasing of fertilizers, and provision of technical advice to improve yields. The CMS consists in grouping the supply of production surpluses of farmers through their organizations in order to increase their negotiation power. The system relies on the commitment of farmers to deliver a predetermined quantity of cereals at the beginning of the farming season.

Faso Jigi provides access to inputs to its membership within an advanced payment mechanism, supported by loans from financial institutions (MFIs). Once members have filled in a form assessing the projected volumes of the product they foresee delivering to the Union, the FO analyses it and then provides the advanced payments as follows:

- First advance: 60 percent of the selling price of cereals (set by the Board of the Union). The price is calculated based on the average price of the last three years and the market price environment.
- Second advance: 40 percent of the selling price provided to producers. After delivery to the Union of the quantities committed the Union sells the whole quantity purchased from its members.

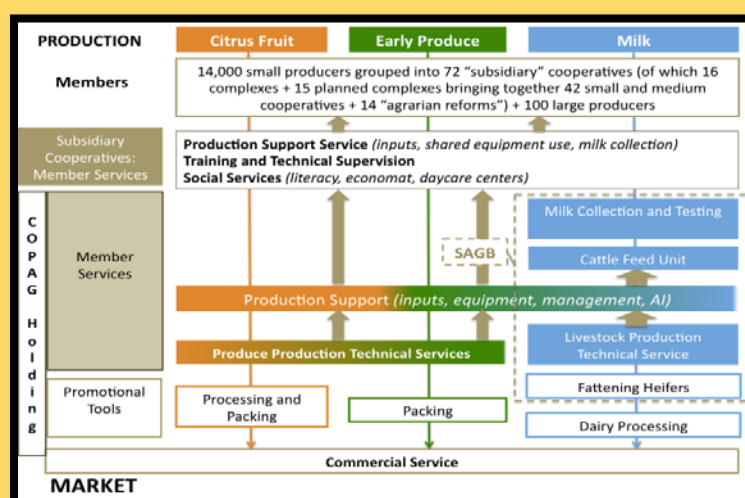


Box 9: COPAG : integrated business model on dairy products

Created in 1987, the Coopérative agricole de Taroudant (COPAG) is a farmer-based organization operating in the Souss Massa Drâa region of Morocco. It federates 110 individual farmers and 72 “subsidiary” cooperatives uniting 14 000 members around dairy production while integrating its members’ multiple activities in its service offer. While all COPAG members have access to the cooperative’s services, large and medium producers are most frequently individual members of COPAG. Small farmers form the majority within COPAG. The overall structure of COPAG is presented below.

Member producers produce and deliver quality products to the subsidiary cooperatives or cooperative complexes.

Subsidiary cooperatives or cooperative complexes provide services to member producers (e.g. milk collection and storage, shared use of agricultural equipment, economats, training, provision of improved breed heifers), and relay milk collection by the COPAG holding.



The COPAG holding provides services to the subsidiary cooperatives (e.g. provision of agrisupplies cattle feed supply), and ensures the processing/packaging and marketing of products. This business model allows the FO to control all stages in the value chain and offer producers a higher milk purchase price than the national average.

Today, the COPAG In Taroudant Province is the largest regional operator in the livestock and dairy sector. The creation of a modern fattening unit with a capacity of 11 000 head, a cattle feed production unit (350 tons per day), a slaughterhouse and cutting plant (coming soon) are important tools to optimize the value chain in the region.

Before this value chain was brought into COPAG in 1993, this activity was minimal. Producers sold to the Agadir dairy, which operated at a moderate pace. The prices offered to farmers were not remunerative. COPAG’s first purchase price for milk from its members was 2.70 dirhams per litre in 1993, when other private actors were paying between 1.85 and 2.20 dirhams per litre depending on the period. Average output was 15 000 litres per day in the region, while today COPAG alone ensures production volumes of 700 000 to 800 000 litres per day on average.

The two examples above (Box 8 & 9) illustrate strategies commonly found among cooperative development models to link farmers to markets. The first model can be labelled as the establishment of a “beneficial chain partnership”, where the cooperative serves a huge number of producers to collectively play a limited role with regard to activities (e.g. focus on access to credit, inputs or bulking) but still negotiates a very sustainable and beneficial condition vis-à-vis other business players in their

CFS HIGH-LEVEL FORUM ON CONNECTING SMALLHOLDERS TO MARKETS

market. The second model could be coined as a “up-grading” strategy, where the cooperative has evolved over time, and integrated many functions of the respective value chain into its set of activities.

Success factors: in both cases, the core success factor has been strong governance and leadership that was able to maintain clarity in the bonding factor, even while the cooperation grew. Faso Jigi is an especially interesting case, since the cooperative has undergone a internal crisis following a sharp decrease in output prices that challenged its “*raison d’ être*” up to a point where collapse was not unlikely. The cooperative managed to reverse the trend and become even stronger.

Box 10: Farmers’ associations, “value webs” and food hubs in Palau

In the matrilineal society of Palau agriculture defines the female sphere of influence, as is illustrated by the Palauan proverb: “The taro patch is the mother of our breath.” In addition to providing food and income, the taro patch serves a number of other purposes. Exchanging taro and other food plays a role in cultural customs and major family events. Family farms are multi-purpose enterprises. They have been buffers at times of disaster and provide a glue for bonding and wealth creation. This “sharing and caring” has had a multiplier effect and actually creates economic and social wealth, although this wealth creation is not reflected in official statistics. The relationship between farming families and their beneficiaries functions as a “value web” rather than a “value chain”. Family farms also act as cultural and social learning centres. They have been instrumental in keeping youth engaged in and knowledgeable about agriculture, and as a forum for inter-generational communication.

Traditionally, Palau was self-sufficient in food. By contrast, today imported foods constitute at least 90 percent of the average household diet. Political neglect of agriculture and people’s reluctance to buy from multiple small farms, as well as the devaluation of traditional foods, such as taro, have all caused traditional family farming to lose ground.

Family farm associations are reacting not with total rejection of all non-traditional approaches, but rather through a very selective adoption and adaptation of the elements which are compatible to family values. The changes in Palauan agriculture reflect not a dichotomy between “traditional” versus “modern”, but rather show a difference in orientation: is a farm “profit-oriented” or “family-oriented”? Is it focused on sales, or on services? Elements of commercialism can exist in harmony with traditional values; yet unbridled commercialization will render the “family” in farming meaningless. Palau’s farmer organizations supply services and improve access to existing services, including markets and value-adding processes. Efforts are now underway to establish a multi-purpose and multifunctional site called “The Meeting Place” which will act as a type of regional food hub. It will enable family farmers to deal directly with consumers, attract wholesale agents, foreign visitors and local consumers, provide a venue for training and building relationships between farmers, chefs and consumers, function as an order-processing and -assembling centre, and serve as a cultural reinforcement and magnet. The Meeting Place can also strengthen capacities to develop strategic action plans for import substitution and linkages to the tourist market, the fastest growing economic sector in Palau. A support mechanism like this can strengthen the value web and enhance recovery efforts after disasters, such as destructive typhoons, as it links producers with areas most in need.

SUPPORTING SERVICES AND LINKAGES IN VALUE CHAINS

There is a range of business models that support smallholder farmers by linking them to buyers and consumers, such as producer cooperatives, contract farming or outgrower schemes. In many of these business models, government and donors play an important role as they can help minimize risks, support key investments in infrastructure and services, and provide legal frameworks and recourses. Supportive policies from government to facilitate trade, improve access to financial services and to improve financing farmers’ skills and technology are essential to enhancing smallholder’s access to and

CFS HIGH-LEVEL FORUM ON CONNECTING SMALLHOLDERS TO MARKETS

integration in value chains on beneficial terms. But this also requires engaging with other actors in the supply chain, by building business relationships and partnerships with those further along in the value chain as well as those who service the value chain.

In all cases, improving access to value chains often requires investments, access to information and access to services at the production level. In addition, this requires specific policies and arrangements to support farmers and mitigate risks. The Kapunga Rice Project and IFAD's platform approach towards value chain coordination in Ghana (illustrated below) are cases in point, as they have enabled small-scale farmers to improve yields and enhance quality in an efficient and sustainable manner, by providing better access to services, inputs, and infrastructure and allowing them to enter value chains. In Ghana, women were accorded an especially strong position.

Farmers' access to financial services is often crucial to enter value chains. Farmers need to be able to invest in their productive capacity and tools in order to maximize opportunities, but they also need sufficient working capital to meet the quantity requirements of the market. However, in many cases, smallholder farmers are unable to access the banking and insurance services, and innovative approaches such as microfinance can play an important role in facilitating farmers' access to value chains with products tailored to their situations. For example, in Bangladesh, IFAD has continuously engaged with the Palli Karma-Sahayak Foundation (PKSF) in order to facilitate rural development through tailored financial products meeting small producers' and entrepreneurs' needs.¹⁷ The PKSF, which can be labelled as the "central bank of micro-finance institutions" in Bangladesh, has been the leading implementing agency with a large network of partner organizations across the country. By 2014, PKSF had reached more than 10 million poor women and men with financial services and is now expanding its services to micro-entrepreneurs, currently reaching about half a million. In addition, its non-financial services (such as business development, marketing and technical assistance) are being extended under a current IFAD project.

The provision of other services, such as packaging, transport, refrigeration, sorting and quality checks are also important. This is clearly demonstrated by the activities of the One Acre Fund in the highlands of Tanzania. By connecting smallholders with a reputable buyer and thereby allowing them to bypass extremely limited local market opportunities, the One Acre Fund was in fact able to help them generate a 30 percent increase in the price they received for their goods¹⁸. The impact that business expertise and private sector partnerships can have by including smallholders more fully into value chains is also apparent in the work of the Partners in Food Solutions (PFS).

Ensuring that value chains represent an opportunity for smallholder farmers is complex and it requires investments in analysing those chains to understand opportunities, weaknesses and requirements – how costs and benefits are shared, as well as sound legal frameworks and good governance to enable contracts and rights to be upheld.

¹⁷ Projects under the following acronyms: MFTSP, MFMSF, FEDEC, MIDPCR.

¹⁸ <http://www.oneacrefund.org/blogs/tag/market%20access/166>

Box 11: Kapunga Rice Project: Investment through outgrower schemes deliver services and markets to smallholder farmers

Innovative contracting and farming arrangements can help more farmers gain access to market and minimize risks for them. In Tanzania, small-scale rice farmers struggle to improve their yields and produce consistent quality and quantity. This makes it difficult to benefit from the regional growth in demand for rice and to get a better price for their crop.

The Kapunga Rice Project is offering new opportunities for these farmers. The land under the project is leased in smaller parcels to farmers, and they can sell their rice to the project at a set price. However, the contract is not exclusive and farmers can sell the rice off-farm as well. One of the main other benefits from the project for farmers stems from the increased ease of access to services and inputs. The project prepares the land for the leaseholders and provides other farming services for them, such as spraying, inputs provision and harvesting. This has helped scale up production and the farmers participating in the scheme also have access to the farm's mill.

To date the project has brought on board around 75 tenants and yields have increased tremendously. Access to a mill is also improving rice quality and enables access to regional export markets while access to other technologies is making rice planting, water use and input use more efficient and sustainable.

Box 12: Ghana: The Northern Rural Growth Programme (NGRP) – Platforms for value-chain (VC) actors allow for better coordination and inclusion of various stakeholders' needs and strengths

The goal of this programme is to achieve sustainable rural livelihoods and food security in northern Ghana, particularly for people who depend on marginal lands, such as rural women and other vulnerable groups. The Northern Rural Growth Programme (NGRP) focuses on strengthening linkages among the various actors in agricultural VCs – including producers and their organizations, suppliers, service providers, financial institutions, aggregators, “off-takers” (such as processors, traders and exporters), researchers and administrators. The programme supports private-public partnership arrangements to ensure that smallholders have access to finance and markets.

The programme includes a specific window for “women's crops” to promote VC development. This has facilitated women's access to land and other productive resources, and women have been able to triple their incomes through direct linkages to international markets. Women have also increased their participation in other commodity windows and women VC actors are now represented on district VC committees. Women account for two-thirds of the programme participants. The programme works with the gender desk officers of district assemblies and government institutions and has also engaged with paramount chiefs to enhance women's economic empowerment through access to land.

Box 13: Knowledge transfer creates new opportunities: Partners in Food Solutions (PFS)

The PFS is a non-profit organization that links the technical and business expertise of volunteer employees from large multinationals to small food processors and millers in the developing world. Enhancing the capacities of local food processors allows them to buy larger quantities of farmers' products as well as to produce better, more nutritious food for the population at large – creating a multiplier effect throughout the food value chain. To do this, PFS has developed a technology and knowledge transfer model that matches the needs of local food processors with the resources that PFS experts provide. Between 2010 and 2012, in the five countries where the partnership works - Kenya, Zambia, Tanzania, Malawi and Ethiopia - processors that were part of the project increased the annual volume of food products they sold to aid markets by 18.6 percent. In 2013, annual sales of improved nutritious products grew 35 percent over the previous year.

In total, the partnership has provided training to more than 500 food companies and has provided direct customized capacity building to 74, which in turn support approximately 550 000 smallholder farmers and their estimated 3.3 million family members. With programme assistance, local processors have sold more than 15 000 metric tons of products to food aid buyers for vulnerable populations, helping address a critical nutritional need. In the next five years, the partnership aims to directly assist more than 300 food processors and train at least 2 000 food specialists, providing sustainable markets for more than one million African farmers.¹⁹

Box 14: Hilina Enriched Foods: Establishing stronger links with smallholder groundnut farmers for local production of specialized nutritious foods²⁰

Providing vulnerable groups with ready-to-use therapeutic foods (RUTFs) for the treatment of severe acute malnutrition usually involves procuring these foods from abroad, however, where local procurement is possible, there may be significant cost savings for businesses as well as market opportunities for smallholders. Recognizing this, Hilina Enriched Foods, an Ethiopian food processing company, sought to use locally sourced groundnuts in the production of RUTFs. In addition to having a sophisticated aseptic plant capable of meeting demand in the region, Hilina had also secured significant orders for RUTFs from relief agencies. However, locally grown groundnuts were of low quality, contaminated by aflatoxin, a carcinogenic fungus that can negatively impact nutrient absorption in those who are exposed, leading to child stunting, among other negative health outcomes. Smallholders did not understand the aflatoxin contamination process, and had also lost interest in growing groundnuts due to the low prices they were selling at, lack of markets and lack of quality seeds. [CONTINUED ON NEXT PAGE]

¹⁹ <http://www.technoserve.org/blog/corporate-expertise-helps-local-businesses-build-food-security-in-africa#sthash.62yvkZKv.dpuf>

²⁰ Adapted from Jones, C.J. (2011). "Shifting functions to create value for producers in the value chain for ready-to-use therapeutic foods in Ethiopia" in Value Chains for Nutrition (eds. C. Hawkes and M. Ruel), International Food Policy Research Institute, Vision 2020 Conference Paper 4, New Delhi, India.

Box 14: continued

In the face of these constraints, Hilina recognized an opportunity to actively partner with smallholders to find a mutually beneficial way forward. Over the course of several years, Hilina expanded beyond its normal value chain function of food processing to also work with smallholders on the production side, in improving the quality of groundnuts. In addition to providing extension support and higher quality seeds to smallholders, Hilina invited them to their laboratories to understand the aflatoxin contamination process and gave them regular feedback on the quality of their groundnuts. Importantly, Hilina also committed to purchasing clean groundnuts at a higher price. Eventually aflatoxin contamination was eliminated.

As a result of the collaboration, Hilina was successful in increasing its production of locally manufactured, safe RUTs, and smallholders were able to quadruple their income from groundnuts, which they were now growing more of, at a higher quality. Furthermore, smallholders continued to spend the same proportion of their increased income on food, implying increased consumption and likely higher-quality foods. This demonstrates how value chain approaches can be used to strengthen access to markets for smallholders, while also generating benefits for private sector and addressing nutritional needs.

BUSINESS PARTNERSHIPS AS A STRATEGY TO SUSTAIN SMALLHOLDERS' ACCESS TO MARKETS

Partnerships are generally created with a common objective among partners, to address a certain issue or to bridge a gap they cannot tackle alone. Constraints in smallholder farmers' access to markets can be due to (i) market failures, (ii) institutional barriers, (iii) systemic weaknesses, and (iv) skill gaps. Partnerships can be informal in nature, include agreements and memorandums that document common intention, but also take the form of written and binding legal agreements.²¹ The overarching rationale of parties - be it government, the corporate private sector, NGOs, farmer organizations or other small producers - is to overcome an issue that blocks positive development.

The private sector often enters into partnerships to make value chains and markets work better and more equitably, as well as to achieve outcomes that are not derived solely from commercial interests, or are not achievable through a traditional business approach. Successful partnerships are those that address gaps, build capacities and eventually allow a transition to self-sustaining systems. From a government's perspective, the basic rationale of Public-Private Partnerships (PPPs) is to achieve public goals. The public sector enters because the market failures cause a situation where certain goods and services are not adequately supplied, causing a situation where producers and consumers that would otherwise benefit, lose out. The PPPs serve as risk-sharing mechanisms, which incentivize the parties to contribute to the achievement of a common goal, as in the case of failure costs are shared. More generally, partnerships can address a variety of issues, ranging from the provision of public goods (such as infrastructure, knowledge, etc.), offer club-goods (e.g. cheaper access to inputs to members, service provision at reduced costs), or help in overcoming market failures (e.g. by sharing risks which if borne by

²¹ Formalized agreements between private and public sectors are referred to as public-private partnerships (PPP).

CFS HIGH-LEVEL FORUM ON CONNECTING SMALLHOLDERS TO MARKETS

one party would not be taken, and hence services/ goods not be provided), and help provide skills, technology and training – e.g. business skills and marketing skills, etc.

Box 15: MARS – IFAD partnership in Indonesia: PPPs to improve service delivery along the value Chain

The Rural Empowerment and Agricultural Development (READ) Programme (2009-2014), was implemented by the Government of Indonesia and supported by IFAD. The theory of change of the PPP was to achieve sustainable cocoa production through farmers' capacity building and provision of the best cocoa technology available to improve the farmers' livelihoods. To achieve this, the Government of Indonesia partnered with Mars, in an agreement brokered by IFAD, as Mars had already developed the technology chain at the Cocoa Academy to deliver the "productivity package" to farmers. The technical assistance provided by Mars could be amplified through training of agricultural extension workers and key farmers and provide the threshold expertise needed to revitalize cocoa production.

The main contribution of MARS was to establish Cocoa Development Centres (CDCs) where "cocoa doctors" are trained. These cocoa doctors serve as local extension service providers who assist their community members to address pest problems, apply improved production technologies and improve soil management. MARS can also serve as a final buyer, but there is no contractual arrangement. The raw cocoa is sourced through a number of (competing) local buyers; some of them supply to MARS. Thus it is interesting to see how the large companies' interest in maintaining the global supply of high quality cocoa was sufficient to allow it to buy into the rural development project.

Other PPPs involve joint investment in production infrastructure or processing facilities. Examples are many²², e.g. IFAD has worked with two tea plantations and processing plants in Rwanda, where small producers are shareholders of the processing plant and supply their tea to the factory. In Uganda a large-scale palm oil production unit consisting of an outgrower scheme and a nucleus estate, that was established as a PPP, ensures service delivery, access to credit, transport of outputs and transparent pricing, through the Kalangala oil palm grower trust (KOPGT), which facilitates the sustainable interaction between the big off-taker and the small producers (IFAD 2013).

Nevertheless, PPPs have been criticized by civil society organizations, media, and academia, on the complexity of the arrangements, the dangers of lock-in and moral hazard, the blurring of roles and responsibilities between public and private sectors, insecure outcomes and poor performance monitoring.²³ There are further worries that the top-down and business-driven nature of PPPs privileges business interests while benefits for poor farmers and marginalized communities are uncertain²⁴ (Heinrich, 2013). The transaction costs of working with dispersed or non-organized producers result in PPPs working to involve the better organized and geographically accessible farmers, leaving out the more vulnerable and poor. From a private sector perspective, there are also concerns about the PPPs –

²² For further examples on PPPs supported by IFAD, see IFAD (2013). See also FAO case studies on PPP in agribusiness at the following link: <http://www.fao.org/ag/ags/ags-division/publications/publication/en/c/207992/>

²³ This section builds on a forthcoming IFAD/IDS publication assessing the outcomes and functionalities of private-public partnerships (IDS/IFAD, 2015 forthcoming).

²⁴ Some critics also point to potential damage to business profitability as a result of the costly nature of partnerships and opportunity costs.

CFS HIGH-LEVEL FORUM ON CONNECTING SMALLHOLDERS TO MARKETS

often they create models that are unsustainable over the long term or are not built for transition, so that they are dependent on donor support, rather than created to build skills and structures that allow for long term, viable business success for the partners. PPPs are often also restrictive as to what role the private sector is seen as able to play, with a focus on financing.

Notwithstanding these difficulties, business partnership and PPPs can have significant impact on rural economies with positive commercial and development outcomes, as a couple of examples illustrate. Among the core benefits are (i) access to innovation and improved inputs, (ii) reliable market channels and access to higher value markets, (iii) investment in processing of agriculture commodities, (iv)



employment generation and stimulus of the off-farm economy, (v) increased government attention to a given rural area and (vi) increased investment in social/public goods such as health care, education, and other activities that enhance sustainability. Examples can range from the joint provision of infrastructure, education, training, and health care (Box 16), as well as access to innovation and service provision through the private sector.

Box 16: Rural Development Initiative (RDI): Cargill and CARE

CARE works with Cargill business units and local employees within important supply chains to improve access and incomes for farmers, enhance education, combat child labour, and increase basic health care. The Rural Development Initiative (RDI) initially launched in 2008, was a five-year, \$10 million partnership across eight countries that benefitted the livelihoods of more than 100 000 people in India, Ghana, Cote d'Ivoire, Egypt, Honduras, Guatemala, Nicaragua and Brazil. Building on the strength of their experience, Cargill and CARE renewed their partnership in 2014.

As a result of RDI's strategic partnership between Cargill and CARE, more than 34 000 farmers and their families have received training and technical assistance to increase the productivity of their on- and off-farm enterprises. The initiative has helped link farmers to credit and quality inputs, therefore increasing the quality of the products farmers are selling. As a result, farmers participating in the initiative have seen notable improvements in their incomes and livelihoods. Nearly 27 000 farmers and their families have increased their incomes.

In Egypt for example, the partnership focused on helping smallholder farmers diversify their production and gain better access to markets for soybean crops in order to increase their profits. Working through community development associations, Cargill pays a premium price for locally produced soybeans. The premium covers costs, including transportation to the company's processing facility in Alexandria. The difference between the local price and the international prices funds community projects such as school support. In 2011, one community development association used this money to establish an income-generating project for poor widows focused on goat breeding. It has become a strong component for women's empowerment.

Beyond financial contributions, RDI relies on Cargill for agricultural expertise, commercial resources, supply chain knowledge, and policy influence, while also engaging Cargill employees and customers in key activities. This multifaceted engagement is tracked and reported every six months, along with the programme impacts.

See more: <http://www.cargill.com/wcm/groups/public/@ccom/documents/document/na3077859.pdf>

<http://www.care.org/newsroom/press/press-releases/cargill-and-care-renew-effort-fight-hunger-improve-incomes-among-smallholder-farmers>

Box 17: CNFA – Amalima Development Food Assistance Program, Zimbabwe

Amalima strengthens household and communal resilience by mobilizing people around ideas they own and share, and by melding traditional concepts with innovation. The project works with over 66 000 households in the Matabeleland District, leveraging community-led approaches to increase productivity and apply market-led approaches to push and pull vulnerable households into profitable value chains by streamlining cereal marketing from surplus to deficit areas. The programme leverages past and new infrastructural investments to improve water management and soil fertility through conservation agriculture and land rehabilitation.

Expected impact is 75-100 percent yield increases and a 50 percent reduction in food insecurity and stunting.

See more: <http://www.cnfa.org/program/amalima-development-food-assistance-program-zimbabwe>

Box 18: PPP on export crops in Sao Tomé & Príncipe

The Participatory Smallholder Agriculture and Artisanal Fisheries Development Programme (PAPAFPA) in Sao Tomé and Príncipe is a PPP between IFAD, the Agence Française de Développement, the Government of Sao Tomé and Príncipe, and five European private-sector partners (Kaoka, CaféDirect, Hom&Terre, Malongo and Société Générale Equipment Finance – GEFA). One of the main activities of this PPP initiated in 2003 is to enhance returns on investments in traditional agricultural value chains (cocoa, coffee, pepper and other spices), through the use of organic and fair trade certification and the establishment of PPPs with European buyers. The structure of the PPP involves government, IFAD, the private sector and the cooperatives supported by PAPAFPA

Structure of PPPs

Smallholder farmers, purchasers, governments and IFAD play complementary roles in PPPs as follows:

Role of the private sector

- Purchase farmers' products at fair prices
- Provide technical assistance and sharing of know-how
- Participate in providing required production inputs
- Apply social and environmental principles in terms of prices paid, product characteristics, production and processing systems
- Participate in producer financing via distribution and recovery of production credit

Role of farmers' organizations

- Mobilize producers in order to reduce transaction costs
- Provide technical support and access to production inputs
- Oversee production and post-production to ensure application of agreed quality, quantity and timing standards
- Manage any shared equipment or facilities
- Provide aggregation, sorting, processing, packaging and transport as contracted
- Support performance of members in accessing, using and repaying credit

Role of governments (with IFAD financing)

- Finance technical assistance to collectively organize farmers
- Provide infrastructure to facilitate market access
- Ensure access to any required inputs, including credit, to maintain production standards
- Finance equipment and facilities for farmers' organizations

Role of IFAD

- Ensure timely availability of financing
- Provide supervision and implementation support for increased project performance
- Verify that treatment of farmers' organizations by purchasers meets PPP principles
- Promote policy dialogue with public institutions for the development of enabling regulatory frameworks and legislation

The main benefits to producers have been: (i) up to fourfold product price increases; (ii) availability of resources to invest in the development of their associations/communities; (iii) increase in the ownership of their activities; (iv) upgrading of their technical and managerial skills/knowledge; and (v) overall development of the communities they belong to, with a decrease of rural-urban migration flows and revitalization of the rural economy.

Source: IFAD (2014) *Support Small-Scale Producers of Certified Sustainable Products*. See also PAPAFPA project and forthcoming how to do note on Farmer Organisations and markets, IFAD 2015.

PUBLIC INVESTMENT IN INFRASTRUCTURE, RESEARCH AND DEVELOPMENT AND POLICY FRAMEWORKS

Public investment in infrastructure (such as market facilities, roads), Research and Development (R&D) and an appropriate legal and policy framework play a key role in successful strategies to enhance smallholder integration into market.

Furthermore, it is essential that governments recognize the importance of market-oriented infrastructure at all levels (national, regional, district). In particular, transportation infrastructure is critical for sustainable agriculture and overall development as decentralized smallholders in the developing world need broad networks to access markets in growing cities, reduce retail prices for inputs like seeds and fertilizers, and ultimately, receive better prices. Similarly, the institutional framework governing the markets and different links across the value chain is essential. Government policies and investment decisions directly affect the broader environment within which smallholders engage in markets. Their regulations have a profound influence on the conditions under which markets operate. For example, sector policies for animal drugs in Bangladesh impact the availability of animal health and hence farmers' ability to engage in dairy production. Lack of access to drugs implies a huge risk, since likelihood of animal diseases increases and the loss of livestock augments. Similar examples can be drawn for other sector policies regulating slaughtering practices, food standards, export regulations and duties, labour regulations, etc. The development of institutional capacity in rural areas is needed to sustain the growth of social capital for farmers, farmers' organizations and marketers. This will assist in setting clear conditions and rules that ensure fairness and benefits to all participants.

In the particular case of Africa, Infrastructure development is identified as a cross cutting pillar of economic development under the Comprehensive Africa Agriculture Development Programme (CAADP) and development partners such as the African Development Bank are paying increased attention to financing the necessary infrastructure for the development of the agro-industries sector. At the same time, and as agreed at the Maputo African Union Summit of 2003, there is a growing realization that ways must be found to increase the flow of private sector resources to augment public spending in the agricultural sector. FAO organized a roundtable meeting on Investing in market-oriented agricultural infrastructure in Africa in 2012. Among the main recommendations²⁵ were that governments should increase direct investment in basic market-oriented infrastructures for the public good, such as water and marketplace infrastructure, and rural roads.

However, given the multiple risks and market failures, the private sector is unlikely to invest in these areas, where direct charges and quick or secure returns are difficult to obtain. Direct investment is also needed in support services such as telecommunications, rural electrification, rural finance, health care and security, all of which help to establish an environment conducive to business. Rural finance and credit facilities at reasonable interest rates need to be made available to encourage and enable small

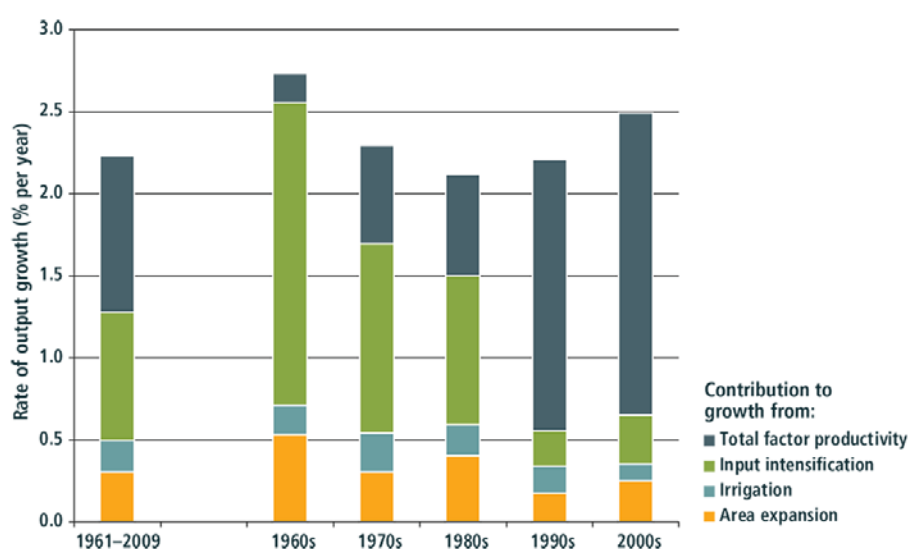
²⁵ FAO, 2012. Investing in market-oriented agricultural infrastructure in Africa. Summary of proceedings of a roundtable meeting. Rome. <http://www.fao.org/docrep/015/i2687e/i2687e00.pdf>

CFS HIGH-LEVEL FORUM ON CONNECTING SMALLHOLDERS TO MARKETS

farmers and businesses to borrow and invest. Technical services to agribusiness and market investors also need to be provided.

At some point, public-private partnerships (PPPs) should be developed to enhance infrastructure investment in water management, storage facilities, marketplaces and rural roads. Successful PPPs may require the establishment of appropriate policies, and institutional and regulatory frameworks. Some examples of investments in market-oriented infrastructures made by the public sector, private sector, or both, through PPP, are presented below. The Bangladesh examples illustrate how governments can influence not only the conditions under which local market places operate, but also include normally excluded groups, in this case women, into the design process and allow them to participate in relevant decision-making bodies.

Finally, governments need to invest in innovation, either through directly financing agricultural R&D, or by incentivising mutual learning of producers, through sharing of knowledge available from bigger private sector actors, etc. As research by Fuglie (2012) shows, most productivity gain can be attributed to innovations that increase total factor productivity, e.g. reaching higher output per input (Figure 5).



Source: K. Fuglie, "Productivity Growth and Technology Capital in the Global Agricultural Economy," in *Productivity Growth in Agriculture: An International Perspective*, ed. K. Fuglie, S. L. Wang, and V. Eldon Ball (Oxfordshire, England: CAB International, 2012).

Figure 5 Sources of growth in global agricultural production



Box 19: Sierra Leone and the government Smallholder Commercialization Programme (SCP)

Best practices can be observed, for example, in the case of Sierra Leone and its government Smallholder Commercialization Programme (SCP) supported by FAO. This programme envisioned improving smallholder commercialization by building 650 agribusiness centres (ABC) nation-wide, which represents an important public investment in infrastructure. The SCP aims to bring about a shift of paradigm from subsistence agriculture to farming as a business.

ABCs function as the primary gateway to commercialization of smallholders. They consist of a physical facility with a processing area, an input shop, a drying floor and a meeting space, and this facility is owned and operated by a board that pulls its members from two or three farmer-based organizations (FBOs) around it. As a business entity, ABCs provide a range of technical, operational and marketing services to smallholders and they represent a key entry point for MAFFS extension support.

One ABC (Yafami ABC in Bo district) succeeded in linking with a formal buyer, the West Africa Rice Company (WARC). This ABC received a big rice mill and rice processing increased from 110 bushels in 2011 to 1 710 bushels in 2012. Thanks also to business days organized to facilitate interaction between ABCs and companies interested in buying from them, large clients such as WARC have found their way to Brima Town. WARC provides branded packaging materials to the ABC for retail-shelf ready 2kg and 5kg bags under its own brand, and also worked with the ABC/milling company to get the quality up to the required standard. In addition to the rice mill, the ABC has a group farm, which increased from 12 acres under irrigation initially to currently 30 acres under irrigation as well as another 10 acres under cassava. The ABC has also been selected as an agrodealer. They received seed inputs for their input shop and planted a small demonstration plot of vegetables.

Box 20: Liberia and the Agriculture and Asset Development Company (LAADCO)

Different experiences show that government support can be put in place also through the development of Public-Private Partnerships (PPPs). This is the case of the partnership that has been instituted in Liberia between the Ministry of Agriculture, IFAD and the Liberia Agriculture and Asset Development Company (LAADCO), a private-sector exporter of cocoa and coffee. The Smallholder Tree Crop Revitalization Support Project has three components: i) construction of rural road networks; ii) rehabilitation of 1 000 hectares of cocoa and coffee plantations through links between smallholder farmers and the private sector; and iii) institutional development of three cooperatives. The project runs from 2012 to 2017, with LAADCO providing technical and extension services as well as financing; so far, it has invested more than US\$1 million, with an additional US\$5 million committed for project scale-up to another 15 000 hectares of cocoa or coffee.

As a result of this PPP approximately 1 000 farmers have already benefited from improved commercialization (prices have increased by 50 percent compared with those previously paid by market intermediaries), larger quantities sold and better product quality.

Box 21: Market Infrastructure Development Project in Charland Regions, Bangladesh (MIDPCR), 2006-2013

The project strongly benefitted women's livelihoods through infrastructure development and production and market group development. All market construction work and construction of Herringbone Brick Bond (HHB) roads have been allocated to the Labour Contracting Societies (LCS), which all had women leaders and 90 percent of their members were women. Having been involved in building the market, many female LCS members felt an ownership with the market and were comfortable going there. Also, the project strongly emphasized women's representation in the Market Management Committees and reserved 25 percent areas for women in all markets. Within the 66 markets developed, 14 of them have women market sections (WMS), with 4 to 6 shops each housed in small buildings, which enabled more women traders to set up small establishments which in turn encouraged more women customers to visit these markets. Besides, 50 172 women have received training on fisheries, poultry, livestock, vegetable production, etc. With indigenous poultry rearing as a primary woman's occupation, women reported improved food security because they either consumed or purchased other nutritious food (and diet diversification) with the income from the sales of the poultry. Overall, the project reports reached 125 405 direct beneficiary individuals, of which 98 359 or 78 percent are female.

Programme website:

http://operations.ifad.org/web/ifad/operations/country/project/tags/bangladesh/1322/project_overview

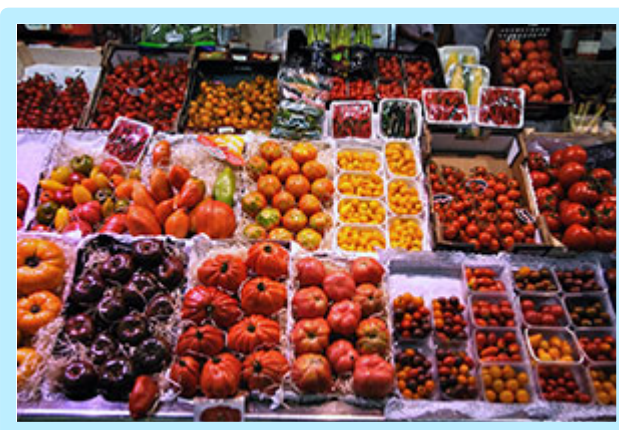


CHAPTER 3: SYNTHESIS OF FINDINGS & DIRECTION FOR FUTURE DISCUSSION AMONG CFS STAKEHOLDERS

Smallholder agriculture is part of the solution to achieving poverty and food insecurity alleviation objectives. However, their diversity across countries and ecological systems needs to be taken into account in order to assess the challenges smallholders face within the sector and the institutional environment in which they operate (FAO, 2014a).

The spectrum of evidence presented in this paper indicates the variety of approaches and contexts under which smallholders operate and have been able to successfully establish and strengthen linkages to markets. The challenge remains to draw lessons with broader applicability. Deeper analysis of the different types of markets and their modus operandi should identify the key issues that impact on smallholders' livelihoods, resilience and food security. This chapter synthesizes the cases presented, confronts them with the description of characteristics of smallholders and markets presented in chapter one, and identifies questions to be discussed during the High Level Forum.

SYNTHESIS OF CASE STUDY EXPERIENCES



What worked, where, and why? In chapter 2, a range of cases have shown that smallholders do operate in different markets, have proved capable of addressing a number of challenges and seizing opportunities in a changing agrofood systems. Given the brevity of the report, these cases can only serve as snapshots and cannot do justice to the complex interaction of factors driving the success, or present precise figures on outcomes. Acknowledging this limitation does

not weaken the message of this report, but simply indicates that more work has to be done to unpack the complex relationship between **smallholders, markets & food security**. We shall attempt a first systematization of findings with a view to informing both the discussion in the HLF and future work to be carried out in this area within CFS.

A number of findings can be drawn from the six broad categories of successful cases presented in chapter 2. Many relate back to the challenges and opportunities raised at the end of chapter 1, e.g. increased urbanization, extensions of the supermarkets to local production levels (vertical integration), and demographic and dietary change. Some recurrent patterns seem to show up from a number of cases.

1. Smallholders are essential for achieving food and nutrition security

Improving food security is the principal objective and the main impact expected from smallholder farmers and the ways they are connected to markets. Despite the diversity of smallholders and the range of constraints they face, the cases showed that all of them are contributing to food security at the level of their own households – already a significant proportion of the world's population – and

CFS HIGH-LEVEL FORUM ON CONNECTING SMALLHOLDERS TO MARKETS

most of them more broadly. Smallholders are responsible for most of the food produced globally. In particular, local trade, short value chains, institutional procurement programmes and other policy-induced changes offer significant potential for small producers to enhance their contribution to the world's food supply.

Viewing smallholders – women and men – as authors of their own destiny and supporting their strategies is therefore essential. In several of the cases presented, smallholders have taken the initiative to organize themselves into farmers' organizations, cooperatives, producer groups or other associations. These organizations pursue (at least) one common objective which functions as a binding factor to keep members together. Some focus on improved access to inputs and finance, with the group serving as a mechanism to mitigate market risks or to place bulk orders for inputs, etc. Other groups take on storage, aggregation, processing or even marketing functions and hence keep more of the value addition of a product within their control, raking in higher shares of the profit.

COPAG's fully integrated dairy value chain within the structure of a cooperative is one example, that benefits currently 14 000 members across Morocco, and has its products competing with Danone on the national market. In other cases, smallholders united to influence policy formulation or defend their property rights, such as the example of PAKSIMA in the Philippines, where a land reform in the 1990s was influenced and shaped in such a way that the FO members could secure their land rights. Today most of them emerge as viable business people. ROPPA in West Africa played key role for farmers to mitigate climate and price risks, as the example of potato producers around Sikasso illustrated.

In other cases, public policies have set the ground and established playing field rules that have allowed market relations to become sustainable and beneficial for smallholders as part of a national strategy of food and nutritional security.

In Ecuador a change in the constitution, favouring local sourcing and short circuits, paved the road for the "Box scheme" to succeed. India has committed itself to the "right to food" and parliament hence legislated the National Food Security Act (NFSA). This, which acts as the framework that enables school feeding, thus contributes to food security and channelled structured demand for supply towards smallholders, creating an attractive market opportunity for them. The same holds for other P4P and IPP, as the cases in Brazil, Rwanda, and India show. Furthermore, governments' attention to Geographic Indications, probably most pronounced in the Morocco case but also in Sao Tomé and Bolivia, have contributed to the successful establishment of protected, geographically bound trademarks. These GIs guarantee local producers quasi "monopoly rights" for their produce, which (can) translate(s) into more value and profit retained at the region of production.

Evidence from the cases indicated that the advantages for food security of measures that aim at supporting resilient smallholder production for markets would include:

1. Better diet based on traditional and diversified products;
2. Improved quality based on consumers' expectations (nutritional quality, health concerns, biodiversity, other specific quality, etc.);
3. Increased valuation of local food systems that can serve as a way to include producers, who tend to be marginalized and left out of commercial chains;

CFS HIGH-LEVEL FORUM ON CONNECTING SMALLHOLDERS TO MARKETS

4. Better interaction between farmers and consumers improving consumer awareness;
5. Better consideration of cultural and social factors and interactions;
6. Positive impact on local markets (such as increase in the price paid to producers);
7. Allowing and helping producers to engage into formal markets and increase their surplus production and incomes;
8. Increase the diversification of production for farmers and better diet and nutrition for consumers, especially children in the case of school feeding programmes;
9. Education role and long-term vision for looking at the next generation of both farmers and consumers.

2. Smallholders turning challenges into opportunities

Chapter 2 has grouped the evidence into six broad categories which all aim at facilitating the way smallholders address their challenges when accessing markets. **(i) Local food systems and access to markets linked to territories** highlights the potential of short value chains, local linkages between producers and consumers, and various approaches that allow producers to retain more value in the areas of production while addressing specific local challenges related to local resources such



as the use of GIs and other trademarks. Examples under **(ii) public procurement and local purchase from smallholders** have documented how “structured demand” in the form of institutional food procurement programmes (IPPs) can open up a huge market for smallholders. The section on **(iii) collective action, smallholder organizations and cooperatives** underlines how smallholders often manage to express important values such as solidarity and to overcome the challenges linked to the size of their operations by organizing themselves into larger groups, through which economies of scale can be reached, better bargaining positions gained and even policy formulation influenced. In addition, cases illustrated the importance of **(iv) supporting services and linkages in modern value chains**. The production of smallholders relies on inputs and supporting services (financial and non-financial), throughout the various stages of production, processing, and marketing. Functioning relationships with service providers and other actors in a specific value chain are therefore key, provided that their terms are such as to maintain a sustainable and beneficial market linkage for smallholders. Linked to this point is a discussion on **(v) business partnerships as a strategy to create sustainable smallholders’ access to markets**, which underlines that several types of formalization in partnerships exist and that partnerships can help smallholders access new opportunities and markets depending, again, on their terms and the degree of control able to be exercised by the smallholders. Finally, the chapter concluded with a number of cases that showed success due to **(vi) public investment in infrastructure, research and development and policy frameworks**. Similarly to the public procurement examples, governments’ decisions on how to invest in market infrastructure, roads etc., and how to regulate and govern the agricultural sector (policies and regulations) has a huge impact on smallholders engagement in markets and the benefits they can derive from it.

CFS HIGH-LEVEL FORUM ON CONNECTING SMALLHOLDERS TO MARKETS

These categories are not mutually exclusive but are complementary and could be applied depending specific local conditions, products, markets, social and cultural aspects, etc. They illustrate a broad variety of type of markets (labour, outputs, credit) and conditions of exchange (barter, input-credit, shareholding). Some cases were very localized; others reach across regions, national borders and even continents. The core combining element emerged, that smallholders were at the centre of them, even though it remains to be determined which approach is most appreciated by smallholders, and which is more likely to yield the best outcomes for them. The latter is context-specific; still, some more general lessons can be drawn, as will be seen in the next section.

3. Providing appropriate conditions and addressing major constraints

Even if the cases presented are successes, there are still important conditions, necessary but not sufficient. Some of the conditions suggested by the cases are given below. This is just an initial list; it will need to be explored in greater depth in the follow-up to the HLF.



Overcoming the data gap regarding informal markets and upgrading traditional products: a major lacuna that has emerged from the preparation of this document, also cited in the HLPE (2013) and ROPPA et al. (2013) studies is the paucity of data on and analysis of how informal local markets function. Filling this gap will be essential as a basis for understanding how best to support and to build on those market connections which are most important for

smallholders and food security. This will include exploring the degree and the modalities whereby informal markets – based to a large extent on relations of trust and reputation – could be formalized to the benefit of small producers as in some of the cases presented in this document:

The cases of GI in Morocco, Bolivia and Sao Tomé & Príncipe, document that through the establishment of a protected geographical indication, producers could continue local production in their “traditional” manner while gaining even higher values for their product, due to the pristine quality. See section on Slow Food’s approach in Mozambique and the Box scheme in Ecuador.

Investments channelled towards smallholders’ needs: In many of the cases presented, investments – from public sector, other private business partners or the smallholders themselves – have been channelled towards what have been presumed to be the needs of smallholders, although more attention is required to the question of how and by whom these needs are identified.

CFS HIGH-LEVEL FORUM ON CONNECTING SMALLHOLDERS TO MARKETS

In the market reform in Bangladesh, the infrastructure for market places was designed to meet local producers, especially women's needs. In Ghana, platform meetings inform government about core bottlenecks in several value chains, thereby improving targeting of investments. The Government of Sierra Leone together with FAO has invested in the establishment of Agri-Business Centres that support smallholders' commercialization efforts. IFAD has developed feeder roads in Sao Tomé that were instrumental in linking small producers to local aggregators and in maintaining high quality produce of freshly harvested cocoa. WFP, together with the respective governments and the financial sector/banks made investments for storage facilities available, so that producers could meet quantity and quality requirements of the P4P. LAADCO in Liberia invested substantial capital to finance local roads, the rehabilitation of the plantation and outgrower structures. FOs themselves pooled resources to invest in storage, processing and marketing infrastructure, as the examples of Sikasso, Faso Jigi and COPAG illustrate.

Capacity development & governance mechanisms: Smallholders are involved in market linkages on the input and output side. To make those linkages more beneficial to them and to tap into new market opportunities, their ability to organize themselves and negotiate the terms of their contractual relationships with suppliers and buyers to their advantage is key.

WFP had to invest substantially in many of the partnering FOs to bring them up to a state where they could meet quality criteria to be eligible according to the terms established by the programme. Malawi Mango and the outgrower working with the company in Malawi agreed on a contractual framework that governs the exchange. In Ghana an IFAD Project established value chain stakeholder platform meetings, which are initially facilitated by an NGO and serve as an informal governance mechanism for the value chain actors who engage continuously and raise issues related to their market and business relations.

Rules, institutions, and policy framework: Governments have an essential role to play in developing a country-owned vision for the future of agriculture and the place of smallholders therein (CFS 2013/40 REPORT, para. 31). This role needs to be conducted in the full respect for the right to food for all, and for gender equality. Tasks include building the infrastructure needed to reduce entry barriers and transaction costs that hinder participation into local markets, constructing roads and extending the transportation network.

Key actions include facilitating access to accurate and reliable information on prices of inputs and outputs, on weather conditions as well as other market intelligence tools; promoting responsible governance of land and natural resources with emphasis on securing access and tenure for smallholders, particularly women, in accordance with the Voluntary Guidelines on Responsible Governance of Tenure of Land, Fisheries and Forests in the context of national food security policies; strengthening participatory research, extension and farming service systems, particularly those that respond to the specific needs of smallholders and women farmers.

Sector policies and regulations regarding the organization of producers have a profound influence on their position within the agricultural market system.

CFS HIGH-LEVEL FORUM ON CONNECTING SMALLHOLDERS TO MARKETS

The constitution in Ecuador provides the institutional framework for local food initiatives and solidarity economies for agricultural products. In Mali, government sources parts of its national food reserve from Faso Jigi, which is similar to the various cases of the IPPs, where public demand is clearly linked to smallholder supply through political decisions.

Furthermore, sectorial governance, such as regulations, standards and customs all exert some influence on how far smallholders can engage in a specific market under beneficial terms, or are crowded out due to diseconomies of scale or, for example, for not complying with food safety standards. Similarly, regulations can suppress



other private sector actors that play roles in the functioning of value chains or business relationships.

Collective action & leadership: Combining particular interests with groups of producers has the potential to create momentum to push for political change (PAKISMA, Philippines; CAPAD, Rwanda), address hazards through pooling of resources and smoothing of investment and consumption over time (ROPPA, Faso Jigi), as well as fetching higher prices through collective marketing and bargaining (Sao Tomé). For farmer organizations to remain functional and adjust to changing contexts and challenges, leadership and well-functioning internal governance is key.

Faso Jigi, which was on the brink of collapse but re-emerged strengthened by the crisis, is one example. Similarly, it is interesting to see that GI producers self-impose monitoring mechanisms on their peers, bringing down costs enormously (compared to external certification of quality standards).

The importance of business relations throughout the production, processing and marketing cycle and along the value chain have been highlighted at several stages in the report. Various private sector actors have been instrumental in making linkages between small producers and final consumers more sustainable, although controversy remains as to whether this necessarily yields the highest returns for small producers. Notwithstanding this criticism, a number of cases have shown how crucial the role of service providers along the value chain and the link with bigger processors and traders has been.

CFS HIGH-LEVEL FORUM ON CONNECTING SMALLHOLDERS TO MARKETS

In Indonesia, Mars has provided state-of-the-art technical assistance in the form of cocoa This was further emphasized in the RAI Principles and the VG on land tenure (source). Development Centres (CDCs) induced a business model of lead farmers acting as service providers to fellow cocoa farmers on a business logic. This not only helps producers to improve productivity and quality that translates into higher incomes from cocoa, but also contributes to the protection of a global public good – sustainable production of several cocoa varieties, that were declining or even vanishing. Cargill's rural development initiative to work with more than 34 000 farmers and families to increase their on- and off-farm productivity is another example. In Bangladesh, the Palli Karma-Sahayak Foundation (PKSF) started to use business plans of small entrepreneurs and producers as a pre-requisite for a specific micro-finance and micro-investment product. This contributed to stronger linkages between market actors. Hence, the interest of micro-finance institutions contributes to forging pro-poor value chains. Other examples include the Malawi Mango case, the tea sector PPPs in Rwanda and palm oil production in Uganda.

Investment in construction and maintenance of appropriate market infrastructures: The examples suggest that the strengthening of local infrastructures and institutions is important for enabling small farmers and enterprises in developing countries to increase their share of value for sustainably produced products. Building proper physical or institutional infrastructures constitutes the top cross-cutting pillar of market integration for smallholders. It is included as the last of the set of instruments reviewed in chapter 2, despite the difficulty summarizing, with just a few examples, the width and depth of interventions across different countries. Roads in many rural areas are not functional all year round, making access to markets for inputs and outputs cumbersome, costly or even impossible during certain periods.

Improved documentation of impacts on nutrition and food security: While the discussion on sustainable and profitable market integration already emphasize the main difficulties, CFS stakeholders should engage more directly into measuring impacts on food security (in all four dimensions).

Access to finance for all market actors: Another core element for market development, the facilitation of investments and payments is sound, secure and easy access to financial systems and services for smallholders, as well as for other rural entrepreneurs and other market actors.

Continuous advocacy and investment from donors and governments to strengthen the position of smallholders : While it would be desirable to have markets function in favourable terms for smallholders, many cases presented were dependent on interventions by third parties, either in the form of “brokers”, financiers, or actors that can provide support, advice and expertise to smallholders.

CFS HIGH-LEVEL FORUM ON CONNECTING SMALLHOLDERS TO MARKETS

The registering of neglected and underutilized species (NUS) in Bolivia was financed through an IFAD grant and facilitated by Bioversity, which also trained the custodians of local agrobiodiversity. P4P's success in sourcing more than US\$60 million from FOs was driven by a donor financed pilot. Public Private Partnerships, e.g. the Uganda Palm Oil production scheme, have often been brokered through a third party. In Uganda, IFAD had invested substantial time and capital to forge the tripartite agreement, strengthen farmer groups and set up a support system that allows smallholders to sustainably engage with a big processor. A transparent pricing mechanism is one core element of this PPP. Another example is that of the Earth Markets in Mozambique, that have been initiated by Slow Food. While similar efforts from third parties, that often can serve as more neutral brokers, can act as catalyst, there is a clear need to consider exit-strategies early on. Ideally, smallholders themselves should be empowered to maintain a beneficial business relationship or influence policy dialogues.

Policies to account for structural transformation side-effects. The range of development transformation paths described in chapter 1 reflect diverse development options and strategies, which need to take into account the adverse impacts on agricultural producers and especially smallholders. Such policies include the improved functioning of labour markets in agricultural and non-agricultural sectors, secure land tenure rights, investments to increase capital availability and technology adoption and investments in human capital. Moreover, social protection policies and safety nets are needed, especially for women and young farmers who are among the most vulnerable groups.

These findings echo what has been elaborated in the HLPE Report 6 (HLPE 2013, p. 87), where the authors have concluded that “every country should engage in the elaboration of a national smallholder investment strategy, based on a vision for smallholder agriculture, and an accompanying set of policies and budgets to support the transformation of the smallholder sector.” As a result, the authors have indicated a need to invest in (i) natural assets, (ii) human assets and (iii) financial assets, to allow for improved access to existing and new markets. To strengthen smallholder organizations a number of institutional changes had been suggested: (i) increased political representation, (ii) organization for collective action, (iii) security of access to land and property rights, and (iv) the development of public sector capacity in support of investment in smallholder farming (p. 91)



GUIDING QUESTIONS FOR THE HIGH-LEVEL FORUM 25 JUNE

The evidence presented in this report has a positive tone: it was able to illustrate how in several cases, market opportunities could be seized in favour for smallholders. However, for each of the categories highlighted in chapter 2, important questions remain which have policy implications for CFS stakeholders, requiring further work. The following set of questions is intended to generate thoughts about the overall applicability of the case evidence presented, as well as to engage in a discussion about what this entails for CFS stakeholders, namely governments, farmer representatives and civil society, donor community and the private sector mechanism. The list is by no means exhaustive.

(i) local food systems and access to markets linked to territories:

- How to overcome the data and analysis gap in local food systems and build a better understanding of the logics by which they operate?
- How to better support/promote local food systems (products produced and sold locally) and origin-linked quality products?
- How to promote innovative forms of marketing and product exchanges between producers and consumers at local level?
- What policies need to be in place to strengthen local food systems to grow and adapt to changing conditions and meet the food demand of urban areas?
- How many, and what kind of formal regulations do local food systems need?

(ii) for public procurement and local purchase from smallholders:

- What accompanying policy, institutional and infrastructure measures are needed?
- What characteristics of public procurement programmes are desirable with a view to being inclusive of small-scale producers? How can these schemes include the poorer segment of the rural population? What support may smallholders need to build their capacity to participate in these programmes, and how can this support be provided?
- How to enhance synergies between the public and other markets ?
- How sustainable are IPPs and similar? What happens in the case of a policy shift?

(iii) for collective action, smallholder organizations and cooperatives:

- What are the most appropriate approaches for governments and donors to strengthen FOs' leadership and management capacity while respecting their autonomy?
- How can farmers' organizations become more inclusive for groups sometimes left out (Youth, Indigenous, Ethnic minorities)?

CFS HIGH-LEVEL FORUM ON CONNECTING SMALLHOLDERS TO MARKETS

(iv) for supporting services and linkages in value chains:

- What roles of service provision to smallholders can be played by FOs, public extension, private sector extension services ?
- How can governments engage with actors across the chain, given the diversity of ministries involved (Agriculture, Trade, Finance, Customs)?
- What are the views of the different actors regarding the value chain approach, and the degree to which and conditions under which it can be beneficial to smallholders, enabling them to maintain their autonomy and control?

(v) for business partnerships as a strategy to sustain smallholders' access to markets:

- Who are the partners and what are their different roles and responsibilities? How to enhance partnerships between smallholders and SMEs in their own countries?
- How to ensure that the terms of partnerships are beneficial to smallholders?
- Which types of legal enforcement for partnerships should CFS be aiming for in order to protect the most vulnerable? (link to RAI Principles, VGs etc.)
- How best to ensure remunerative prices for smallholders?

(vi) Public investment in infrastructure, R&D and policy frameworks:

- Which policy reforms are easiest to achieve and yield relatively high impact, regarding market integration?
- How can governments enhance the spread of innovation among smallholders?

CFS HIGH-LEVEL FORUM ON CONNECTING SMALLHOLDERS TO MARKETS

MESSAGE FOR THE DAY

The discussions at the HLF will be based on the information and analysis provided in this background document, the input from the panel, and the experience and knowledge of the participants. The HLF is not expected to deliver policy recommendations – an impossible objective for a one-day meeting on a complex and under-researched subject – but rather to help identify the key issues and open the way for a deeper exploration of the relations between smallholders, markets and food security in the future work of CFS. It is therefore proposed that the speakers in the morning panel concentrate on what, in the cases they present, has worked to the benefit of smallholders and food security and how this can be demonstrated. The final panel could then focus on two questions:

- What are the key issues regarding the relations between smallholders, markets and food security on which further research and policy debate is needed? How to measure the benefits to smallholders and the real impact on food security of different approaches to linking smallholders and markets?
- What concrete steps and processes can be proposed to CFS in order to address these matters?



BIBLIOGRAPHY

- Argumedo, A. & Pimbert, M.** Bypassing Globalisation: barter markets as a new indigenous economy in Peru (SID, 2010).
- Arias, P., Hallam, D., Krivonos, E. & Morrison, J.** 2013. *Smallholder integration in changing food markets*. (p. 48). FAO: Rome.
- Baumgartner, P., von Braun, J., Abebaw, D. & Müller, M.** 2015. Impacts of Large-scale Land Investments on Income, Prices, and Employment: Empirical Analyses in Ethiopia. *World Development*, 72, 175–190.
- Barrett, B., Reardon, T. & Webb, P.** 2001. Nonfarm income diversification and household livelihood strategies in rural Africa: concepts, dynamics, and policy implications. *Food Policy*, 26, 315–331.
- Caiazza, R. & Volpe, T.** 2012. The Global Agro-food System From Past to Future. *China-USA Business Review*, 11(7) 919-929.
- Deininger, K. & Byerlee, D.** 2012. The Rise of Large Farms in Land Abundant Countries: Do They Have a Future? *World Development*, 40(4), 701–714.
- Dercon S. & Gollin, D.** 2014. Agriculture in African Development: A Review of Theories and Strategies, CSAE Working Paper WPS/2014-22, Oxford University
- D’Odorico P., Carr, J. , Laio, F., Ridolfi, L. & Vandoni, S.** 2014. , Feeding humanity through global food trade, *Earth’s Future*, 2, 458-469.
- East African Farmers Federation (EAFF), Peasant Platform of Central African (PROPAC), and Network of Peasant and Agricultural Producers’ Organizations of West Africa (ROPPA).** 2013. *Family farmers for sustainable food systems. A synthesis of reports by African farmers’ regional networks on models of food production, consumption and markets*. Rome: Europafrica.
<http://www.europafrica.info/en/publications/family-farmers-for-sustainable-food-systems>.
- Escobal, J. A. & Caverio, D.** 2012. Transaction Costs, Institutional Arrangements and Inequality Outcomes: Potato Marketing by Small Producers in Rural Peru. *World Development*, 40(2), 329–341.
- EU.** 2009. The evolution of value-added repartition along the European food supply chain, Commission staff working document, COM(2009) 591
- FFR.** 2013. The FFR Brief: Five years of the Financing Facility for Remittances. IFAD: Rome.
- FAO.** 2010. Linking people, places and products. A guide for promoting quality linked to geographical origin and sustainable Geographical Indications. Rome.
- FAO.** 2012. Investing in market-oriented agricultural infrastructure in Africa. Summary of proceedings of a roundtable meeting. Rome. <http://www.fao.org/docrep/015/i2687e/i2687e00.pdf>
- FAO.** 2012a. Innovative policies and institutions to support agro-industries development. Rome.
- FAO.** 2012b. Smallholder business models for agribusiness-led development: Good practice and policy guidance. Rome.
- FAO.** 2014b. International Year of Family Farming, Webportal (accessed April 22, 2015) available at: <http://www.fao.org/family-farming-2014/home/what-is-family-farming/en/>
- Fuglie, K.** 2012. Productivity Growth and Technology Capital in the Global Agricultural Economy, In *Productivity Growth in Agriculture: An International Perspective*, ed. K. Fuglie, S. L. Wang, and V. Eldon Ball; Oxfordshire, England: CAB International.
- Herrmann, R., Grote, U. & Büntrup, M.** 2013. Household welfare outcomes of large-scale agricultural investments: insights from sugarcane outgrower schemes and estate employment in Malawi. *Paper Presented at The World Bank Conference on Land and Poverty, Washington, DC, April 8-11*, 1–29.
- Haggblade, S., Hazell, P. & Brown, J.** 1989. Farm-nonfarm linkages in rural sub-Saharan Africa. *World Development*, 17(8).

CFS HIGH-LEVEL FORUM ON CONNECTING SMALLHOLDERS TO MARKETS

- Hazell, P., Poulton, C., Wiggins, S. & Dorward, A.** 2010. The Future of Small Farms: Trajectories and Policy Priorities. *World Development*, 38(10), 1349–1361;
- Hinrichs, C. C.** 2000. Embeddedness and local food systems: Notes on two types of direct agricultural market. *Journal of Rural Studies*, 16(3), 295–303. doi:10.1016/S0743-0167(99)00063-7
- HLPE.** 2013. Investing in smallholder agriculture for food security. A report by the High Level Panel of Experts on Food Security and Nutrition of the Committee on World Food Security (p. 112). Rome.
- IFAD.** 2009. Smallholder Farming in Transforming Economies of Asia and the Pacific: Challenges and Opportunities - http://www.ifad.org/events/gc/33/roundtables/pl/pi_bg_e.pdf
- IFAD.** 2013. IFAD and public-private partnerships: Selected project experiences. Rome: December 2013
- Jones, C.J.** 2011. Shifting functions to create value for producers in the value chain for ready-to-use therapeutic foods in Ethiopia in *Value Chains for Nutrition* (eds. C. Hawkes and M. Ruel), International Food Policy Research Institute, Vision 2020 Conference Paper 4, New Delhi, India.
- Karfakis P., Ponzini, G. & Rapsomanikis, G.** 2013. On the costs of being small; case evidence from Kenyan family farms, FAO, Rome. (mimeo)
- Larson D., Otsuka, K., Matsumoto, T. & Kilic, T.** 2014. Should African rural development strategies depend on smallholder farms? An exploration of the inverse-productivity hypothesis. *Agricultural Economics*. Volume 45(1): Issue 3, pp. 355–367
- Lowder S., Skoet, J. & Singh, S.** 2014. What do we really know about the number and distribution of farms and family farms in the world?, ESA Working Paper No. 14-02, FAO Rome.
- Maertens, M. & Swinnen, J. F. M.** 2009. Trade, Standards, and Poverty: Evidence from Senegal. *World Development*, 37(1), 161–178).
- Masters W., Andersson Djurfeldt, A., De Haan, C., Hazell, P., Jayne, T., Jirström, M. & Reardon, T.** 2013. Urbanization and farm size in Asia and Africa: Implications for food security and agricultural research. *Global Food Security*, 2(3).
- Nyeleni,** 2013. Newsletter n°13, Food Sovereignty.
- Rapsomanikis G.** 2014. The economic lives of smallholder farmers; An analysis based on household surveys, FAO Rome. (mimeo).
- FAO.** 2011. The State of Food and Agriculture, Women in Agriculture: closing the gender gap. FAO, Rome.
- FAO.** 2014. The State of Food and Agriculture, Innovation in family farming. FAO, Rome
- Van der Ploeg, J. D., Jingzhong, Y. & Schneider, S.** 2012. Rural development through the construction of new, nested, markets: comparative perspectives from China, Brazil and the European Union. *Journal of Peasant Studies*, 39(1), 133–173.
- Wiggins, S. & Keats, S.** 2013. Leaping and Learning: Linking smallholders to markets in Africa (p. 120). London, UK.
- World Bank.** 2012. Africa can help feed Africa: removing barriers to regional trade in food staples. Washington D.C.

PHOTO CREDITS

Page 1: ©FAO/Alessia Pierdomenico
Page 2: ©FAO/Adek Berry
Page 3: ©FAO/Ami Vitale
Page 6: ©FAO/Shah Marai
Page 11: ©FAO/Seyllou Diallo
Page 13: ©FAO photo
Page 15: ©FAO/Simon Maina
Page 20: ©FAO/Giulio Napolitano
Page 25: ©FAO/Seyllou Diallo

Page 33: ©IFAD/Roger Arnold
Page 36: ©FAO/Vasily Maximov
Page 38: ©FAO/Alessia Pierdomenico
Page 39: ©FAO/Greg Ahrens
Page 41: Scott Nelson/WPN for FAO
Page 42: ©FAO/Dan White
Page 44: ©FAO/Farooq Naeem
Page 46: ©FAO/Vasily Maksimov
Page 49: ©FAO/Giulio Napolitano