

INNOVATION ACCELERATOR

# Building resilient smallholder supply chains

How to enable transformation for  
farmers, institutions and supply chains

December 2020



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RESEARCH COALITION



# Executive summary

**This report sets out the initial findings of Innovation Forum's action research project to build durable smallholder agricultural supply chains. This project was established in May 2020 to respond to the fact that, despite almost decades of effort to address social and environmental challenges in these supply chains, considerable problems still remain**

Catalysed by conversations from the 2019 Innovation Forum sustainable landscapes and commodities conference, this project currently includes six member organisations: the Clinton Development Initiative, COLEACP, Cotton Connect, GIZ, Golden Agri-Resources and Nestlé SA.

The aim is to share lessons learned by these organisations, and bring in perspectives often ignored in current debates, for example from fields such as development economics, political economy and anthropology. The goal is to derive actionable lessons which can improve practice on the ground.



Smallholder farmer group, Lindi, Tanzania

When it comes to farming communities themselves, we actually know a great deal, and there exist many examples of good practice. What is also clear is that there is a great deal of commonality about 'what works' across different agricultural supply chains.

- Firstly, farmers need education on better agronomic practice. Typically, this includes support around planting cycles, use of improved seeds or plants, and expertise in proper use of fertilisers, pesticides and other inputs.
- Secondly, farming families often need to diversify what they do, perhaps to include other crops, or livestock rearing, or even wage-paying work off the farm. This reduces a family's reliance on a single source of income.
- Thirdly, farmers need improved access to market. Small farmers can often be poorly informed about real prices, and their relatively low levels of production mean that they will often sell to intermediary traders who will offer prices below real market value.
- Fourthly, smallholders require better access to finance. They are often regarded by financial institutions as a poor credit risk and, in any case, loans are not usually structured in a way that fits with farmers' income flow and cost structures.
- Finally, smallholders and their communities benefit from both knowledge of their rights and the means to access them. This will include reduction of bureaucracy and corruption, and access to information and logistics to streamline their supply flow and improves margins.

It is clear large companies, social enterprises and development organisations alike, have a clear role to play in this enabled environment outlined above. There is also a considerable shared understanding of what the challenges are in working with smallholders

To begin with these farmers tend to be very conservative and resistant to change. Any effort to effect change therefore needs to be done with patience, and over time.

Furthermore, it is not efficient to work with smallholders on an



**This report builds on more than 60 interviews with key people from each member organisation, and with other commentators, and on an extensive literature review**

In short, therefore, the two research questions for this project are:

- What do we need to do if we are to build genuinely durable commodity supply chains based on smallholder farmers?
- What do these changes mean for how procurement practices need to be transformed to support this?

This report builds on more than 60 interviews with key people from each member organisation, and with other commentators, and on an extensive literature review.

individual basis and, in any case, some of the balance of power issues farmers face as individuals are at least to some extent addressed by collective action. Typically, therefore, smallholder farming projects seek to bring farmers together into cooperatives or other group structures. This brings considerable advantages, particularly in accessing better markets and finance. However, significant challenges can exist in terms of the governance of these groups, and in how some elements of farming communities might be excluded from the benefits of collaboration.

Encompassing all of this, local context is vital. Even if the key elements of the 'recipe' to support smallholders – agronomic support, access to markets, finance and so on – appears to apply universally, how that support is provided needs to pay careful attention to societal norms and structures in any given community.

However, durable smallholder-based supply chains do not rest on the farmers alone. For these to be genuinely sustainable, a range of other factors need to be addressed, and this is where things get more complicated.

To begin with, the value chain immediately downstream from smallholder farms remains extremely opaque. In most supply chains, we know the sorts of processes that occur, but we know much less about who does it,



Smallholder farmers are caught in a poverty trap. This can be addressed, for example, through systemic reforms around farm size and land consolidation

and what the dynamics are. Perhaps the biggest gap in our knowledge is around transportation. Any commodity will need to be taken from remote farms, to more central places for basic processing, and then on to ports for export. But what are the conditions under which these truck drivers operate? Are they paid a living wage? Do they operate in an environment where health and safety issues are properly addressed? How many hours are they expected to work without a break? For the most part, the answer is 'we don't know'.

Other significant gaps exist in current knowledge of what happens to goods from the time they leave the farm, to the time when they arrive at port. We know that smallholder farmers can be disadvantaged by unscrupulous traders, but might there also be situations where small traders end up being denied a living income by the terms in which they are treated by larger buyers? Or what happens to traders who might be put out of business by the fact that farmer cooperatives are able to go direct to larger buyers? Again, the answer seems to be that we don't really know.

Governments of origin countries ought to be key partners in supporting smallholder farming communities. Government extension services should be the key resource providing support and advice

to farmers, and can be extremely effective when properly resourced. Similarly, where governments have clear, implemented policy agendas, support to farmers is much more effective. However, host governments often are unable to fund extension services properly, and their regulatory framework is challenging. More needs to be done on the part of companies and NGOs to engage more effectively with governments of origin countries in relation to smallholder supply chains. Inevitably this will require addressing complex and challenging issues such as governance, governmental capacity and institutional reform.

That said, the governments of those countries where commodities are largely consumed also have a key role to play in developing durable smallholder supply chains. Most obviously, their development agencies are heavily engaged in agriculture projects, which may in many cases overlap with work undertaken with smallholders by companies and NGOs. Greater collaboration is needed to maximise these overlaps and to effect greater change. However, governments of developed economies also have a key role at a policy level, both in supporting origin countries in their work with smallholders, and in areas such as tariff reform.

### The headwinds of 'business as usual'

Smallholder supply chains cannot be properly sustainable whilst the work being done to achieve this faces constant headwinds from 'business as usual'. Whilst sustainability teams in companies have increasing levels of influence, sustainability-related incentives need to be applied to all parts of a business, in particular the procurement function. There are also key challenges around mainstream commodity markets, which do not currently accord additional value to products produced without environmental and social harm. If this does not change, then companies serious about smallholder supply chains will need to move away from the use of these markets, and perhaps develop more direct relationships with producers.

At the end of the supply chain are the end users of these agricultural goods – the consumers who buy coffee, chocolate bars, tea, vegetables and a plethora of other products. It is clear that key to improving livelihoods and environmental impacts of agricultural supply chains is to drive more resources to farmers. If this is the case, then an obvious part of the solution would be to expect consumers to pay more for the goods they buy. It is not clear that consumers' expressed willingness to buy sustainably-produced goods is always reflected in actual purchasing decisions.

Four key issues therefore emerge from this research as key areas for attention by the Innovation Forum working group, and for the wider community working to improve smallholder supply chains:

- Smallholder farmers are caught in an on-going poverty trap. This can be sustainably addressed through, for example, systemic reforms around farm size and land consolidation, and an improved enabling environment for that.
- Currently, work on smallholder supply chains is largely undertaken project-by-project. How can a more systemic approach be developed?
- The need for greater collaboration and partnership is clear. Yet, despite repeated exhortations, cooperation remains a rarity. How can this be changed?
- At present, smallholder sustainability efforts are not sustainable. They are not effectively joined up, and remain insufficiently linked to core business operations of sourcing companies. How can this change over time?



Vehicles in many developing countries are often poorly-maintained

This report is intended as the first step in Innovation Forum's Innovation Accelerator<sup>1</sup> (IA) rural and agricultural reform research, designed to share initial lessons between members, and to define a clearer agenda for work in specific geographic locations. The next steps for this project are therefore as follows:

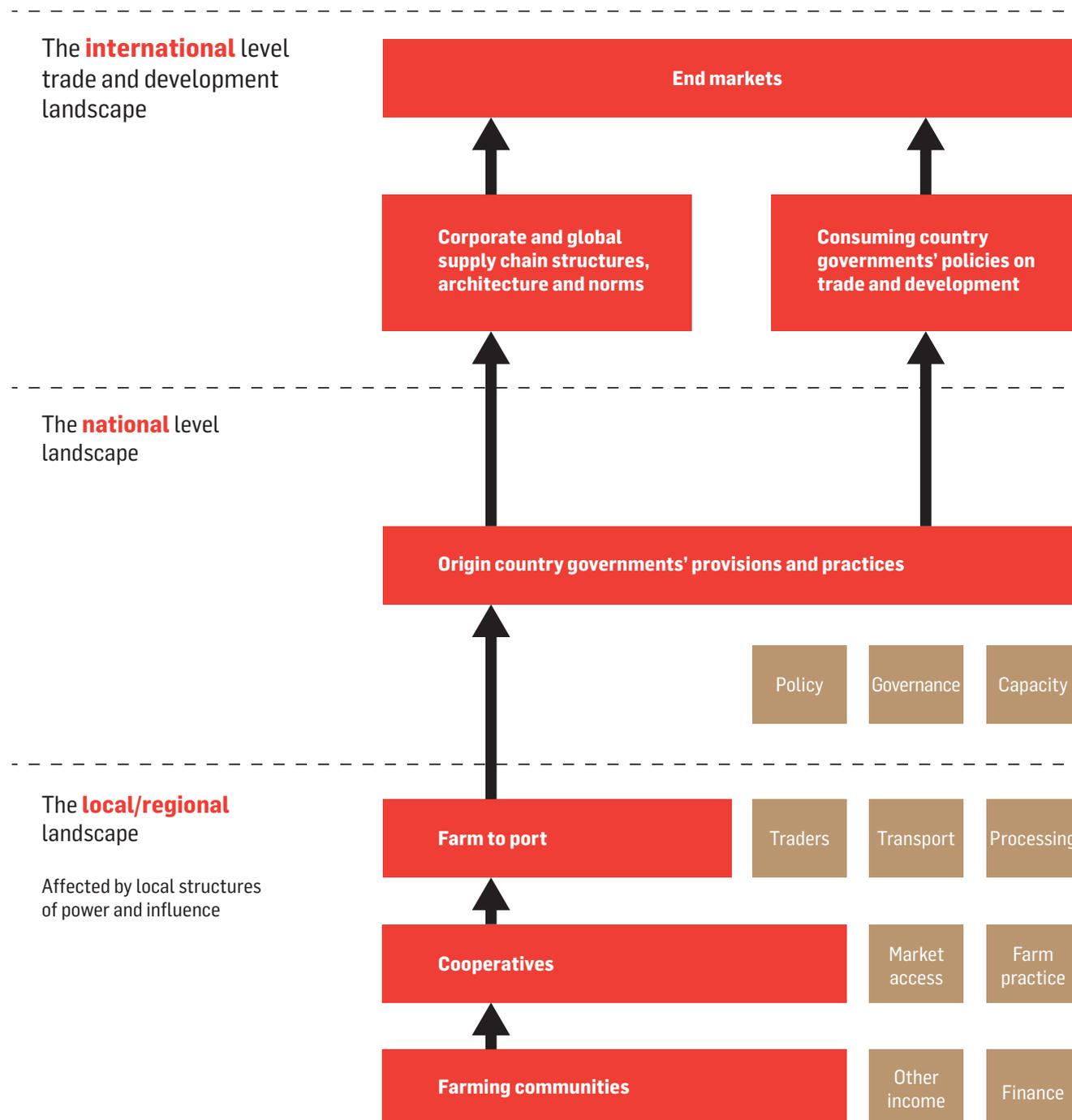
- In four selected geographic areas:
  - Map and examine potential for collaboration between different initiatives working in each location, and for better linkages to work being done by the country government and by international development actors.
  - Analyse in more detail the political economy in each location. It is clear that working through and with local power structures is an important factor in gaining traction with farming communities. Developing a more-shared understanding may allow work to go further and deeper.

- Explore the areas of supply chains that seem less understood. In particular, develop more insight into the 'farm gate to port' element looking, for example, at conditions for those working in transport and processing.
- Develop better government engagement and understand where points of access may be available that are currently under-explored.
- The 'international landscape'
  - Explore how current supply chain models might be modified over time, to make them more effective in supporting smallholder sustainability.
  - At present there is no coherent process for matching sustainably produced goods with a market for them. What might a 'sustainable commodities marketplace' look like and how might it be developed?

1 Innovation Forum. The Innovation Accelerator: catalysing practical change. <http://sustainablesmartbusiness.com/the-innovation-accelerator-catalysing-practical-change/> (accessed 27/10/20)

# The 'landscape' ecosystem of smallholder commodity supply chains

A diagrammatic overview of the whole smallholder supply chain process. Each chapter will explore each step in more detail.



# Introduction

**Smallholder family-run farms are the key producers supplying the world's commodity markets. Their long-term stability and sustainability are therefore essential**

This report contains the initial findings of Innovation Forum's action research project to develop actionable lessons that can build durable commodity supply chains based on smallholder farming. This project was established in May 2020 to respond to the fact that, despite almost decades of effort by companies, campaigners, NGOs and others, considerable social and environmental challenges still remain.

This project currently includes six member organisations: the Clinton Development Initiative, COLEACP, Cotton Connect, GIZ, Golden Agri Resources and Nestlé SA. The aim is to share lessons learned by these organisations, and bring in perspectives often ignored by current debates, for example from fields such as development economics, political economy and anthropology.

## Who are smallholder farmers?

According to UNCTAD<sup>2</sup>, “more than 90% of the 570 million farms worldwide are managed by an individual or a family and that they mostly rely on family labour”. Estimates further show that 84% of these farms are smaller than two hectares (ha) and that about 2.5 billion people depend on agricultural production for their livelihoods, either as full- or part-time farmers, or as members of farming households.

Quite what constitutes a smallholder farm varies quite considerably in different countries. UNCTAD estimates that the average farming in Latin America is 20ha – with farms in Brazil as big as 50ha on average. By contrast, in India 81% of farms are less than 2ha and, in Bangladesh, 96% of farms are smaller than half a hectare. Overall, however, according to research done by the European Commission's Joint Research Centre<sup>3</sup>, 475 million farms around the world are less than 2ha in size.

Smallholder farmers are central to the production of many of the world's most important agricultural commodities. Fairtrade International estimate that “around the world, 25 million smallholders



Globally, around 475 million farms are smaller than two hectares in size

produce 70-80% of the world's coffee”. The same is true too of cocoa. The International Cocoa Organization estimate that “almost 90% of production comes from smallholdings under five hectares”.<sup>4</sup>

## Why are smallholder supply chains a challenge?

Despite many years of efforts, particularly focused on the development of certification and standards, significant challenges still exist. In the cocoa sector, for example, the credibility of certification standards was called into question by reports that UTZ, “the leading organisation responsible for policing standards in the world's cocoa industry has regularly approved cocoa from west African farms that use child labour or have contributed to deforestation of the region ... [thereby] casting doubt on the claims by major chocolate companies that the monitoring efforts are eliminating those abuses”.<sup>5</sup>

There is a gradually-growing recognition that the focus only on standards and certification needs to evolve into an approach that looks at commodity supply chains in a more holistic fashion: the so-called ‘landscapes’, or ‘jurisdictional’ approach. The Innovation Forum / IA action research project, of which this report is the first output, was established to start the process of looking at smallholder farmer supply chains in this more contextual fashion.

- 2 UNCTAD. Commodities and Development Report 2015 - Smallholder Farmers and Sustainable Commodity Development. UN, New York and Geneva. 2015. Available at [https://unctad.org/en/PublicationsLibrary/suc2014d5\\_en.pdf](https://unctad.org/en/PublicationsLibrary/suc2014d5_en.pdf) (accessed 21/09/20)
- 3 European Commission. World Atlas of Desertification: Smallholder Agriculture. EC Joint Research Centre, Brussels. Available at <https://wad.jrc.ec.europa.eu/smallholderagriculture> (accessed 22/09/20)
- 4 International Cocoa Organization. FAQs, How many smallholders are there worldwide producing cocoa? <https://www.icco.org/faq/57-cocoa-production/123-how-many-smallholders-are-there-worldwide-producing-cocoa-what-proportion-of-cocoa-worldwide-is-produced-by-smallholders.html#:~:text=worldwide%20producing%20cocoa%3F,What%20proportion%20of%20cocoa%20worldwide%20is%20produced%20by%20smallholders%3F,from%20smallholdings%20under%205%20hectares>. (accessed 23/09/20)
- 5 Whoriskey. P. 'Chocolate companies sell 'certified cocoa.' But some of those farms use child labor, harm forests.' Washington Post 23/10/19 <https://www.washingtonpost.com/business/2019/10/23/chocolate-companies-say-their-cocoa-is-certified-some-farms-use-child-labor-thousands-are-protected-forests/> (accessed 08/10/20)



Ghana and Côte d'Ivoire produce around two-thirds of the world's cocoa

**What is the research question?**

The research objective for this project is simple: what will it take to create genuinely sustainable smallholder-based commodity supply chains. In this context, the word 'sustainable' has two meanings.

Firstly, ensuring longevity of production of key commodities, something which, in some cases, is not currently assured. Recent research by the Overseas Development Institute suggests that even in the most basic definition of sustainability, the cocoa industry in west Africa is under threat. The ODI found that despite the fact that 20% of the population in Ghana is aged 15-24, of whom 27% are not in education or work, young people are still not choosing to become cocoa farmers. As a result, the "average cocoa farmer in Ghana is over 50 years old – an advanced age in a country where the average life expectancy is just 62 years".<sup>6</sup>

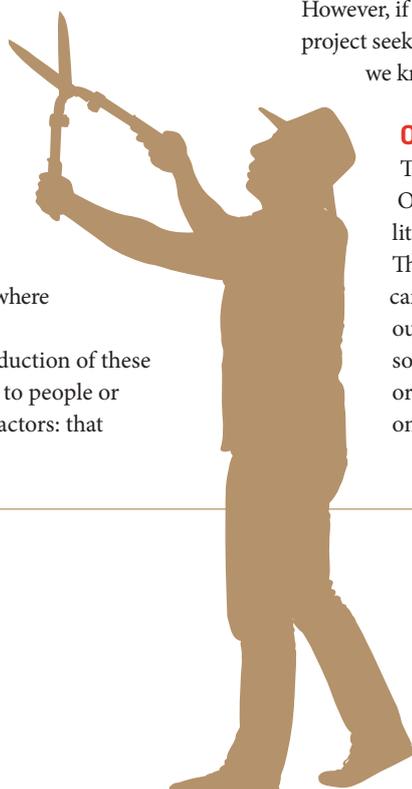
Secondly, by 'sustainable' we mean that production of these commodities is achieved without causing harm to people or the environment. This incorporates a range of factors: that

deforestation and other environmental degradation is eliminated; that farmers and others in the supply chain are able to earn at least a living income; that abuses such as child labour are eliminated; and, that all those in the supply chain are able to work in a safe environment.

Perhaps self-evidently, completely sustainable supply chains, when defined in this way, are likely to be a challenging goal to achieve. However, if we do not get there even in the medium term, what this project seeks to understand is what factors need to be addressed, what we know already, and where is more work needed.

**Our approach**

This report is based on a number of sources of information. Our secondary research has consisted of a review of recent literature on smallholder supply chains and related topics. This has included policy documents, publications from campaigners and others, and academic publications. However, our primary research has been done through a process of some 60 interviews, with representatives of the member organisations of the research group, and other commentators on relevant issues.



50 years

the average age of a cocoa farmer in Ghana

62 years

the average life expectancy in Ghana

6 Loewe A. Creating opportunities for young people in Ghana's cocoa sector. Overseas Development Institute. June 2017

# What we know about smallholders

**While the challenges facing farmers are very similar across supply chains, there remains little cross-commodity cooperation to release funding and access to new markets**

A key – perhaps the key – aim of this research project was to identify overlaps in knowledge between different commodity supply chains. Historically, palm people have talked to palm people, cocoa people to cocoa people, and so on, but rarely was experience shared between different groups.

A clear finding from the research to date is that, in fact, there is a huge amount of commonality in the problems faced by farmers in different supply chains, and in the approaches that successfully address these. In reality, this finding should not really be surprising in that smallholders are rarely ‘coffee farmers’ or ‘cocoa farmers’. Most will grow a number of crops, some for domestic consumption, others for cash sale. Interventions by companies and NGOs which focus on one or another crop therefore create delineations which do not exist in the real world.

A number of examples emerged from interviews where the same group of farmers was receiving support from two different sustainability programmes, each relating to different crops. This lack of joined-up thinking is not only wasteful of resources, it risks confusing farmers. A theme which will recur throughout this report is the need for created collaboration and even a basic mapping of which smallholder initiatives operate where.

Nevertheless, drawing together findings from the interviews undertaken, and from written sources, there are a number of clear insights from across a range of supply chains in relation to the challenges in working with smallholders and approaches which are effective in dealing with these.

## Smallholders: Key challenges and approaches

We will consider first the key challenges that farmers face, and the solutions to these which have been shared during the interviews for this study, and from key documentation.

### Agronomy is key

Smallholder farmers are almost always farmers out of necessity. They have not proactively chosen this career, but are farmers because their parents and grandparents were. Lack of education means that, in general, smallholders use outdated farming techniques taught to them by their parents, and have little understanding of modern approaches. As the Nestlé Cocoa Plan website puts it, farming was “for a long time



Farmer education is a key tool across all commodity supply chains

was characterized by low yields due to lack of knowledge on good agricultural practices”.<sup>7</sup> This may be reflected in a number of ways.

Firstly, farmers may use local crop varieties with lower yields than more modern ones. Secondly, they may not understand, or have access to the optimal inputs such as fertilisers and pesticides. This will have

*It is absolutely vital that smallholders start to regard what they do as a business. Only then they can start to address the challenges in a proactive way*

implications for the environment as well as farmer safety. Thirdly, their understanding may be limited in relation to the best farming techniques around soil management and crop rotation.

Central to farmer education is the ‘farmer field school’. This was an approach first developed by the UN’s Food and Agriculture Organisation<sup>8</sup> (FAO) as an alternative to the prevailing top-down approach to farmer education. In a typical FFS a group of 20-25 farmers meets once a week in a local field setting under the guidance of a trained facilitator. In groups of five they observe and compare two plots over the course of an entire cropping season. One plot follows

7 Nestlé Cocoa Plan. Farmer field schools in action <https://www.nestlecocoaplan.com/article-farmer-field-schools-action> (accessed 29/09/20)

8 FAO. Farmer field school approach <http://www.fao.org/agriculture/ippm/programme/ffs-approach/en/> (accessed 28/09/20)



## CASE STUDY

# Clinton Foundation



Smallholder farmers can improve their income by selling their crops outside their local market. This export to bordering countries, and beyond, avoids smaller local markets becoming over-supplied, which can result in the prices they offer producer groups dropping sharply. Many smallholder farmer incomes are limited to periods immediately after harvest, as there are few opportunities to store produce and wait for better prices. Without access to adequate warehousing, crops are stored in farmers' homes, where insects, rats, mould, and moisture can cause high losses and reduced quality – both resulting in lower income potential for farmers.

Additionally, high-interest rates, expenses, or other emergencies force farmers to sell when prices are lowest, immediately after harvest. The Clinton Development Initiative (CDI) is addressing the need for post-harvest storage by linking grower groups to partners to help build and operate community grain bulking centres. These will provide safe and secure crop storage and allow farmers to monetise their harvest at strategic times in the year. This is an integral part of CDI's Community Agribusiness approach, where the goal is to help farming communities make more money, reliably, for their farming activities.

The team does this through helping farmers form strong and productive group structures, including cooperatives, training those groups on a variety of topics related to agronomy, finance and markets, and finally brokering relationships between farming communities and other stakeholders. The long-term goal is to build the resilience of these farmer groups to shocks within the agricultural economy, and enable them to have dependable, diversified revenue streams that are not dependent on non-profit support and are based on quality production, in large quantities, with strong links to a variety of markets.

local conventional methods while the other is used to experiment with what could be considered “best practices”. As Nestlé's Cocoa Plan website describes its FFS work in Ecuador: “[The] essence of this initiative is that farmers strengthen their knowledge on good agricultural practices, exchange experiences and apply it in the management of their cocoa plantations.”<sup>9</sup>

## Overcoming farmer caution

The use of field schools, in addition to being a convenient way of sharing agricultural best practices, is also valuable in overcoming a further challenge in relation to smallholder farmers: their inherent cautiousness. As described above, field schools enable farmers, over a period of time, to witness for themselves the benefits they can gain from more modern techniques by comparison with those used in the past. Many of those interviewed stressed that this process of convincing farmers takes a great deal of time – “probably four or five growing seasons” estimated one interviewee. Working with farmers therefore needs to be a long-term commitment, and criticism was aired in some interviews about interventions that feel they can have an impact in two or three years. It is clear that what is needed is longevity, which over time, engenders trust with farmers.

What is also clear is why farmers are cautious: they do not have the resources available to be able to learn through failure. If a new approach does not work for them, they are unable to feed their family. They would rather do what they know works, even if this is highly sub-optimal, rather than try something which may be better, but could fail. Longevity of interventions, and high-quality agronomic training therefore is the only way to convince farmers to move to new approaches

## Diversification

A further key plank of work to support smallholder farmers is to encourage them to diversify their sources of income. This may encompass a range of approaches. One might be to use an ‘intercropping’ approach, that is to grow two different crops which grow well together in the same land. Another can be to grow additional crops, for example vegetables, which can provide increased cash income. Or farmers can rear livestock – be that beef fattening or keeping chickens. In some cases, there may be options for members of a farming family to gain paid work, for example making handicrafts. A recent report by CottonConnect, shows how important these types of diversification can be for smallholder farmers. They interviewed a number of their local partners in China, India and Pakistan and found that 68% believed that crop diversification “was important to manage changes in market demand and climate”.<sup>10</sup>

## Access to finance

At every stage, a core reason why smallholder supply chains remain problematic is the poverty trap in which these farmers are all too often

9 Nestle Cocoa Plan. Op cit

10 Cotton Connect. Building resilience in smallholder cotton farmers. 2020. [http://cottonconnect.org/wp-content/uploads/building-resilience-in-smallholder-cotton-farmers-\\_july-2020.pdf](http://cottonconnect.org/wp-content/uploads/building-resilience-in-smallholder-cotton-farmers-_july-2020.pdf) (accessed 28/09/20)



## CASE STUDY

## COLEACP



A key challenge for smallholders is that they do not have a clear idea of what the market requires. COLEACP's Fit For Market (FFM) programme is working to enable smallholders, farmer groups and medium, small and micro-enterprises (MSMEs) to access international and domestic horticultural markets by complying with market and sanitary/phytosanitary (SPS) requirements.

The programme aims to increase the resilience, inclusiveness and sustainability of ACP horticultural value chains by emphasising the participation of smallholders, young people and women, who are frequently the most disadvantaged by the changes taking place in local and global supply chains, and who often have most to gain from improved conditions of production, employment and trade. FFM is supported by the framework of COLEACP's Sustainability Programme, which focuses on the business case so that adopting good practice not only facilitates market access, but genuinely helps suppliers run more efficient, profitable and resilient businesses.

trapped. This situation is exacerbated by a lack of access to finance. There are a number of challenges in this regard. First of all, interviewees reported, farmers are not trusted by many financial institutions. They are seen as being unreliable, and a poor credit risk. Secondly, loan rates in developing countries are often very high. For example, even given the relatively low level of international interest rates, loan rates in sub-Saharan Africa are routinely in the high teens percent or higher. According to World Bank<sup>11</sup> figures, the rate in Tanzania is 17%, in Malawi 32%, and in Madagascar loan interest is 49%.

However, thirdly, and perhaps most importantly, most loans do not suit the 'lumpy' nature of farmers' income and costs, and are based on the simple model of the loan amount handed over, repaid in monthly instalments. By contrast, a farmer may need cash available at different stages of the growing cycle: to buy seeds initially, and then to buy different inputs during the growing process. That farmer will not have any income until the crop is harvested and sold, and loans are rarely structured to reflect this reality.

### Access to market

As a report by the Overseas Development Institute makes clear, "most smallholder farmers are not linked to markets for a variety of reasons: remoteness, low production, low farmgate prices, and lack of information, to name a few".<sup>12</sup> Typically they will take their produce to a local market for sale. Buyers there will visit a number of such markets before they themselves will go to larger markets to sell on, adding their margin to the price they charge. This structure means that smallholders have very little visibility as to what a 'fair' price is for their product, and are therefore at the mercy of unscrupulous buyers who will underpay them.

So important is this issue to the international development community that the prevailing model for private sector development programming is known as M4P – Making Markets Work for the Poor. This is based on the idea "that poverty can only be reduced sustainably through improvement of the market systems within which poor people must live".<sup>13</sup>

### Access to which market?

An interesting rider to the challenge smallholders face in access to market is the question, 'which markets should they actually be accessing?' The presumption behind this research project, and perhaps underlying much of the work to date with smallholders is that they should be accessing international markets – selling into the supply chains of large multinationals. However, as the ODI report cited earlier points out, "often the most promising markets, by size, requirements for produce and reliability, are the rapidly growing domestic and regional markets of Africa".<sup>14</sup> Political developments in Africa might well make these regional markets still more interesting. As a recent post by COLEACP explained: "the removal of non-tariff barriers within the framework of the African Continental Free Trade Area (AfCFTA) will further reduce economic barriers to intra-African trade".<sup>15</sup>

It seems highly likely that these regional markets will continue to expand considerably given anticipated levels of population growth in sub-Saharan Africa and elsewhere. Yet, at present, little detailed data

11 World Bank. Lending interest rate (%) – Sub-Saharan Africa. <https://data.worldbank.org/indicator/FR.INR.LEND?locations=ZG> (accessed 28/09/20)

12 Wiggins S & S Keats. Leaping and Learning: Linking smallholders to market". Overseas Development Institute, London. 2014.

13 Donor Committee for Enterprise Development. Why Market Development. <https://www.enterprise-development.org/what-works-and-why/evidence-framework/ratio-nale-for-market-development/> (accessed 28/09/20)

14 Wiggins S & S Keats. Op cit

15 COLEACP. ACP regional and local markets news, October 13th 2020. <http://dev.coleacp.org/covid19/en/domestic-regional-international-trade/acp-regional-and-local-markets/> (accessed 17/11/20)



### CASE STUDY

## Nestlé's Cocoa Plan



As part of agronomic support to farmers, it is important to improve the plants they use, as is demonstrated by the experience of Nestlé's Cocoa Plan. As cocoa trees get older, crop yields drop. Eventually, the tree's crop diminishes to such an extent that the farmer needs to consider replacing it. However, this represents a gap in production which places the farmer's income at risk.

In 2010, Nestlé established cocoa tree nurseries to grow healthy, disease-resistant cocoa trees at scale. These younger, higher-yielding trees were distributed to the farmers who needed them. The farmers' cooperatives used their practical, hands-on experience to help Nestlé manage the nurseries and planting.

In less than a decade, Nestlé has grown 12 million cocoa seedlings for farmers. This is making a major difference. Older trees may only produce 100-200kg of cocoa per hectare. But the younger trees are able to produce 800-900kg in the same area. This means that the farmers gain extra income from their land at no additional cost. This makes the supply of cocoa more sustainable over time.

seems to be available about the relative benefits to farmers of selling into international supply chains rather than selling into regional markets. This would seem to be an important evidence gap to explore in more detail.

### The importance of farmer collaboration: Cooperatives and farmer groups

Almost without exception, those interviewed have stressed the importance of cooperatives and other farmer groups as a key tool in addressing the challenges facing smallholders. Typically, cooperatives bring together a group of farmers in a location to collaborate in a number of ways. An example of these structures, and the benefits they can provide is illustrated by the Community Agribusiness Approach (CAB) pioneered by the Clinton Development Initiative (CDI)<sup>16</sup>. "CDI works with farming to provide education on markets; training and

techniques for improved climate-smart agriculture production; and, resources such as seeds and fertiliser to help farmers become food secure and live more productive and healthier lives ... CAB works with farmers to address the specific access challenges they face in increasing the quantity, quality and consistency of production."

### Why cooperatives work

Cooperatives are also central to certification and standards approaches of the Fairtrade Foundation and others. They provide a number of benefits which go a long way to addressing many of the challenges faced by smallholders:

- Cooperatives provide a valuable structure for farmer education. Farmer field school approaches can be used with a cooperative, which provides a focal group of farmers with which to work.
- By continuing to collaborate through the cooperative, farmers can practise what they have learned in the field school, and share challenges and solutions.
- By aggregating their collective demand for inputs, such as fertilisers and pesticides, farmers can get better prices than would be the case if they bought individually.
- Crucially, a cooperative is in a much stronger position than an individual farmer to access bigger markets and better pricing. As an individual, a farmer would typically sell to a local trader who would buy also from other farmers, and then sell the combined amount at a different market, with their margin included in the price. By working in cooperatives, farmers are able to cut out these middle men and so get better prices for what they produce.
- This better access to market also enables farmers, over time, to learn more about what the market requires, for example in the way of different crop varieties, and in terms of product quality. Again, this addresses another risk facing individual farmers, that unscrupulous traders might seek to offer a lower price for their goods for reasons of poor quality.

For many reasons, therefore, farmer groups are a key plank of any approach to developing durable smallholder supply chains. However, as demonstrated both by interview data and other reports, cooperatives are not without their challenges, and can sometimes actually work against, rather than in favour, of some groups of farmers.

A key challenge is that cooperatives can sometimes reflect social cleavages in the host society, and therefore exclude those not part of an existing societal group. A good illustration of this is the role which caste plays in access to finance for some smallholder farmers in India. For example, a paper by Dr Sunil Kumar of King's College, London found that "cooperative banks discriminate against lower caste borrowers ... and explain discrimination by cooperative banks in terms of interest group capture at the district level"<sup>17</sup>. Thus cooperatives are, in this case, discriminating against lower caste farmers. The same was found also in a more recent study, in the *Journal of Inclusion Studies* in 2018, which found a significant differential in access to credit of farmers from

16 Clinton Foundation. Clinton Development Initiative. <https://www.clintonfoundation.org/our-work/clinton-development-initiative> (accessed 30/09/20)

17 Kumar S M. 'Does Access to Formal Agricultural Credit Depend on Caste?' In *World Development* Vol 43, March 2013 pp 315-328.

**Table 1: Characteristics of different cooperatives<sup>20</sup>**

Key characteristics of the cooperative	Rural development focus	Development and business focus	Business focus
Main values	Solidarity	Solidarity and efficiency	Efficiency
Orientation	Community	Community and market	Market
Membership	Open	Semi-closed	Closed
Inclusiveness	High	Medium	Low

different castes.<sup>18</sup> Those in lower castes were 49% more likely to be refused loans by comparison with those in the highest castes.

Clearly therefore, in establishing cooperatives, it is important to be aware of the types of societal dynamics, like the issue of caste in India, which may lead to cooperatives being discriminatory rather than inclusive. More is said in the next section of this report about the need to understand and work with the wider political economy context in which farmers operate.

**Risks of exclusion**

Potentially a greater challenge, however, and one harder to spot, is exclusion, which can occur precisely because of a cooperative’s success. As was discussed above, a key aim in working with farmers is to encourage them to see what they do as a business. Logically, therefore, successful cooperatives, and those best able to improve the lot of their members, are those which themselves are approaching their work in a more professional and business-like fashion. However, as an article published at the end of 2019 by two academics from Wageningen University argues, this very success can itself be problematic. This study found that that when cooperatives are making the transition towards business focus, they are likely to exclude particular farmers, notably those that cannot comply with the quality standards that markets increasingly demand. “As market-orientation requires strategic focus and more emphasis on efficiency, we expect cooperatives to become more selective in accepting members.”<sup>19</sup>

This issue of how to deal with those farmers who do not or cannot keep up with the requirements made of them was reflected also in a number of the interviews undertaken for this paper. Several of those working directly on the ground gave examples of farmers who

repeatedly failed to implement the changes recommended, and so were failing to keep up with their peers. All spoke of this situation as a challenging conundrum. “We’re meant to be here to help the poorest, but what are we meant to do when they don’t want to, or can’t help themselves?” was one observation.

Nevertheless, that the poorest farmers might in fact be discriminated against by cooperatives and other such structures is reflected in other studies. Specifically, the poor and women are

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The poor and women are typically much less likely to be represented in the leadership of cooperatives

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typically much less likely to be represented in the leadership of cooperatives. A 2007 study of farmer groups in in Rwanda, Tanzania, and Benin found “weak representation of female and poor members in leadership at local-and district-level co-operatives”.<sup>21</sup> The researchers noted that the lower literacy rates, levels of social capital, and economic status often tied to poorer members inhibit their ability to be identified as strong leaders and, therefore, to get elected. Another study, looking specifically at the gender aspect of exclusion found that “women spend twice as much time as men engaging in farming activities, which greatly reduces the time available for campaigning or even actively participating in co-operatives”.<sup>22</sup>

A number of interviewees revealed a number of practical

18 Karthik V & S Madheswaran. ‘Access to Formal Credit in the Indian Agriculture: Does Caste matter?’ In Journal of Inclusion Studies. Vol 4, Issue 2, pp 169-195. December 2018.

19 Bisman J & G Wijers. ‘Exploring the inclusiveness of producer cooperatives.’ In Current Opinion in Environmental Sustainability, Volume 41, December 2019, Pages 74-7

20 Ibid

21 Wennick B, S Nederlof, W Heemskerk. Access of the poor to agricultural serves: the role of farmers’ organisations in social inclusion. Development Policy & Practice, bulletin 376. KIT Publishers, Amsterdam 2007

22 Jaffe J & T Brockett. Cooperatives and Rural Development in East Africa. 2016.



Cooperatives need to represent the interests of all their members. This does not always happen

challenges they had faced in dealing with cooperatives. The first is the potential for these organisations to work to the benefit of their leaders rather than the wider membership. This issue, so-called ‘elite capture’, is a well-recognised challenge across much development programming. For example, a review of a British government project in Nigeria concluded that “many farmer associations suffer from elite capture and do not truly represent smallholder interests”.<sup>23</sup> A number of examples of this phenomenon were raised by interviewees. In one case, a firm buying from the cooperative had provided sacks bearing

Governance structures are vital and need regular review and oversight to be effective. Close attention needs to be paid to the articles incorporating the cooperative

that firm’s logo. Rather than distribute the sacks to the members of the cooperative, as they should have done, key leaders sold the sacks to other farmers (the sale price of the crops being higher than that normally available), so enriching themselves to the detriment of the membership. In another example, the leadership of a cooperative took bribes to allow a third-party trader to sell through their organisation, so allowing that trader to take advantage of the better pricing available.

A second issue is the need for a cooperative to be financially sound and well-managed if it is to be successful. Cooperatives are able to command higher prices from buyers precisely because they are able to aggregate a larger amount of a commodity. But this requires the cooperative having the financial resources to be able to ensure that the goods are available when the buyer wishes to collect. Where a crop needs to be processed to some degree before it can be sold, farmers will be unwilling to take the risk of doing this unless they have already been paid. For example, farmers store ground nuts in their shells, and de-shell them when they know they have a sale. If that sale disappears, then the nuts will spoil. In cases like this, a cooperative needs to have the financial ability to pay farmers so they can undertake the necessary processes for the promised goods to be delivered.

#### The need for robust oversight

Those working with smallholder farmers therefore need to be aware of the potential challenges that can be associated with cooperatives and other farmer groups. As a number of interviewees stressed, the governance structures of these institutions are vital and need regular review and oversight to be effective. Close attention needs to be paid to the articles incorporating the cooperative, and ensure that, over time, these are being stuck to. Where abuses creep in, robust solutions need to be found. To return, for instance, to the example given earlier, where the leadership of a cooperative had mis-directed grain sacks. In this case, the solution was to ensure that the sacks were numbered and distributed to named members of the cooperative.

23 Davies G. Is a genuinely sustainable, locally-led, politically-smart approach to economic governance and Business Environment Reform possible? Adam Smith International/ Springfield Centre. November 2017



## CASE STUDY

## CottonConnect



Women are a crucial but frequently ignored stakeholder in global cotton production. In many growing communities, women play key roles in planting and harvesting that determine the quantity, quality, and sustainability of cotton farming. However, because their contributions go unacknowledged, they do not receive the same training or support as men. CottonConnect's research found that without specific outreach efforts just 4% of women join any form of training programme that can assist them in their roles as farmers and champions within their communities. In addition, low levels of knowledge in literacy, health, and rights reduce productivity and undermine family wellbeing. CottonConnect's "Women in Cotton" programme has identified ways to improve farmer wellbeing and livelihoods and to drive sustainable and efficient cotton production. The programme builds knowledge, strengthens livelihoods and connects markets.

Clearly, cooperatives and other types of farmer groups are key tools in working with smallholder farmers. Yet they are not the unadulterated panacea which they are sometimes presented to be – the Fairtrade Foundation, for example, praises them for “empowering communities ... to improve their negotiating position”.<sup>24</sup> The evidence makes it clear that cooperatives are not necessarily inclusive. Indeed, the evidence on the inclusiveness of cooperatives is actually relatively scarce.

The Wageningen study cited earlier, for example, finds that “there is surprisingly little information on whether these cooperatives are inclusive of smallholders”.<sup>25</sup> Cooperatives operating at their best provide very definite advantages to smallholder farmers in a range of areas, from learning new farming techniques through to better access to market. Yet it is evidently extremely important to make sure that each one is well-run and works genuinely to the benefit of all its

members, not an elite few. Even then, the issue of what to do about those farmers who are not able or willing to adopt new ways, and therefore fall behind their colleagues remains a challenge needing further thought and attention.

### A 'landscapes' context

Smallholder supply chains cannot be seen aside from the socio-economic and political context in which they sit. As this section has demonstrated, there is a great deal of commonality about the types of challenges that smallholders face and how these might be addressed.

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Traditional structures matter, and any initiatives to work with smallholder farmers need to be undertaken in the knowledge of, and with the approval of these authorities

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However, many of those interviewed stressed the importance of applying solutions in ways that were understanding of, and sympathetic to, local societal realities. A failure to understand cultural and other local norms would render an intervention inoperable.

Broad lessons may, therefore, be learned about ‘what works’, but a further key lesson is the need properly to understand the local context. An important means to achieve this is by using local people as the interface with farmers and farm communities. International staff, or even nationals from capitals and other cities remote from farms are much less likely to be able to ‘get’ the local dynamics, or be trusted by key people in the communities.

However, it is not just having locals as the point of interaction with farmers that is important, but also to have host country nationals throughout the staffing of an intervention project. As one interviewee argued, “it needs to be clear that it’s not only local staff in general that are important to be engaged in this work, but also nationals of the countries these teams are working in at the leadership level, or generally, at the decision-making level, including in decisions around finance”. This enables a better understanding of contextual issues which can take a number of forms.

### Traditional power structures

In many parts of the developing world, ‘formal’ networks of power and influence – broadly, institutions of national and local government, statute law and a civil service – work alongside, and are often held in less regard by many people, traditional forms of power. A study by the University of Leiden<sup>26</sup> of such structures in Africa was clear about

24 Fairtrade Foundation. The difference that Fairtrade makes. <https://www.fairtrade.org.uk/what-is-fairtrade/the-impact-of-our-work/the-difference-that-fairtrade-makes/#:~:text=Economic%20benefits&text=Fairtrade%20is%20gradually%20empowering%20communities,than%20the%20conventional%20market%20price>. (accessed 30/11/20)

25 Bijman & Wijers. Op cit

26 Ubink. J. Traditional Authority in Africa: resurgence in an era of democratisation. Law, governance and development research and policy notes. Leiden University Press 2008.

their importance: “[T]raditional authority is a distinguishing feature in the landscape of contemporary Africa. In many African countries, traditional leadership remains important in organising the life of the people at the local level despite modern state structures.”

For many people in origin countries of smallholder supply chains, these traditional authorities are a key element of their self-identity. As Nigerian academic Olufemi Vaughan says of his country’s development: “It was not just that chiefs retained value in the eyes of ordinary Nigerians as the symbols of their communities, but that state-oriented politics built on, and did not displace, existing communal values.”<sup>27</sup>

The specifics as to how traditional authorities operate differ from place to place, and may encompass tribal chiefs, village councils and head men, and the role of elders. The key point here is that these structures matter, and any initiatives to work with smallholder farmers need to be undertaken in the knowledge of, and with the approval of these authorities. Many of those interviewed stressed the critical importance of getting the ‘buy-in’ of these power brokers to be able to proceed with their interventions, and that a failure to include them would be highly problematic. “We really would not be able to get anything done if we did not involve the village council, and get their approval for our work”, was the comment of one interviewee.

### Official government provision

One reason why traditional power structures persist is because, in many cases in origin countries, provision of services and support by ‘formal’ power structures is not good. From the perspective of smallholder farmers perhaps the most basic challenge can be access to official extension services. In an ideal world, to quote the FAO, an extension service “offers technical advice on agriculture to farmers, and also supplies them with the necessary inputs and services to support their agricultural production. It provides information to farmers and passes to the farmers new ideas developed by agricultural research stations.”<sup>28</sup> Yet, in many cases, these services are chronically under-resourced and therefore unable to offer effective support to farmers. For example, one interviewee said that in the area where he operated, governmental extension workers had no transport and had to hitch lifts with other people in order to reach their client farmers.

### Gender roles

The importance of gender as a key dynamic in smallholder supply chains has already been referred to in the section above on the governance challenges of cooperatives. However, the need to understand and deal with differing roles of men and women in rural farming communities is vital to any efforts to support their sustainability. As a 2016<sup>29</sup> book examining marginalised farming communities observed: “Development processes, economic growth and agricultural modernisation affect women and men in different

ways and have not been gender neutral. Women are highly involved in agriculture, but their contribution tends to be undervalued and overseen.” Innovations to create sustainable agricultural may include trade-offs and negative side-effects for women and men, or different social groups, depending on the intervention type and local context. Understanding, therefore, how the gender dynamics play out in each context is therefore crucial.

However, not only is it important to understand the differing roles that men and women take in the processes of farming, but to look also at the wider gender dynamics and the implications of these for smallholder families. A number of interviewees raised the importance of an issue that is easy to overlook yet key to farmer



# 4.4 million

smallholders in the oil palm sector, out of five million or so, are estimated not to have legal title to the land they farm

welfare: their nutritional status. Addressing this, they argued, required a subtle approach to understanding gender dynamics.

A number of interviewees observed that farming families often underestimate the need for proper nutrition in order to be able to work the farm effectively, and also the need to provide effective support to pregnant and nursing mothers. This is an issue which men do not see as ‘theirs’ and so there is a need to engage with women on it and support them in understanding the importance to their family of proper nutrition. However, this engagement also requires helping women in finding ways of arguing the case for better nutrition with their husbands, who routinely control household budgets.

### Land tenure

A further complicating factor is the nature of land tenure in many commodity origin countries. The concept of formal ownership of land, as it would be understood, for example, in Europe or North America, is not widespread in many smallholder farming regions. As

27 Vaughan O., *Nigerian Chiefs: Traditional Power in Modern Politics 1890s-1990s*. University of Rochester Press, Rochester NY. 2000

28 FAO. Agricultural Extension <http://www.fao.org/3/t0060e/T0060E03.htm#:~:text=An%20agricultural%20extension%20service%20offers,developed%20by%20agricultural%20research%20stations>. (accessed 01/10/20)

29 Beuchelt T. ‘Gender, Social Equity and Innovations in Smallholder Farming Systems: Pitfalls and Pathways.’ In: Gatzweiler F., von Braun J. (eds) *Technological and Institutional Innovations for Marginalized Smallholders in Agricultural Development*. Springer, 2016.



A smallholder farmer with her formalised land title, Jigawa, Nigeria

with the nature of traditional governance structures, the specifics vary considerably from place-to-place. Moreover, there can sometimes be overlapping layers governing land use. For example, to use the example of Nigeria again, according to the 1978 Land Use Act, all land vests in the state. Land users are, in theory, able to obtain a Certificate of Occupancy, but only around 3% of land is registered in this way. In many parts of the country, especially in the north, notwithstanding the legal structures, tribal chiefs are highly influential in land allocation.

This means that security of tenure for many smallholder farmers is highly tenuous. They and their families may have worked the land for many years, but they have no binding legal right to it. As a result, farmers may often be reluctant to undertake the types of agronomic improvements recommended to them because they do not own, or even have secure tenure of, the land they work. In their view, why would they improve land which they could be moved off at very little notice.

One contributor at a recent Innovation Forum event cited the example of the oil palm sector in Indonesia. Of the five million-or-so smallholders in this sector, it is estimated that 4.4 million do not have legal title to the land they farm. They may well have documentation from local authorities that confirms that they work the land, but nothing more formalised than that. Apart from providing a significant disincentive to invest, this situation means that these farmers face additional challenges in getting access to finance, since they have no collateral. It also means

that they cannot certify their production as sustainable, since this certification is only open to farmers who have land title.

There is much research, for example by the World Bank,<sup>30</sup> which demonstrates that strengthening land tenure often results in improvements in land management, agricultural productivity, and household welfare. Yet strengthening systems of land tenure is a highly-complicated business – for example, DFID’s flagship GEMS3 project, which focused on systematic land title reform between 2009 and 2017 succeeded only in regularising land in three local government areas across the whole country.<sup>31</sup>

### What about technology?

The role of technology in developing durable smallholder supply chains has gained significant profile in recent years. As the Dutch sustainable trade initiative IDH argues, “large scale technological interventions targeted at the sector level and at the business level have the potential to rapidly lift farmers out of poverty”.<sup>32</sup>

Technology is claimed to address issues in smallholder supply chains in a number of ways. For example, the use of technology in providing better information to farmers. A recent webinar by the International Institute for Environment and Development found that information services can be important to farmers in “enabling them to come together to establish strong market linkages and access key

30 Byamugisha FFK. Securing Africa’s land for shared prosperity. World Bank, Washington DC 2013

31 Foreign, Commonwealth and Development Office, Growth and Employment in States: Documents <https://devtracker.fcdo.gov.uk/projects/GB-1-104190/documents> (accessed 01/10/20)

32 IDH. Technology for sustainable value chains. <https://www.idhsustainabletrade.com/approach/technology-for-sustainable-value-chains/> (accessed 27/10/20)

financial services”.<sup>33</sup> Another example is the use of satellites and GPS technology to monitor supply chains and deforestation. An example of this is Airbus’s Starling technology, which is a “satellite-based monitoring system. [It] has a very clear aim to reduce deforestation by highlighting where it happens and equipping companies ... to keep track of where and when deforestation occurs in their supply chains.”<sup>34</sup>

### Technology is underused

Given the coverage that the use of technology has received internationally, it is therefore a matter of some note that in none of the more than 60 interviews undertaken for this study was technology mentioned in a substantial way. The interview process used was designed to allow respondents to raise issues they felt to be of importance, yet discussion on issues of technology was not rare. Given that these interviewees included individuals from a wide range of organisations, and with very different perspectives on smallholder supply chains, the rarity of discussions around technology is significant. Why might this be?

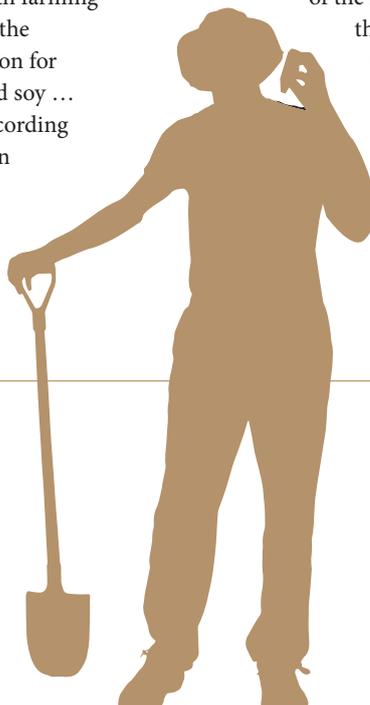
The first explanation may be that, important though technological innovations are, they face, like most of the practical work with farming communities, the challenge of scalability. Take, for example, the mKRISHI platform in India, which provides “crop information for cotton, groundnut, onions, basmati rice, wheat, red gram and soy ... disseminated through messages and voice recordings”.<sup>35</sup> According to the application’s developer, Tata Trusts, mKRISHI has been downloaded by 400,000 people in four of India’s states. This sounds an impressive number, until you realise that India is home to around 108 million smallholder farms.<sup>36</sup>

However, the reality appears to be more complex

than simply one of reach: even when technology is available, it is not always extensively used. A study published last year, looking at mobile-based information service use by smallholder farmers in Kenya found that although 98% of farmers surveyed owned phones, far fewer used them to access farming information. “Approximately 25% use it to access information about agriculture and livestock, 23% access information about buying and selling products, and 18% receive alerts.”<sup>37</sup> A similar study in Zimbabwe came to a similar conclusion, finding “low levels of household mobile phone usage, with only 50% of households found to be using mobile telephony in support of a farming activity”.<sup>38</sup>

Why is this? Evidence from a number of studies show that, important though technology is, it is not transformational in itself. Rather, its usage is affected by the same societal drivers that impact on smallholder communities more generally. To begin with, that a farmer might have better knowledge of prices and market conditions does not, in itself, change the balance of power with traders. A 2015 study of IT use in east Africa quoted one farmer as saying: “I can see market prices there, but nothing has been changed due to the usage of the internet. Especially regarding the price – using the internet for me has not affected any changes in bargaining.”<sup>39</sup>

Furthermore, there is evidence that mobile phone ownership and usage reflects existing social patterns. A 2015 study by the global GSM Association<sup>40</sup> found that there is a significant disparity in developing countries between the mobile phone use of men and women. This report found that “societal



98%

of surveyed farmers in Kenya owned a phone, but only 25% use it to access information about agriculture and livestock

Only 50%

of households in Zimbabwe were found to be using mobile telephony in support of a farming activity

33 Berger T & E Polack. Using technology to overcome challenges for farmers in value chains. IIED. 27/05/20. <https://www.iied.org/using-technology-overcome-challenges-for-farmers-value-chains> (accessed 28/10/20)

34 Nestle. Starling: taking forest protection to new heights. <https://www.nestle.co.uk/en-gb/stories/starling-nestle-deforestation-monitoring-system> (accessed 27/10/20)

35 Tata Trusts. mKRISHI. <https://www.tatatrusts.org/our-work/livelihood/agriculture-practices/mkrishi> (accessed 28/10/20)

36 Lowder SK, J Scoet & T Raney. ‘The number, size and distribution of farms, smallholder farms and family farms worldwide.’ In World Development. Vol 87, pp16-29. Nov 2016

37 Krell NT et al. ‘Smallholder farmers’ use of mobile phone services in central Kenya’. In Climate and Development. Vol 12, Issue 4. Apr 2020

38 Musungwini S. ‘Mobile Phone Use by Zimbabwean Smallholder Farmers: A Baseline Study.’ In The African Journal of Information and Communication. Vol 22 2018

39 Krone M, P Dannenberg & G Nduru. ‘The use of modern information and communication technologies in smallholder agriculture: Examples from Kenya and Tanzania.’ In Information Development 1-10 2015

40 Santosham S & D Lindsey. Bridging the gender gap: Mobile access and usage in low- and middle-income countries. GSM Association. 2015



Technology is not the magic bullet it is sometimes claimed to be

norms influence women's access to and use of mobile technology", with the result that "Over 1.7 billion females in low- and middle-income countries do not own mobile phone." Moreover, "even when women own mobile phones, there is a significant gender gap in mobile phone usage, which prevents them from reaping the full benefits of mobile

# 1.7 billion

women in low- and middle-income countries do not own a mobile phone

phone ownership". Other studies show that other societal cleavages are reflected in mobile phone usage, with poor, less-well educated and rural people more likely to be excluded. By contrast, those most likely to use mobile phone services have "higher levels of income and educational attainment".<sup>41</sup>

Mobile usage therefore tends to reflect existing societal cleavages. However, it is also clear that some of the approaches to improve

the lot of farmers more generally can also drive the effectiveness of technology: specifically, the introduction of farmer cooperatives. "Membership in increased numbers of farmer organisations – formal or informal – was a significant predictor of m-service use."<sup>42</sup> As noted above, collective action makes farmers more powerful relative to buyers and others. Cooperatives and other farmer groups have the profile and aggregation of produce that means they can interact on a more equal basis with other parties. Technology can facilitate this: "with the use of phones farmers can now organise themselves better internally (integrating more and remote farmers, coordinating meetings more effectively) and externally (getting in contact with various buyers and suppliers), and therefore improve their bargaining position".<sup>43</sup>

### The need to understand societal context

The conclusion of all this appears to be that technology is not, of itself a magic bullet. Its use is subject to the same social constraints which bind smallholder communities more generally. However, what is also clear is that technology can make even more effective measures to address challenges in smallholder supply chains, for example in empowering cooperatives. The lesson arising seems to be that, if the impact of technology is to be maximised, then its use needs to be seen through the lens of the societal context in which it will be used.

41 Krell et al. Op cit

42 Ibid

43 Krone M, P Dannenberg & G Nduru. Op cit

# From farm to port

## Not enough is known about the processes by which smallholder farm produce gets from the farm gate to exporting port

It is clear, that we actually know a great deal about smallholder farmers themselves, the challenges they face, and how to address these. As can be concluded from the previous chapter, some of the challenges may be insurmountable, but at least there is a growing clarity about that.

However, when we move further downstream, and look at what goes on in commodity supply chains between the time that goods leave the farm and when they arrive at a port, the situation is very much more opaque. The ‘research question’ for this study relates to creating durable smallholder-based commodities, and that cannot be achieved unless we pay attention to all those working in these supply chains, not just those on farms. At present, almost all the effort and research into smallholder-based commodity supply chains focusses on farmers’ families, and problems associated with farming such as child labour. Very little attention is paid to any of the other actors involved in these supply chains beyond the farm.

A good illustration of this is the focus of the recently established Living Income Community of Practice, which describes its role as being “to enable smallholder farmers to achieve a decent standard of living”, in pursuit of which aim, the community’s website provides links to 48 reports. Whilst these reports contain very valuable insights into calculating living incomes for farmers, they provide virtually no insight about calculating living incomes for others in the supply chain, or indeed who other key groups might be.

### Elements of the downstream supply chain

The lack of clarity about what happens in the next steps downstream from farms has implications for a number of aspects of those supply chains. It is not that we know nothing, it is, however, that our understanding of a number of issues remains less-than complete.

### Traders

Typically, smallholder farmers will sell their produce to traders based locally, who will then aggregate products that they themselves will then sell on at a higher price to a larger trader or exporter. That the relationship between traders and farmers can be abusive or detrimental to farmers’ interests is a key rationale for the formation of farmer cooperatives. Collectively, farmers are in a stronger position relative to traders than they are independently. The section of this report examining the challenges associated with collectives demonstrated that the farmer/trader interface can still remain problematic. A number of examples were cited of cooperatives’ leadership conspiring with unscrupulous traders.

But what about the traders? There is great concern that farmers earn a living income from their efforts: there has been little exploration as to whether traders are also able to do so. If there are examples



Smallholders selling goods at a local market in Bandarban, Bangladesh

of traders using their position to take advantage of farmers, it is possible that the same might be true of larger traders in their business transactions with smaller ones.

A further issue which seems to have attracted less attention is what happens to the smaller traders who are negatively affected by the increased power of farmers in collectives. It is easy to portray traders as preying on unwary farmers. However, it may also be the case that some small traders have historically been playing a valuable role, which is being gradually squeezed out as cooperatives increasingly

It's really something of a misnomer to talk about 'smallholder supply chains' as this can lead to us completely ignoring the conditions experienced by those employed, for example, in horticulture packing factories

deal directly with larger traders, or even exporters. The author of this paper observed this process in action in markets in the Chars region of northern Bangladesh. As a result of more collective action, farmers now often aggregate crops to sell, for example at the market at Nunkhawa. That they have more produce to sell means that they can interact directly with larger traders. In some cases, farmers travelled to the larger market at Nageswari. The smaller traders which the farmers had dealt with in the past have therefore, in effect, lost their livelihood.

### Processing

Precisely what processing occurs, and at which stage, varies from commodity to commodity. However, it was clear from a number of interviewees that even if they knew that certain processes were being undertaken, who did them and when was not always clear. This opacity obviously has implications for issues such as living incomes and labour



A truck stop in Madhya Pradesh, India

abuses. If it is not clear how processing happens, and by whom, it is not possible to be certain that those involved in these activities are paid sufficiently, and are able to work in safe conditions.

In some supply chains, the intermediary phase also involves individuals who are employees: fruit and vegetable packaging, for example. In terms of creating genuinely durable commodity value chains, these people are as relevant as smallholder farmers, yet the attention paid to them is much less. Some data suggests that market pressure from supermarkets is making these workers' position more vulnerable. A report by a Manchester University academic observed of the horticulture sector that "commercial pressures, rising costs and volatility of production are driving greater casualisation of labour in many countries, which means lower incomes and greater insecurity of employment for workers".<sup>44</sup> Although organisations such as COLEACP have done much to shed light on the challenges in these supply chains, there is much which still remains unclear.

### Transport

A further element of the downstream infrastructure that seems to remain largely invisible is the transport sector. As one interviewee in the coffee sector commented, "trucks go into the valleys where our certified farms are, but we don't really know much about who

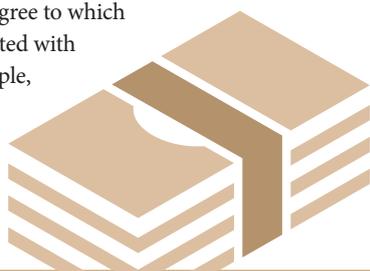
drives them". The potential for challenges to a sustainability agenda are myriad. Most obviously, given the situation that prevails in many developing economies, it is likely that many truck drivers face constant health and safety risks from badly-maintained vehicles and bad roads. However, other problems remain underexplored. If earning a living wage is a challenge for smallholder farmers, it is likely to be also for truck drivers. One interviewee told a story of a cooperative in Africa which had hired drivers to take a crop to the buyer. However, a number of loads failed to meet the quality requirements of the buyer and needed to be returned. The cooperative, however, had not allowed for this possibility and so were not able to pay the driver for his second journey: the driver therefore went unpaid for that work. Without more exploration of the transport component of smallholder supply chains it is not clear what other issues of this nature might exist.

There are, however, other issues relating to transport and smallholder supply chains that have apparently not yet been explored. The first is the potential for abuses given the relationship between long distance trucking and prostitution. This issue first came to light when research demonstrated that drivers' use of prostitutes at rest stops was a key factor in the spread of Aids. A report in *The Observer* newspaper as long ago as 2005 talked of "the deadly role that long-distance freight drivers played in spreading Aids in southern and east Africa in the

44 Barrientos, S. Shifting South: horticulture in a changing supermarket landscape. Capturing the Gains, Summit brief. Dec 2012.

1980s. Now, Indian drivers carry infection with them, passing it on to prostitutes and finally exposing their wives.”<sup>45</sup> However, apart from a disease risk, this issue also has implications for child abuse, as reports suggests that children are often forced to work as prostitutes. For example, a report from Zimbabwe speaks of “the trafficking of children from one area to another, particularly to border areas ... where long-distance truck drivers normally camp for days while clearing their loads, is very common because of the lucrative sex business with long-distance truck drivers.”<sup>46</sup>

A further challenge is the degree to which cross-border transport is associated with the payment of bribes. For example, a study early in 2020, reported in the Times of India, found that truckers and transport



# 4.8 billion

rupees a year were paid in bribes by truckers and transport company owners, to various border and other officials, according to a 2020 study in the Times of India

company owners paid 4.8 billion rupees a year in bribes to various border and other officials. More recently, the press in South Africa reported that truckers were being asked to pay bribes of up to 1,000 rand to cross into Zimbabwe<sup>47</sup>. A study by the World Bank and MIT into the transport sector in Indonesia found that “total illegal payments averaged about 13% of the cost of each trip, more than the total wages received for the trip by the truck driver and his assistant”<sup>48</sup>. So entrenched was this phenomenon, this report said, that “patterns of bribes paid conform to standard models of pricing behaviour from industrial organisations”.

The existence of corruption in commodity supply chains is material for a number of reasons. Firstly, most international commodity businesses are subject, by virtue of their market listings, to the

requirements of regulations including the US Foreign and Corrupt Practices Act, or the UK Bribery Act. Secondly, the extortion of bribes is often associated with violence. Here again, therefore, there are currently-overlooked implications within commodity supply chains relating to worker welfare, in this case trucker drivers. Thirdly, and perhaps most importantly, however, that the transportation of commodities may fuel corruption undermines the core logic for trying to create more durable supply chains. A core aim of this activity is to support broad-based economic development in countries in which commodities are grown. Yet corruption is closely correlated to lower growth rates. According to a research note from the IMF “regression analysis indicates that the amount of corruption is negatively linked to the level of investment and economic growth, That is to say, the more corruption, the less investment and the less economic growth.”<sup>49</sup>

## Implications

It is clear then that we have insufficient understanding of this middle part of the supply chain. As a 2016 International Trade Centre report put it, “intermediaries in supply chains are those negotiating the vast expanse between these producers, final buyers and retailers of agri-food products. Often referred to as ‘middle-men’, their role generally gets less attention in the creation and implementation of sustainability standard schemes.”<sup>50</sup> This lack of detail around many issues in the supply chain onward from the farm gate has a number of implications for how we understand the overall challenge of developing durable commodity supply chains, and for the development of solutions to address these challenges in an effective way.

## What should the downstream cost?

The question that all of this begs is the proportion of the export price of a commodity should farmers receive. Obviously, as high a proportion as possible, but defining a precise level would require a better understanding of what real value is added by the various intermediaries between the farm and the port. If some of those intermediaries add little or no value, then their role is probably exploitative (for example a trader forcing down the price paid to farmers to improve their own margin). Yet other intermediaries may add real value, and that value needs to be recognised.

However, at present, we appear to understand too little of the detail of the downstream value chains to be able to make a fair judgement about what the farm gate to port ratio should be. For example, a blog on the Catholic Relief Services website posted in September 2019 said that “estimates of farmgate as a percentage of [export price] run from

45 McDougall D. Truckers take India on the fast land to AIDS. The Observer. 27/11/05

46 She is Africa. Child Labour in Zimbabwe. <http://sheisafrika.eu/2018/06/12/world-day-against-child-labour-child-labour-in-zimbabwe/> (accessed 06/10/20)

47 Peyper L. Tempers flair as bribes block border crossing. <https://www.scribd.com/article/474214716/Tempers-Flare-As-Bribes-Block-Border-Crossing> (accessed 06/01/20)

48 Olken BA & P Barron. 'The Simple Economics of Extortion: Evidence from Trucking in Aceh.' In The Journal of Political Economy 2009 vol 117, No 3, pp417-453

49 Mauro. P. Why worry about corruption? Economic Issues No6. International Monetary Fund, Washington DC. 1997.

50 International Trade Centre. Influencing sustainable sourcing decisions in agri-food supply chains. ITC, Geneva. 2016

60-80% in the coffee sector, depending on the origin and the number of actors in the value chain”.<sup>51</sup> That the range suggested is so large shows how little understood this stage of the process is.

Furthermore, until we know more about what those in the downstream do, it is impossible to say whether 60-80%, or any figure in between represents a fair proportion; or whether it is too high, which implies farmers are getting bad deal; or indeed whether it is too low, in which case those in this intermediary phase are receiving too little for their efforts, which would raise questions about whether they are able to earn a living income, and operate in a safe environment.

### Will solutions work?

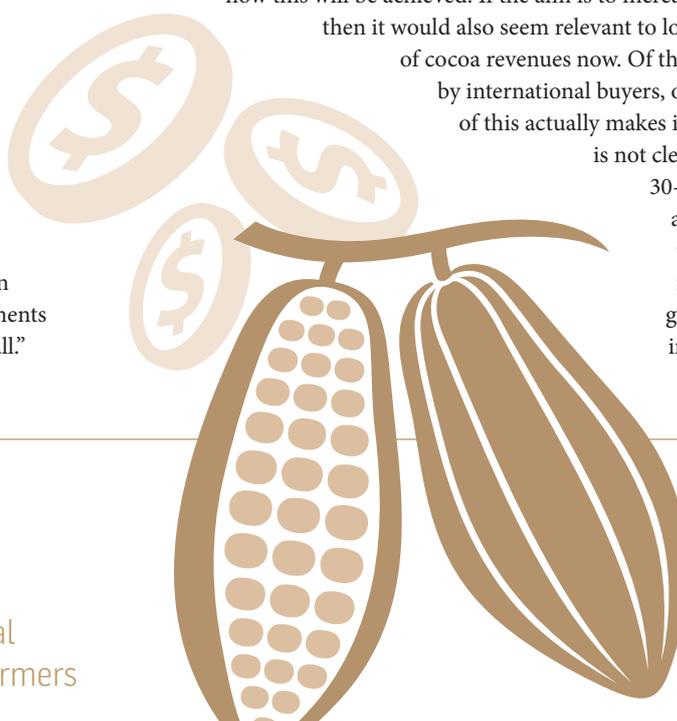
This opacity has implications for some of the solutions proposed to address challenges in smallholder supply chains. If we do not fully understand the supply chain between farm and port, proposed solutions that rely on understanding that part of the equation must be viewed with some scepticism.

A case in point is the so-called ‘Living Income Differential’ introduced in 2019 by the governments of Ghana and Côte d’Ivoire to address the issue of low cocoa farmer incomes. As reported by the Business and Human Rights Resource Centre<sup>52</sup> the governments intend that the LID will work as follows: “[F]unds raised ... will be used to help increase payments to farmers ... If market prices rise above \$2,900, proceeds from the LID will be placed in a stabilisation fund that would aim to ensure the governments can pay farmers ... the target price when market prices fall.”

The challenge with this is that, even now, we do not know exactly how much of the existing coffee price actually gets to farmers – “we think somewhere between 50% and 60%, but we’re not sure”, was the observation of one interviewee. If we can’t be sure what proportion of the price farmers receive now, what certainty can we have that they will receive all, or even some, of the LID premium? Another interviewee implied that opacity about payments might breed corruption: “pay \$100 to the government, \$200 to me, and we will forget the rest”.

This lack of clarity raises significant questions about the practical impact on farmers of the LID: simply put, how can the bureaucratic challenges these countries face be managed so that the additional money from the LID finds its way to farmers’ pockets. A particular challenge lies in the lack of information given about how the stabilisation fund will work. For this to be effective as a mechanism to protect farmers in years when the cocoa price is low, surpluses from high-price years needs to be ringfenced. Greater clarity is needed as to how this will be achieved. If the aim is to increase farmers’ incomes,

then it would also seem relevant to look also at distribution of cocoa revenues now. Of the price per tonne paid by international buyers, only around 60-70% of this actually makes its way to farmers. It is not clear how the remaining 30-40% of the revenues are used: it is likely that they simply form part of the governments’ overall incomes.



# 60-70%

of the price per tonne paid by international buyers actually makes its way to cocoa farmers

51 Kraft K. Farmgate Price: An Important – But Partial – Piece Of The Sustainability Puzzle. <https://coffeelands.crs.org/2017/09/farmgate-price-an-important-but-partial-piece-of-the-sustainability-puzzle/> (accessed 05/01/20)

52 Business and Human Rights Resource Centre. Côte d’Ivoire & Ghana set a fixed living income differential of \$400 per tonne of cocoa to relieve farmer poverty. <https://www.business-humanrights.org/en/latest-news/c%C3%B4te-divoire-ghana-set-a-fixed-living-income-differential-of-400-per-tonne-of-cocoa-to-relieve-farmer-poverty/> (accessed 10/10/20)

# The role of origin country governments

## Producer-nation governments can do much more to encourage circumstances in which farmers can thrive

In principle, the governments of countries where smallholder farmers live ought to have a key role in ensuring farmer welfare, addressing low income levels, and dealing with issues like environmental degradation. Yet, as is clear from many participants in this study, the situation in relation to host governments is often difficult and complicated.

### The challenges of engagement

The central issue is to be able to engage effectively with host government at different levels. Where, and how to do this is often a challenge.

#### At field level

The importance of government provision of extension workers has been mentioned already in the section of this report that addressed the challenges facing farmers. The evidence from the interviews undertaken for this study is that government extension workers can be a key factor in supporting farmers, but often the extension service is weak. At its best, government-backed support to farmers has the potential to bring company and NGO projects to scale. In an interview, someone working in China reported that they were training government workers to support farmers on better environmental practices, since this is now an issue which the Chinese authorities prioritise. This train-the-trainers approach therefore allowed this project to get a much wider spread than would otherwise have been the case.

Yet in many other places extension services are poor, for a number of reasons. First is the issue of resourcing: there are often too few government workers to be able effectively to deal properly with all the farmers in an area; and in any case, they are too-usually under-

The only way we will ever potentially get to scale on environmental and social issues in smallholder supply chains is by working with the host governments' extension services

resourced to be effective. Another issue to emerge from interviews was that, not-infrequently, extension workers are just not very good. They know they get paid no matter how good or indifferent a job they do and are unmotivated to work effectively.

Nevertheless, government extension services should naturally be a key element in any approach to bring to scale the current project-based approach to dealing with smallholder supply chains. Neither



Government extension services should be a key tool in scaling impact on smallholders

the private sector nor NGOs are likely ever to have the resources to deal with an exponentially-increased number of farmers, so the onus must, therefore, be on host government provision. The key question, therefore, is how current initiatives might be able to engage with government extension services to strengthen them, ensure they are state-of-the-art in terms of their knowledge and capabilities, and properly resourced.

### Policy-level engagement

A clear theme to emerge from many interviews was the fact that engagement with government at a policy level was also difficult. A number of people commented that, in many cases, governments put in place regulations that affect agriculture and rural communities but do not then put the resources in place to implement these policies effectively. In some cases, interviewees reported, there was a tacit expectation that the private sector would provide the funding, something which caused a great deal of annoyance. Another particular grudge expressed by several people was that governments would implement regulations mandating environmental and social protections, but then would fail to enforce these laws.

A number of those interviewed observed that it was often easier to engage with government officials at local and regional, rather than at national level. This is because the latter group are remote from the situation in the field, and often take little interest in rural or provincial issues. Nevertheless, a number of people spoke of the importance of the 'seeing is believing' approach in engaging government officials, and getting them to take an interest in farmer development. Actually getting officials into the fields to see challenges and solutions at first hand is seen as an excellent tool in engaging officials.

One caveat, however, should be noted: that the problem is not necessarily that government officials are hard to engage, but rather that sometimes companies and others just do not try. One interviewee observed that, "we all too often assume that governments in places like

Africa and central America will be corrupt and useless. As a result, we often don't really bother to engage with them. Maybe that's a mistake."

And, of course, this is true. In the same way that engaging with extension workers would enable the current project-based approach to move to scale, host governments need to be a core part of more joined-up processes to address challenges in smallholder supply chains. However, the challenge of engagement is significant. Companies are often reluctant to engage because they fear that any approach to government may be misinterpreted. As a speaker at the Innovation Forum's landscapes conference in 2019 put it: "If an NGO works with a government, its seen as a positive – providing good advice. But if a company does it, it's often seen as lobbying." Nevertheless, if we are genuinely to move towards more sustainable smallholder value chains, then better and more effective means need to be found to engage governments of the countries where those smallholders live.

### The challenges for host governments

To some degree, the fact that projects addressing the needs of smallholder farmers exist at all is a reflection of the fact that host governments are not able to meet those farmers' needs. As can be seen from the discussion above, host governments' policy approach to agriculture can be confused, and very often efforts to support

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Too often the 'solutions' suggested, for example by campaign groups, are too simplistic and fail to take any real account of the realpolitik on the ground in these countries

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smallholders are under-resourced. Many interviewees were critical of the frequent inability or unwillingness to deliver on regulation and laws.

Yet, very often, these challenges in relation to agricultural development are reflections of wider governance and resource issues in many developing countries. Those wishing to engage with host governments in relation to smallholders need therefore to look in more detail at the wider context of these countries.

Too often, solutions proposed to address challenges in smallholder supply chains fail to take proper account of the realities on the ground in many of the countries where these commodities are grown. The example of the Living Income Differential discussed earlier is a case in point as the proposed solution takes no account of the detail of the situation on the ground in these countries.

Any strategy to engage a host government in addressing the issues

relating to smallholder supply chains needs therefore to be bedded in a clear understanding of the particular issues facing that government, where gaps in capability might exist, and where support might be needed.

A useful starting point, therefore, would be to understand in more detail what factors are seen as being relevant to a country's ability to develop sustainably. Studies by the IMF<sup>53</sup>, World Bank<sup>54</sup>, ADB<sup>55</sup> and the OECD<sup>56</sup> have all sought to understand what factors assist successful economic development and which hinder it. Drawing on all these studies, the key factors are seen as the following:



**Stability:** This is a sine qua non of continued development. Countries which are affected by war, conflict or natural disasters will face significant challenges in maintaining stable development.



**Political institutions and transparency:** The institutional underpinnings of politics and the economy are of key importance. Four areas in particular are highlighted: size of government; rule of law; freedom to trade internationally; and, the presence of effective regulation



**Structured development:** Whether by government edict or through government allowing the private sector space, countries succeed where there is a structured but realistic approach to development.



**Economic management:** Capital inflows are valuable, but key is macro-economic stability. Countries that succeed have governments which are capable of strong economic management



**Industrial diversification:** Countries that develop economically are those which have a greater diversity and sophistication of exports.



**Internal and external resources and infrastructure:** Inside a country, power, roads and other infrastructure are key for productive activities, and in some cases are also a public good. However, external links are also important to success.

For many of the countries where smallholder-based commodities come from, many of these attributes are absent. Frequently their governance structures and institutions are weak, and state provision is ineffective. This is demonstrated by figure 1, which compares state

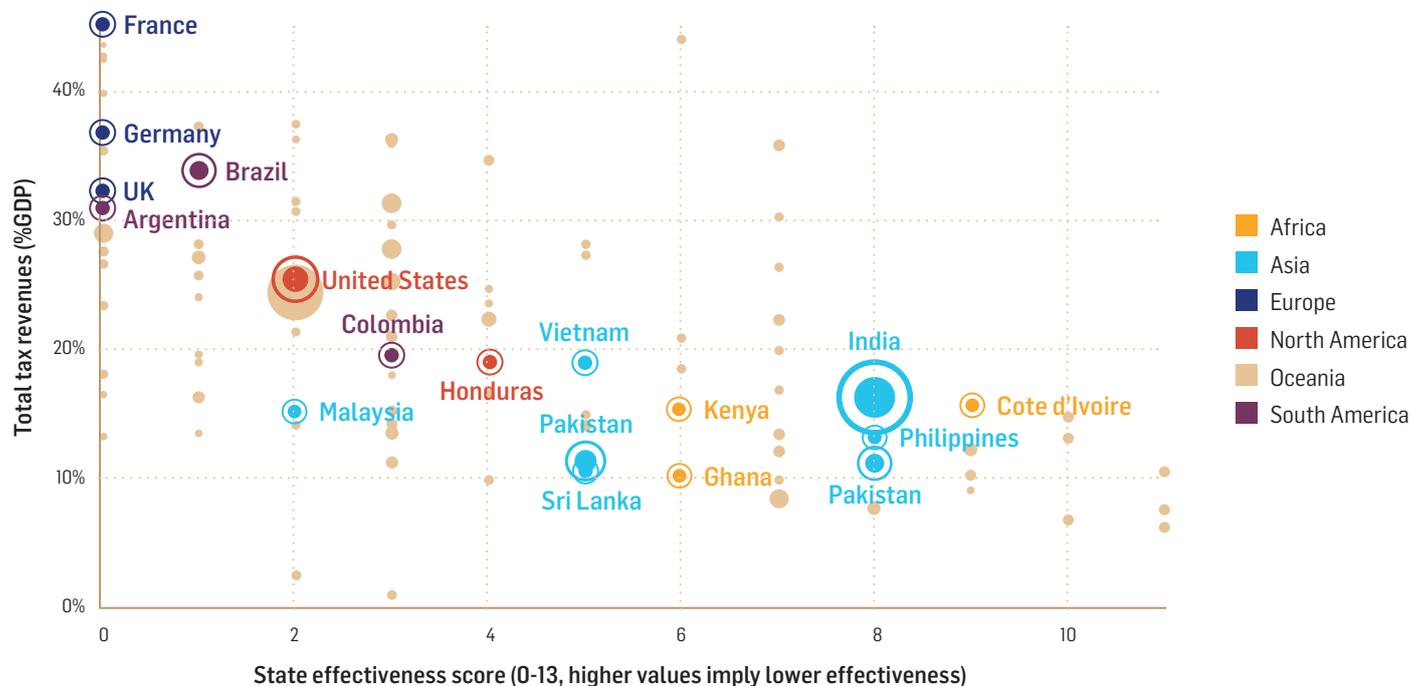
53 Aiyar S et al. Growth Slowdowns and the Middle-Income Trap. IMF, Washington. 2013

54 Dinh H T. Tales from the Development Frontier. World Bank, Washington DC. 2013.

55 Felipe J, A Abdon & U Kumar. 'Tracking the Middle-income Trap: What Is It, Who Is in It, and Why?' Working Paper 715. Ley Economics Institute of Bard College. April 2012.

56 Jankowska, J, A J Nagengast & J R Perea. 'The Middle-Income Trap: Comparing Asian and Latin American Experiences'. Policy Insights No96. OECD Development Centre, Paris. May 2012

Figure 1: Effectiveness of state structures in selected soft commodity producing countries<sup>58</sup>



and government effectiveness of a number of commodity-producing countries with some key industrialised states.

The ability to collect taxes is a clear indicator of an effective state. As a UK government paper put it, “tax reform and improvement in tax collection are considered critical for the consolidation of the state, peacebuilding and political stability”.<sup>57</sup>

Figure 1 demonstrates that many commodity-producing countries

Many commodity-producing countries have very low levels of tax collection, and these states also score poorly on measures of state effectiveness

have very low levels of tax collection, and that these states also score poorly on measures of state effectiveness as measured across four dimensions: security effectiveness, political effectiveness, economic effectiveness and social effectiveness. These dimensions incorporate issues such as the quality of public services, quality of the civil service and its perceived independence from political pressures, the quality of policy formation and implementation, and the credibility of the government’s commitment to such policies. In figure 1, those states

towards the right are those with the least effective governmental and state institutions.

A number of other global indicators also demonstrate the governance and effectiveness challenges faced by many commodity-producing states. Transparency International’s Corruption Perceptions Index scores and ranks countries/territories based on how corrupt a country’s public sector is perceived to be by experts and business executives. The World Bank’s Doing Business indicators are a series of measures of the regulations that enhance business activity in each country, and those that constrain it. The WEF Global Competitiveness Index assesses the ability of countries to provide high levels of prosperity to their citizens. The ranking of a number of countries in each of these indices is shown in table 2 on page 28.

Better analysis for better engagement

If we are properly to engage with host governments in addressing smallholder supply chains, there is a need for detailed, robust and clear-headed analysis of the reality of the situation that exists on the ground. Simplistic or idealistic assessments will lead to approaches which will not work. How then do we dig more deeply into the situation in each country?

As can be seen from figure 1, whilst some countries do well (Malaysia, for example), many commodity producing countries face significant challenges. Beyond the headline rankings, each of these reports can provide more detail about different aspects of the problems these countries

57 Avis WR. Linkages between taxation and stability. 10/03/16 <https://assets.publishing.service.gov.uk/media/57a08953e5274a27b2000021/HDR1346.pdf> (accessed 15/10/20)

58 Our World in Data. Total tax revenue (%GDP) vs State effectiveness. (selected states only). University of Oxford. Total tax revenue (%GDP) vs State effectiveness, 2013 (<https://ourworldindata.org/grapher/total-tax-revenue-gdp-vs-state-effectiveness>) (accessed 08/12/20)

Table 2: Governance rankings of selected soft commodity producing countries

	TI Corruption Perceptions Index 2020 (of 180) <sup>59</sup>	World Bank Doing Business Indicators 2020 (of 190) <sup>60</sup>	WEF Global Competitiveness Index (of 141) <sup>61</sup>
Argentina	66	126	83
Brazil	106	124	71
Colombia	96=	67	57
Cote d'Ivoire	106=	110	118
Ghana	80=	118	111
Honduras	146	133	101
Indonesia	85	73	50
India	80=	63	68
Kenya	137	56	95
Malaysia	51=	12	27
Pakistan	120=	108	110
Philippines	113=	95	64
Sri Lanka	93=	99	84
Vietnam	96=	70	67

face. Vietnam has challenges in relation to corruption and corporate governance. According to a World Bank survey, “44% of enterprises and 28% of citizens reported direct experience with paying unofficial payments and 45% of public officials encountered corrupt behaviour”.

The key point is this: that if those working on building durable smallholder supply chains want to engage host governments, they need to understand better what those governments are like, who they are, and the specific challenges they face. To do this requires a more systematic analysis of, and proactive engagement with government at all levels. The ‘business as normal’ processes of political engagement clearly have not worked effectively.

Traditional processes of political engagement – lobbying, for example – often fall short in emerging economies because they fail to reach below the surface of what goes on. They fail to engage with the much more complex – and often rather messy – way in which power is wielded, or understand that ‘normal’ is very far from anything someone with a developed world view might expect.

What is required is an analytical approach known as political economy analysis (PEA), which digs deep into the nuts and bolts of how power and authority affect economic choices, and uses this understanding to inform how one should go about getting things done. Whilst the term ‘political economy analysis’ might sound rather academic, the process is in fact a ruthlessly practical one. The aim is

not to create a dry analytical analysis, but to develop an understanding of the realities of a location, which can inform how actually to get things done. It is a process used by development institutions such as the World Bank, OECD and the UN, and explores three key dynamics:

- Incentives: Who are the key stakeholders, be those individuals or groups, who have an influence or interest in what is going on? And what makes them tick – what do they really want?
- Institutions: What political and other institutions and networks affect the way in which these actors interact with one another? Some of these may be formal ‘political’ institutional arrangements; others may be more informal and opaque.
- Events: What contextual factors impact on the way in which these actors and structures work at the moment? How might changes in this context lead to increasing tensions, or to a situation where change can more readily be put in place?

Host country governments at all levels clearly have a hugely important role to play in attempts to create durable smallholder supply chains. Indeed, perhaps the only way to bring current project-based initiatives to scale is to work through host state institutions such as extension services. Yet engagement with these governments remains a challenge. Perhaps better analysis of exactly where these governments are and what motivates them provide a better basis for engagement and the development of partnerships in the future.

59 Transparency International. Corruption Perceptions Index 2020. [https://www.transparency.org/files/content/pages/2019\\_CPI\\_Report\\_EN.pdf](https://www.transparency.org/files/content/pages/2019_CPI_Report_EN.pdf) (accessed 15/10/20)

60 World Bank. Doing Business Index 2020. <https://www.doingbusiness.org/en/rankings> (accessed 15/10/20)

61 Schwab K. The global competitiveness report 2019. World Economic Forum. [http://www3.weforum.org/docs/WEF\\_TheGlobalCompetitivenessReport2019.pdf](http://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf) (accessed 15/10/20)

# The role of destination country governments

**The governments of countries in which smallholder-derived commodities are consumed also have an important role to play in supporting the durability of these supply chains**

As is the situation in origin countries, there is often too little engagement with destination country governments. This needs to change since there are clear issues where those countries' policies and activities need to be addressed.

According to the development assistance committee of the OECD, agriculture is one of the key sectors in which international donors – both bilateral and multilateral – operate. Their figures show that “official development assistance (ODA) for agriculture (including rural development) stood at \$10.2 billion in 2018 ... Since 2012, agriculture’s share of total development assistance has hovered around 5% to 6%.”<sup>62</sup>



According to the development assistance committee of the OECD, agriculture is one of the key sectors in which international donors – both bilateral and multilateral – operate

Within this, there has been a clear focus on smallholder farmers. For example the UK government’s Conceptual Framework on Agriculture, published in 2015 included a “specific focus on market and value chain development that will help smallholder farmers to become sustainably profitable and respond effectively to market demand”.<sup>63</sup>



Farmers will benefit from better collaboration between projects designed to help them

## The role of development aid

However, the evidence from interviews suggests that only rarely is there a need for much greater join-up between the types of initiatives funded by international donors and the work spearheaded by the corporate sector. Collaboration between companies and NGOs is well-developed. The Nestlé Cocoa Plan, for example lists amongst its partners the International Cocoa Initiative and the Fair Labour Association. Yet, government representatives are fewer and further between: only a small handful of delegates at Innovation Forum’s 2019 landscapes conference were governmental, and none of these was from the destination countries. There are notable exceptions to this separation between corporate work with smallholders and that undertaken by international donors, for example, the work done by the German government’s development agency, GIZ, described in the case study on page 30.

Clearly, however, more initiatives of this type are needed as part of a more joined-up approach to addressing the challenges of smallholder supply chains. The scale of what needs to be achieved is significant and it is inefficient if initiatives led by companies, and those funded by donor agencies are not properly joined-up. Getting this to happen, however, is a very significant challenge. The incentives of each side is different, as are the institutional structures by which they operate. Nevertheless, addressing these issues will be an important part of building genuinely durable commodity supply chains.

62 Donor tracker. Agriculture. <https://donortracker.org/sector/agriculture> (accessed 06/10/20)

63 DFID. DFID’s Conceptual Framework on Agriculture. Department for International Development, London November 2015. p3



## CASE STUDY

## INA



Collaboration between different types of organisations is crucial. The Sustainable Agricultural Supply Chains Initiative (INA) run by the German government's development agency, GIZ, brings together more than 70 stakeholders from the private sector, civil society and politics. A common approach taken by all stakeholders, INA sees these players working across their respective supply chains. Together, they want to improve the living conditions of smallholders and establish greater sustainability in global agricultural supply chains through holistic approaches. INA concentrates especially on the protection of remaining natural resources as well as living income and living wage.

Private sector, civil society and political actors within INA are working on a common strategy to close the income gap. Therefore, the cross-commodity approach is essential as the income of the smallholder families is based on different income sources. Throughout pilot projects, INA stakeholders review how they can concentrate their commitment in a way that is conducive to securing a living income for smallholders.

Moreover, INA serves as an information platform. The stakeholders find the right conditions to work together with like-minded people on cross-cutting issues. The initiative also examines digital solutions to support producers and increase transparency in the supply chain.

### Leveraging the architecture of international development

The 2011 Busan High Level Forum on Aid Effectiveness ushered in what was intended to be an entirely new approach to international development cooperation. It defined four principles of effective cooperation – country ownership, focus on results, inclusive partnerships and transparency and mutual accountability<sup>64</sup>.

A key concept to emerge from the Busan summit, which is reflected in what is known as the 2030 Development Agenda, is that the process of international development is now no-longer seen simply as the purview of government aid agencies, and international organisations such as the World Bank and UN. Rather, development is the responsibility of every type of organisation, both in the public and private sectors. This is reflected in the description of the international body set up to drive development effectiveness, the Global Partnership for Effective Development Cooperation (GPEDC). This institution, jointly managed by the UN and the OECD “brings together governments, bilateral and multilateral organizations, civil society, the private sector and representatives from parliaments and trade unions, among others, who are committed to strengthening the effectiveness of their partnerships for development.”<sup>65</sup>

Under these arrangements, development cooperation is therefore meant to encompass all actors – be those governmental, from civil society, or the private sector. However, progress has been sporadic, and ‘whole of society’ approaches have proven a challenge to make work. The GPEDC’s 2019 annual progress report demonstrates that the disconnect between public and private actors reflected by the interview data for this project is, in fact, a systemic problem. “Partner country governments and private stakeholders agree that mutual trust and willingness to engage in policy dialogue exist. However, all stakeholders

### Tariff escalation by developed countries significantly impedes market access for developing countries, particularly in agricultural trade

report limited capacity to engage. Additionally, public and private stakeholders report diverging views on the relevance and inclusiveness of PPD (public-private dialogue), weakening its quality.”<sup>66</sup>

Despite the evident challenges in making the new arrangements work, the structures nevertheless exist through which greater collaboration could occur between companies and states to address issues related to smallholder supply chains. As the GPEDC report says, “results show that when the foundations for high-quality dialogue are in place, PPD is geared towards results, and leads to joint action”. A clear finding of this report, therefore, is that this best practice should be explored further to understand how this might be applied to addressing smallholder supply chains.

### Tariff regimes

In September 2020, the European Commission announced the creation of the Sustainable Cocoa Initiative. This is a “multi-stakeholder dialogue” bringing together representatives of the governments of

64 OECD. Busan High-Level Forum on Aid Effectiveness: Proceedings. OECD-DAC, Paris. <https://www.oecd.org/dac/effectiveness/HLF4%20proceedings%20entire%20doc%20for%20web.pdf> (accessed 06/10/20)

65 GPEDC. About the Partnership. <https://www.effectivecooperation.org/landing-page/about-partnership> (accessed 06/10/20)

66 Global Partnership for Effective Development Cooperation. Making development cooperation more effective: 2019 progress report. OECD/ UNDP 2019.



Too few processed goods are exported from places like this: Dakar, Senegal

Côte d'Ivoire and Ghana, the world's largest cocoa producers, as well as representatives of EU institutions, EU member states, cocoa growers and NGOs. The commission said that its new initiative "is part of a broader set of the EC's measures to address sustainability issues horizontally and within the sector ... [It will] deliver concrete recommendations to advance sustainability across the cocoa supply chain through collective action and partnerships."<sup>67</sup> The group of NGOs that pushed for the establishment of the initiative say that its role is "to ensure a transition towards sustainable cocoa production that provides farmers with a living income, while ensuring that EU cocoa consumption does not contribute to child labour and deforestation."<sup>68</sup>

Nor is this the only initiative underway in which the EU is looking for ways of mandating better performance in smallholder supply chains. In April 2020, the European Commissioner for Justice confirmed that the EU would "introduce new rules on mandatory human rights and environmental due diligence in EU companies' global supply chains."<sup>69</sup> These are expected to be in place by 2021. Something similar is planned also to address deforestation issues. A report from the European parliament in June 2020 called for

the introduction of an "EU legal framework based on mandatory due diligence, reporting, disclosure and third-party participation requirements, as well as liability and penalties in case of breaches of obligations for all companies [importing] commodities with the highest forest and ecosystem risks and products derived from these commodities."<sup>70</sup>

### No simple answers

This report is not the appropriate forum to critique these various initiatives, though there are a number of issues of concern, for example the challenges of extra-territorial jurisdiction, and the potential of unintended consequences. The latter can be seen in the potential impact of another recent EU development, the phase out of palm oil in biofuels. The aim of the phase out was to reduce deforestation, yet the ban risks exacerbating the drivers of this. Smallholder farmers provide 40% of the world's palm oil,<sup>71</sup> so will be adversely impacted on by the EU's move. The EU's ban will further reduce smallholders' incomes, and reduce their ability to improve productivity, thus heightening the risk that they expand into forests and peatlands to increase production.

67 Myers M. European Commission launches Sustainable Cocoa Initiative and is 'ready to act'. Confectionary News. 24/09/20 <https://www.confectionerynews.com/Article/2020/09/24/European-Commission-launches-Sustainable-Cocoa-Initiative-and-is-ready-to-act> (accessed 06/10/20)

68 Key elements for an agreement between the EU and cocoa-producing countries, to ensure sustainability in the cocoa sector. September 2020 [https://www.voicenetwork.eu/wp-content/uploads/2020/09/Cocoa-partnerships-paper\\_final.pdf](https://www.voicenetwork.eu/wp-content/uploads/2020/09/Cocoa-partnerships-paper_final.pdf) (accessed 06/10/20)

69 Fox B. New human rights laws in 2021, promises EU justice chief. 30/04/20. <https://www.euractiv.com/section/global-europe/news/new-human-rights-laws-in-2021-promises-eu-justice-chief/> (accessed 06/10/20)

70 European Parliament Committee on the Environment, Public Health and Food Safety. Draft report with recommendations to the Commission on an EU legal framework to halt and reverse EU-driven global deforestation. European Parliament. 15/06/20

71 Chain Reaction Research Future Smallholder deforestation: Possible palm oil risk. 29/10/19. <https://chainreactionresearch.com/report/future-smallholder-deforestation-possible-palm-oil-risk/> (accessed 07/10/20)

However, if the EU – and indeed other destination country governments – are serious about addressing the challenges of smallholder supply chains, low incomes and environmental damage, there is a more fundamental issue that needs to be addressed: import tariffs.

Ultimately, the way in which smallholder farmers and others in commodity supply chains will emerge from poverty is through the wider economic development of the countries in which they live. In India, for example, the UN estimates that more than 270 million people were lifted out of poverty by economic growth between 2006 and 2016<sup>72</sup>. Generation of economic growth requires action on many fronts, but central to it is the idea that a country is able, increasingly, to add more and more value to its exported products. A 2018 study by Harvard University’s Center for International Development predicted that Uganda, Tanzania and Kenya would be amongst the ten fastest-growing economies in the world in the next decade. “These east African countries have seen labour shift out of farming into limited manufacturing sectors, as expressed in a more diversified export basket.”<sup>73</sup> Commodity-producing countries will therefore emerge from poverty as they are increasingly able to produce and export products other than raw commodities.

**The effects of tariff escalation**

Yet here, the tariff regimes of the EU and other destination markets present a significant impediment to this. In general, raw products imported from developing countries, for example, in to the EU, attract 0% tariffs, with processed goods attracting much higher rates. Take sugar as an example:<sup>74</sup> under the ‘everything but arms’ arrangements, least developed countries (LDC) and African, Caribbean and Pacific (ACP) countries enjoy unrestricted, tariff-free access to the EU. However, if a processor in one of these countries were to be processing cane to produce brown sugar for consumer consumption, then the product attracts a tariff of €419/ tonne. The effect of this is to provide a significant negative incentive for the processing of raw commodities in origin countries.

A greater proportion of the value-addition therefore happens elsewhere.

This practice is known as tariff escalation, and is a common practice in international commodity trade, and refers to a situation where tariffs are zero or low on primary products and increase, or escalate, as products undergo processing. It causes the price of value-added imports relative to raw products to increase, decreasing the demand for processed products in the importing country. Through tariff escalation, one country can effectively protect its domestic processing industries while limiting the scope of trade-related industrialisation in foreign countries. According to a paper published by Cornell University: “[T]ariff escalation significantly impedes market access for developing countries, particularly in agricultural trade. Higher tariffs for more processed agricultural products have the potential to depress value-added activities and obstruct export diversification in agricultural exporting countries.”<sup>75</sup>

If the logic of the current efforts to support smallholder farmers and their onward supply chains lies in no small part on the need to inject higher levels of revenues in the upstream of these chains, then addressing the effect of current tariff structures would have a considerably larger impact than the initiatives detailed above. It is to state the obvious that effecting changes in the tariff regimes of destination markets for tropical commodities is unlikely to happen swiftly, if at all.

Nonetheless, it must be recognised that the phenomenon of tariff escalation is an important factor in the equation about how to create sustainable commodity supply chains.



According to a 2018 study by Harvard University's Center for International Development, the ten fastest-growing economies in the world in the next decade will include

# Uganda, Tanzania and Kenya

72 UNDP. Multidimensional Poverty Index 2019. United Nations, Geneva and New York. 2019

73 Hausmann R et al. The Atlas of Economic Complexity Harvard University Press.

74 Ragus. Tariffs on sugar explained. <https://www.ragus.co.uk/tariffs-on-sugars-explained/> (accessed, 29/09/20)

75 Cheng F. 'Case Study #10-11, Tariff Escalation in World Agricultural Trade'. In Pinstrup-Andersen P & F Cheng (ed), 'Food Policy for Developing Countries: Case Studies. Cornell University Press 2007

# The structure of international supply chains and business processes

There are some clear changes to the structure of commodity markets and supply chains that would benefit producer communities

This research strongly suggests that desire to create genuinely durable smallholder commodity supply chains begs some fundamental questions about existing norms of business practice. Firstly, how do companies operationalise their commitments around sustainability and carbon reduction? Secondly, how compatible are current supply chain structures with reductions in social and environmental harm in commodity value chains?

## Operationalising sustainability

It is clear that sustainability functions have gained greatly in scale and influence over the past decade or so. However, as is clear from many of the interviews from this project, the only way in which ambitions such as those around smallholder supply chains will be deliverable is if they become ambitions of the whole organisation, not just of the sustainability team.

There is a clear need to align the whole organisation behind commitments on issues such as sustainability, carbon emissions reductions and living incomes. Whilst sustainability teams can help

If it's going to work, sustainability needs to be part of everyone's job, not just of those in the sustainability team

ensure that issues including rates of incomes in smallholder supply chains are on the corporate agenda, there is a need that they are taken seriously by others in the company. This is true in particular of procurement staff whose motivation is to reduce costs, and for whom sustainability issues may seem an unnecessary, and perhaps costly, diversion. At present, more needs to be done. "I do have some



Not yet an endangered species

sustainability issues in my performance metrics. But I think the company would overlook if I failed to meet these, but achieved the cost savings I've been asked for," was the observation of one procurement professional interviewed for this study.

So, if sustainability commitments are to be realistic, achieving them needs to be embedded in the job description of and performance criteria of everyone in a business. However, over time what is needed is a shift in corporate culture to one in which the achievement of sustainability ends is intrinsic to how a business operates, not an externality grafted on. In this regard, there are lessons that can be learned from experience in relation to corporate codes of conduct. Such codes are only as good as the strength of their implementation.

As one compliance blog makes clear, a code needs to be "embedded in the organisation's practices and backed up with enforcement".<sup>76</sup> 'Soft' approaches to implementation are also extremely important – for example, the mood and tone which a management team engenders amongst its staff. As a study reported in the Journal of Business Ethics concluded: "informal methods (namely, the 'social norms of the organisation') are perceived by employees to have the most influence on their conduct".<sup>77</sup> This type of change also requires companies to look closely at how they promote people, and to examine what skills-sets they think important in taking human resources decisions. In most organisations, individuals are promoted because they were good at their last job. However, this may not be the best way to create corporate leadership that sees the intrinsic value of sustainability.

There may be lessons for those in the soft commodity sector from the experience in other sectors in as they fully operationalise sustainability issues. One clear lesson from the extractives sector, for example, is the need to integrate sustainability issues into the core management structures of the business. An example of this is the socio-economic assessment tool created by Anglo American to manage

76 Peterson K. Develop and Implement an Effective Code of Conduct. 21/12/16 <https://complianceandethics.org/develop-implement-effective-code-conduct/> (accessed 15/10/20)

77 Adam AM & D Rachman-Moore. The Methods Used to Implement an Ethical Code of Conduct and Employee Attitudes. Journal of Business Ethics 54 2004 pp225-244



We need more direct links between smallholders and end markets

its interactions with local communities near its mine sites. The tool provides managers with guidance and tools to develop strategies for enhancing the positive impact of their operations, while also mitigating any negative impacts. It was described by the Business and Human Rights Resource Centre as “a unique attempt by a major company to incorporate impact assessment into the ongoing management of major operations.”<sup>78</sup>

### Re-engineering supply chains

A fundamental challenge to the creation of durable smallholder commodity supply chains is that factors such as minimising environmental degradation and ensuring living incomes are not reflected in the global pricing process. The predominant model through which commodities are bought and sold is through commodities and derivative exchanges. Typically, buying companies want to ensure that they have access to a range of potential sources of supply so that they can respond better to market demand in different parts of the world. This leads to the development of long supply chains, with multiple intermediaries, and almost no link at all between farmers and end users. Therefore, in mainstream markets, a consignment of a commodity which has been produced sustainably is not seen as being more valuable than one which has not.

From the perspective of commodity supply chains the core conundrum is precisely the word ‘commodity’. International spot and futures commodity exchanges operate on the basis that they are trading

largely-undifferentiated commodities. Quality factors, and factors such as moisture levels are taken into account, but not issues related to sustainability. For example, a cocoa bean produced by farmers with living incomes, and which causes no environmental damage, is valued on exchanges exactly the same as one for which these issues have not been managed.

The problem is that sustainable production remains a fairly small proportion of total commodity supply. The 2018 State of Sustainable Markets<sup>79</sup> report demonstrates the scale of the challenge in shifting

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How do we embed sustainability into companies in the long term? Is there a consumer advantage? Probably not. But being able to trace right back to the farm gives you real visibility of your supply chain

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the global commodity trade towards valuing social and environmental factors in pricing decisions. Quite simply, there are still a great many buyers who simply see no value in these factors. The Sustainable Markets report shows that between 25-45% of coffee-producing land is certified, and between 22-37% of cocoa land. However, only around

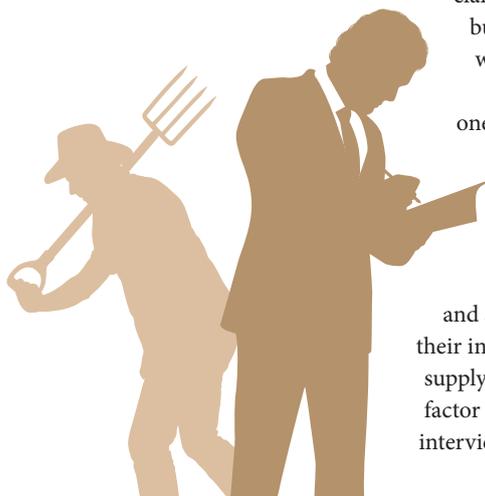
78 Business and Human Rights Resource Centre. Anglo American: Socio-Economic Assessment Toolbox 01/01/12 <https://www.business-humanrights.org/en/latest-news/anglo-american-socio-economic-assessment-toolbox-version-3/> (accessed 07/10/20)

79 International Trade Centre. The State of Sustainable Markets 2018. Statistics and emerging trends. International Trade Centre (ITC), International Institute for Sustainable (IISD), Research Institute of Organic Agriculture (FiBL), Geneva. 2018

10% of cotton comes from certified land, and less than 3% of soybeans. This means that many buyers – indeed the majority of buyers – do not attribute value to sustainability factors. This issue was mentioned by a number of those interviewed for this study. “We compete in an international market and so our products have to be competitive. Yet a lot of the companies we compete against do not make any sustainability

claims and are happy to buy on price alone,” was one comment.

As noted earlier, one of the key factors that keep smallholder farmers in poverty is their inability to invest in new approaches and so gradually improve their incomes. Longevity of supply contracts is a key factor in this. A number of interviewees related various



It is hard to avoid the conclusion that ‘traditional’ commodities markets are inconsistent with developing supply chains in which the interests of farmers and the environment are durably maintained

cases where, when provided with longer-term contracts – three years for example – farmers were able and willing to invest in their farms, and so improve their situation.

It is clear why international businesses use commodity exchanges – their manufacturing processes require visibility of supply from a range of different sources. However, the use of spot commodity exchanges runs entirely contrary to the need for longer-term contracts that should be a key part of the process of improving farmers’ lives.

Business models have been used – in some cases, very successfully so – which create a closer and clearer link between farmers and the end user. Nespresso is an example of this. This brand buys from a selected set of geographies and does so over a multi-year period, which means that farmers are able to invest in equipment and improved inputs. To shift other businesses to this type of model would be an enormous step, and take considerable time and effort. But it is hard, on the evidence of this study, to see how the current use of commodity markets is compatible

in the longer term with smallholder and environmental sustainability. It is hard to avoid the conclusion that ‘traditional’ commodities markets are inconsistent with developing supply chains in which the interests of farmers and the environment are durably maintained.

A shift in how supply chains operate would be significant, and require companies to re-think large parts of their business model. Any shift, therefore, can happen only over time. However, in some ways, the Covid crisis may work in favour of this change happening. Coronavirus made very clear how fragile modern, international supply chains are. There has been more discussion about ‘near-shoring’, and shortening supply chains in order to have greater visibility of supply. Changing how smallholder commodity supply chains operate might therefore fit with this new view of the world.

There is a caveat to a conclusion that re-engineering supply chains to make them shorter can be beneficial. This comes from the experience of smallholder producers of perishable agricultural goods such as fruit, vegetables and flowers selling into large supermarket chains. Whilst much shorter – smallholder farmers sometimes have direct relationships with the store groups – significant challenges can still arise in these relationships. A 2018 Oxfam campaign argued that large supermarkets were using their dominant position to impose unfair terms on their suppliers. In their view, supermarkets “dominate global food markets, allowing them to squeeze value from vast supply chains that span the globe, while at the bottom the bargaining power of small-scale farmers and workers has been steadily eroded in many of the countries from which they source”.<sup>80</sup>

Even in their relationships with farmers in developed countries, supermarkets are under fire. In 2019, British agriculture advocacy group, Sustain: The Alliance for Better Food and Farming published a report, Super Market Failures,<sup>81</sup> which strongly criticised the buying practices of large supermarket chains. Interviews for this report demonstrate that buyer behaviours can also have adverse impacts in emerging economies. For example, it was reported that some supermarket contracts oblige farmers to fulfil orders placed, and are subject to fines if they cannot meet those orders.

### Consumer behaviours

There is considerable concern about the perceived vagaries of consumers’ views and behaviours in relation to sustainability. As one interviewee put it: “We really can’t assume that consumers will pay more for sustainably produced products – most of the time they really don’t seem to care. Yet, sometimes, almost from nowhere, they can be whipped up into a frenzy and start boycotting products or stores.”

This uncertain position is reflected in studies of consumer behaviour. A study undertaken in 2014 concluded that, although in broad terms consumers expressed concerns about environmental and social impacts of the goods they purchased, this concern diminished considerably in relation to purchasing decisions about specific items. The authors

80 Willoughby R & T Gore. Ripe for Change: Ending human suffering in supermarket supply chains. Oxfam, London 21/06/18. [https://policy-practice.oxfam.org.uk/publications/ripe-for-change-ending-human-suffering-in-supermarket-supply-chains-620418?psid=ps\\_ggl\\_gr\\_Google+Grants+++Policy%26Practice+++DSA\\_Policy+%26+Practice&gclid=EAlalQobChMlkqrHoOng6wIVshoGAB1eyg9MEAAAYASAAEgLO7vD\\_BwE&gclid=aw.ds](https://policy-practice.oxfam.org.uk/publications/ripe-for-change-ending-human-suffering-in-supermarket-supply-chains-620418?psid=ps_ggl_gr_Google+Grants+++Policy%26Practice+++DSA_Policy+%26+Practice&gclid=EAlalQobChMlkqrHoOng6wIVshoGAB1eyg9MEAAAYASAAEgLO7vD_BwE&gclid=aw.ds) (accessed 17/11/20)

81 Sustain. A fair and transparent supply chain. [https://www.sustainweb.org/foodandfarmingpolicy/a\\_fair\\_and\\_transparent\\_supply\\_chain/](https://www.sustainweb.org/foodandfarmingpolicy/a_fair_and_transparent_supply_chain/) (accessed 18/11/20)

concluded that “sustainability labels currently do not play a major role in consumers’ food choices”.<sup>82</sup> A more recent study – published by RAND Corporation in August 2020<sup>83</sup> – suggests that the situation has not changed much. Although “sales of ethical and sustainable produce have increased” they represent “only 11% of all household food purchases”. Crucially, the key factor for UK consumers appears to be price: “People are less likely to pay for healthy, ethically produced or sustainable types of food if the price is perceived to be too high.”

If cost is one factor, a lack of understanding of exactly what sustainability labelling means appears to be another. A report in *The Grocer* magazine in 2018<sup>84</sup> concluded that consumers found the plethora of sustainability standards confusing, and were uncertain exactly what each meant in terms of environmental practice. This confusion is reflected also in a recent review of sustainability labelling in the apparel sector, which concluded that consumers “have an interest in environmental and social labelling; but they are not aware of brands that sell these types of garments nor their validity. It was also found that consumers may not have much knowledge regarding environmental, sustainable and social apparel or their meanings.”<sup>85</sup> As this report says, there is a need for brand companies and certification bodies to better educate consumers about the challenges that exist in supply chains, and what each certification standard means in terms of addressing these challenges.

### Covid-19

No report published in 2020 would be complete without at least a section considering the implications of coronavirus. From the interviews conducted for this study, it is very apparent that the pandemic has had significant impacts on many smallholder communities – “it has impacted on our work a lot”, was the response of one interviewee. In some cases, the drop-off in demand as a result of changing consumer behaviours in destination countries has resulted in some programme teams having to provide humanitarian support to the smallholders they work with.

For the longer term, as is the case in many areas, the implications of Covid-19 for smallholders remain unclear. It seems likely that the economic impact of the pandemic is likely to hit smallholders badly. For example, economic contraction in destination markets may lead to material drops in demand for products which use tropical agricultural commodities. If first world consumers are not commuting to their offices and not buying a coffee and chocolate muffin, what are the implications for smallholders who produce the raw materials which go into these products?

On the other hand, the implications of Covid-19 could be positive. As in an article published by Innovation Forum in April 2020, it has been a wake-up call about the fragility of modern supply chains. The article advised that, “if they are serious about helping prevent another Covid-19, companies have a clear set of four issues that they need to address: tackling deforestation; supporting host governments in the implementation of laws and regulations; addressing rural poverty; and tackling the plant pandemics which threaten the world’s food security”.<sup>86</sup> This imperative remains true.

However, at this stage, it is impossible to quantify the implications for smallholder supply chains of the Covid-19 pandemic. As one interviewee put it: “We are already dealing with political unrest and climate issues. We don’t know where things will go with Covid, but we need to acknowledge it will be a serious issue to deal with.”



# Only 11%

of all household food purchases are represented by ethical and sustainable produce, despite increased sales

82 Grunert K, S Hieke & J Wills. 'Sustainability labels on food products: Consumer motivation, understanding and use.' In *Food Policy*, Volume 44, 2014, pp 177-189,

83 d'Angelo, C, E Ryan Gloinson, A Draper & Susan Guthrie, *Food consumption in the UK: Trends, attitudes and drivers.*: RAND Corporation, Santa Monica, CA. 2020. [https://www.rand.org/pubs/research\\_reports/RR4379.html](https://www.rand.org/pubs/research_reports/RR4379.html) (accessed 18/11/20)

84 Tatum M. Will increased collaboration or competition help fix the problem of consumer confusion and trust issues? *The Grocer*, 21/09/18

85 Byrd, K. & J Su. 'Investigating consumer behaviour for environmental, sustainable and social apparel'. In *International Journal of Clothing Science and Technology*, Oct 2020.

86 Stanbury P & T Webb. Chaos and Covid-19: Business lessons from a pandemic. *Innovation Forum*, 09/04/20. <https://www.innovationforum.co.uk/articles/chaos-and-covid-19-business-lessons-from-a-pandemic> (accessed 17/11/20)

# A more sustainable future

The research to date has raised a number of key, inter-related issues which need to be addressed if we are genuinely to create durable smallholder supply chains

The central problem within smallholder communities is that farmers are trapped in a perpetual cycle of poverty. They produce just about enough to provide for their families, but not enough to invest in the processes and equipment that would allow them to make a significant change in their productivity and therefore their long-term earning potential. Their access to finance is limited as financial institutions mistrust them. In any case, loan structures are frequently not suited to farmers' needs. Where they exist, longer-term contracts are extremely valuable in giving farmers the confidence in the future that encourages them to invest, and because such contracts can be used as collateral. Such contracts are, however, far from being the norm.

Cooperatives can be transformational in addressing these and other challenges, but great care needs to be taken to ensure that such collaborative groups work effectively for all members. The issue of what to do about those farmers who are unable or unwilling to respond to new ways of doing things is also needs to be addressed if we are to avoid the very poor being left behind.

## Can smallholders ever be sustainable?

Underlying all of this is the fundamental challenge about whether smallholder farming can ever be truly sustainable. In late 2019, Wageningen University produced a white paper on living incomes in

## Are we romanticising smallholder farming? Will it ever be possible for a family to sustainably earn a living income from two hectares or less?

smallholder commodity farming. What they concluded was brutally clear. "Interventions in cocoa, tea, coffee and oil palm sectors generally have resulted neither in lifting smallholder farmers out of poverty nor in forest and biodiversity protection."<sup>87</sup> According to their figures, only a minority of smallholder commodity farmers earn, or even could earn, a living income from primary commodity production. For more than 50% of the cocoa and tea farmers in their datasets, household incomes



Without systemic change, most smallholders will remain poor

would need to double in order for them to earn a living income.

A report into the coffee market published in early 2020 by the Dutch sustainable trade initiative IDH<sup>88</sup> concluded something similar. They developed a typology of coffee farmer types, of whom 70% sit in archetype 1 – conventional – defined as “coffee sold in ground blend ... traded in long value chains via middlemen”. In IDH’s view growers in this group “face an insurmountable living income gap that cannot be solved with technical assistance and price support alone”. Even for those farmers (a further 20% of the total) who form archetype 2, “the living income gap could be narrowed...” but not necessarily closed, or narrowed straightforwardly. Their conclusion was that “sustainable sourcing and pricing practices alone are insufficient for resolving the systemic issues of the coffee sector.”

An inescapable factor in the on-going challenge of low farmer incomes is that many smallholder farms are simply too small ever to be financially viable. According to UNCTAD, 84% of the world’s 570 million farms are less than two hectares in size, and in many cases much smaller even than that. This land size is simply too small to enable enough to be grown to provide for a family, or to provide excess income that can be invested in the sorts of practices and equipment needed to substantially improve levels of productivity. Indeed, the IDH report cited above made amply clear that the reason that some farmers are able to earn a living income is “primarily a result of the considerably larger farm size”.

87 Waarts Y et al. A living income for smallholder commodity farmers and protected forests and biodiversity: how can the private and public sectors contribute? Wageningen University and Research. November 2019

88 Task Force of Coffee Living Income. A fact-based exploration of the income gap to develop effective sourcing and pricing strategies that close the gap. IDH, Amsterdam. 2020

**Figure 2: Spread of average farm size globally, in hectares<sup>89</sup>**

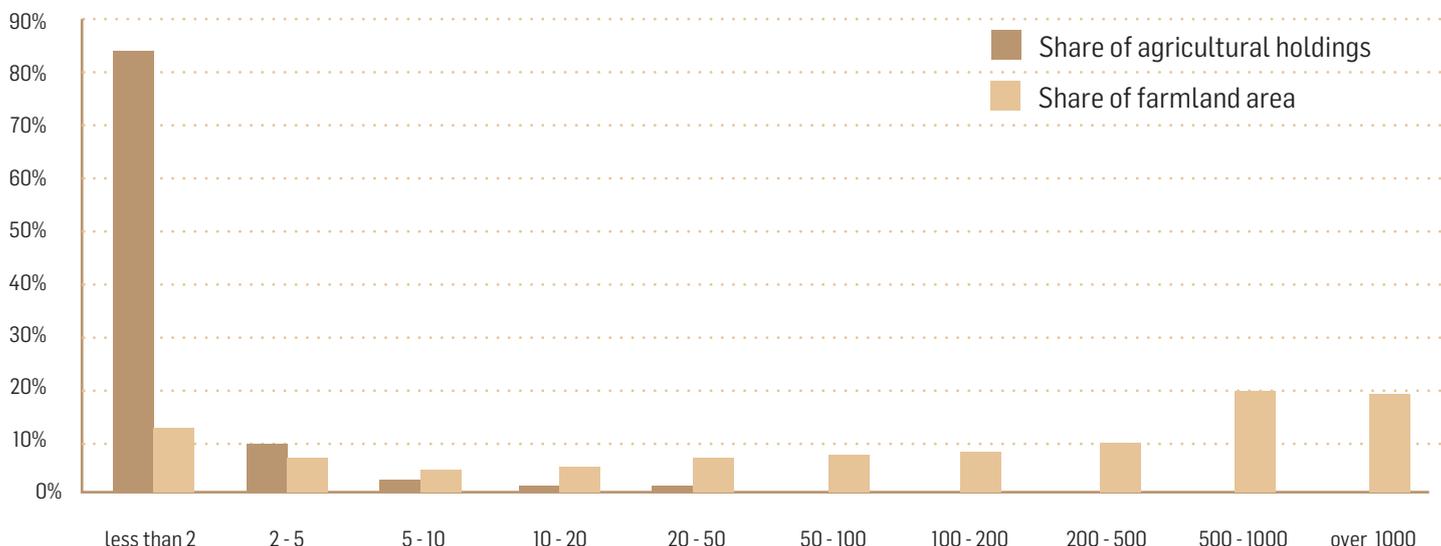


Figure 2 demonstrates the challenge – the vast majority of farms globally are less than two hectares in size. The fundamental challenge of small size was reflected also in the interviews for this study, with many arguing for the need for the rural agricultural economy to evolve into one with fewer, larger farms. As one interviewee said: “There are many times that we work with farmers to eke out every possible improvement, but at the end of the day, it’s still not enough to make their farm viable.”

Moving away from the current structures of smallholder farming would be a considerable challenge and require the addressing of issues such as land tenure, changes in societal power structures and employment creation. However, as a report from the Global Agribusiness Alliance<sup>90</sup> demonstrates, work is being done at least to conceptualise what a new rural agricultural economy might look like.

**From projects to systemic change**

There are an estimated 450 million smallholder farmers in the world, yet current sustainability efforts reach only a tiny proportion of these. Perhaps unsurprisingly, most attention has been paid to those parts of smallholder supply chains that are the most obvious and public. Commodities which are more obvious in end products seem to have attracted more attention than those less visible. It is estimated that between a quarter and a third of the world’s coffee and cocoa are certified. This drops to low single digits for the amount of certified production for less-visible products such as sugar cane and soy.

Moreover, as the discussion over the ‘farm gate to port’ issues make clear, there are large parts of the supply chain that have been paid very little attention at all. Farming communities are the almost sole focus of initiatives to date, as demonstrated by the considerable efforts made to

calculate living incomes for farmers. Little attention has been paid, for example, to the pay and conditions of those transporting commodities from farms to buyers. The downstream tail of smallholder supply chains has been largely neglected so far, but needs attention as those working here are as important to creating sustainability as are the farmers themselves.

The key question raised by many of those interviewed, therefore, is how existing initiatives achieve real scale. At the moment, what exists is, in effect, a series of projects in various communities around the world. A number of people spoke of the importance of countries’ extension workers as a way of achieving scale, and a few examples of train-the-trainers approaches to do this were cited. However, as has been made clear, these services are often problematic. Nevertheless, a key issue to be addressed by those working to create durable smallholder supply chains is how the existing project-based model can develop into something more systemic and thus achieve scalability.

**Collaborate, collaborate, collaborate**

Innovation Forum has written before about what we have called collaborative development governance (CDG). Whilst not an elegant term, what we were advocating by it was much greater join-up between different actors working, in this case, to address smallholder supply chains. This research has clearly demonstrated two things. Firstly, that this sort of cross-sectoral collaboration is not happening nearly enough; and secondly, that a much more joined up approach is absolutely necessary.

One of the comments made at Innovation Forum’s 2019 landscapes conference, which was in part responsible for the establishment of this working group, was that current efforts in relation to smallholder supply chains “takes place in silos. It’s like we are all part of the same Venn

89 Lowder SK, J Scoet & T Raney. ‘The number, size and distribution of farms, smallholder farms and family farms worldwide.’ In World Development. Vol 87, pp16-29. Nov 2016

90 IIED & University of Sussex. Evolving rural livelihoods and the role of agri-business. GAA, Geneva 2018



A Kenyan farmer checking her coffee crop

diagram, but none of the circles are intersecting.” The research for this project has demonstrated just how true this statement is. Collaboration between projects on the ground seems sporadic at best, and the linkage between projects and host country governments is patchy.

However, if this study has again demonstrated the importance of cooperation throughout supply chains, it has also identified where some of the key pinch points are. There needs to be greater collaboration between different projects on the ground, and for these to be more efficient in the use of resources, to be able to reach more farmers and to avoid duplication. There is a need for greater collaboration with host governments at different levels, from closer partnership with local extension services, to working at a policy level to ensure that origin countries have an effective, resourced structure for their support to farming communities. Internationally, governments of the countries where smallholder commodities are largely consumed need to collaborate both with origin governments to support their work with farming communities. Partnership is needed between projects undertaken by international development agencies, and those of corporate and NGO actors.

Yet despite repeated exhortations to greater levels of partnership between those working on smallholder supply chains, and the clear need for it, such collaborations remain elusive. The trouble often seems to be that different stakeholders, even if willing in principle to cooperate, actually have different ways of doing things and different interests, and these are not always properly explored. ‘Partnership’ is routinely advocated, but rarely with any depth of analysis of those partners interests and approaches, and how these differences might be taken into account in how a partnership might work in practice.

### **Sustainability is (currently) unsustainable**

It is hard to see how the current model used to achieve smallholder farmer sustainability is itself sustainable. This is for a number of reasons.

Firstly, current approaches remain largely separate from mainstream business functions. Though sustainability departments have increasingly more influence, until issues of social and environmental harm are properly integrated across whole

organisations, they will remain important but tangential.

Secondly, existing initiatives are inefficient because they are not properly joined-up, even within individual organisations. One example was given of a company’s coffee project support to farmers encouraging them to intercrop with peppers. Yet no mechanism existed to alert those in the same company who were looking to source sustainably-produced pepper that this supply existed. There is no mechanism to match sustainably-produced supply with sustainability-seeking

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What we're doing at the moment isn't joined up between different categories. That's inefficient, and wastes resources. In a commercial organisation, that's not sustainable

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demand. As a result considerable resources are being wasted.

The project-based approach and the lack of join-up between these programmes that was mentioned above is a further reason why current structures are unsustainable. Commodity-specific programmes may work well in supporting farmers on coffee, cocoa or whatever, but do not generally seek link ups with programmes working with farmers on other commodities. At some point, projects need to come to an end. If this is to happen without things returning to how they were before, they need to be bedded into local structures and systems.

However, smallholder sustainability projects are pushing into the headwind of ‘business as usual’. The prevailing paradigm of commodity trade does not, in general, accord value to products which have no, or lower, adverse social and environmental impacts. This means that those who do perceive this value will tend to be at a market disadvantage. Global, diversified supply chains make complete sense from the perspective of reducing supply risk, but are at odds with the need, from a sustainability perspective, to have closer and longer-term relationships with suppliers.

# Summary of key lessons learned

## A number of key points have emerged from our research

The central aim of this project was to share lessons learned across different supply chains. Research for this paper has looked at the experience of those working in a diverse range of commodities including dairy, cotton, vegetables, maize, groundnut, cocoa, oil palm, spices, coffee, soy and wheat.

The key lessons derived from this range of supply chains can be summarised as follows.

### Farming communities

When it comes to farming communities themselves, we actually know a great deal, and there exist many examples of good practice. What is also clear is that there is a great deal of commonality about ‘what works’ across different commodity supply chains.

- Farmers need education on better agronomic practice. Typically, this includes support around planting cycles, use of improved seeds or plants, and expertise in proper use of fertilisers, pesticides and other inputs.
- Farming families often need to diversify what they do, perhaps to include other crops, or livestock rearing, or even wage-paying work off the farm. This reduces a family’s reliance on a single source of income.
- There is a need for farmers to get improved access to market. Small farmers can often be poorly informed about real prices, and their relatively-small levels of production mean that they will often sell to intermediary traders who will offer prices below real market value.
- Also key is for smallholders to gain better access to finance. They are often regarded by financial institutions as a poor credit risk and, in any case, loans are not usually structured in a way which fits with farmers’ income flow and cost structures.
- Cooperatives or similar collective groups are an excellent means to address all of the issues listed above. They provide farmers with a critical mass, which facilitates everything from education programmes to aggregation of production to access to finance.
- However, cooperatives are not a magic bullet, and can sometimes work to the benefit of the few rather than the many. Governance, therefore, is key, and needs to be carefully monitored over time.
- Understanding the social and political context in which farmers operate is key. Even if the needs are similar, how solutions are introduced needs to pay careful attention to local power structures, gender and government provision.
- Smallholders and their communities benefit from both knowledge of their rights and the means to access them. This will include reduction of bureaucracy and corruption, and access to information and logistics to streamline their supply flow and improve margins.



Livestock rearing is often used to diversify household income

### Beyond the farm

- There are many more gaps in our knowledge of what happens in supply chains after goods leave the farm gate. Attention in almost all commodities has been focused almost exclusively on smallholders themselves, not further downstream to other key actors whose interests and welfare are as important to the development of sustainable supply chains as those of farming families.
- Insufficient attention is paid to key groups that are known to exist, but about whose income and welfare little is known. Examples include drivers and others involved in transporting goods, and employees in horticulture packing.
- This lack of insight means that it is not possible to evaluate properly a number of key issues. Firstly, what proportion of the export price of goods should properly be apportioned to this phase of the value chain? Secondly, how can we be sure that proposed solutions, such as the Living Income Differential, will be effective when key issues required for its success are not properly understood?

### Origin countries

- Host country farm extension services should be the main support structure to smallholder farmers, yet are often under-resourced or lack motivation. Nevertheless, these services will be a vital tool if current projects to support smallholder farmers are ever to come to scale. Much more work needs to be done to understand, in each country case, how extension services can be made properly effective.
- In many cases, the policy and regulatory framework affecting smallholder supply chains is confused. Regulations may be in place, but not properly enforced, which can place the onus on multinational companies to act where government has failed.
- Too often, analyses of the situation in origin countries are too simplistic and poorly researched. There is a need to dig much more deeply in to why any given country faces challenges and to develop solutions based on that better understanding. The problem is that

this often means engaging with issues that companies, NGOs and others find difficult, such as corruption, inter-community tensions and governance.

### Destination countries

- Agriculture is a key focus of many of the development agencies of those countries where smallholder commodities are used. Often these projects address similar issues to those on which company and NGO activities focus. Yet, at present, there is not usually much link up between these different activities. At best this is a waste of resources, when collaboration could enable greater reach. At worst, there is a risk that farmers are confused by a multiplicity of interventions. Greater dialogue and cooperation between development agency interventions and projects run by companies and others would be extremely valuable.
- The architecture for international development established at the 2011 Busan conference<sup>91</sup> provides a potential structure to bring together corporate and state actors to collaborate more closely on issues such as smallholder supply chains. More needs to be done to leverage this.
- Initiatives such as the current work being done by the EU, Côte d'Ivoire and Ghana to address smallholder incomes are welcome. However, if developed countries are serious about these issues, then they need to address their tariff regimes. These are currently a major impediment to the expansion of processing of agricultural goods in origin countries, and so the generation of wealth which could substantially improve the incomes and conditions of those in smallholder supply chains.

### Supply chain structures

- If companies are serious about commitments around smallholder supply chains and reductions in carbon, then sustainability needs to be part of everyone's job, not just 'the sustainability department'. In relation to smallholder supply chains, this means, for example, that benchmarks regarding living incomes and environmental impacts need to be a mandatory element in the remuneration KPIs for all procurement staff.
- In the long run, it is not easy to see how the use of existing spot and futures commodity markets can be compatible with sustainability issues in smallholder supply chains. A key factor in smallholders being able to improve their position is for them to have visibility of income over a number of years. This requires longer-term contracts with farmers, and co-investment by buying firms. These things are incompatible with commodity exchanges that do not accord

additional value to agricultural goods produced in ways that have not caused environmental damage, and in which those in the value chain have earned at least a living income.

- Over time, therefore, the creation of genuinely-durable smallholder supply chains seems likely to require supply chains becoming shorter, and in which there is a closer relationship between farmers and the end buyer. This will be a significant shift, which will only happen over time. Lessons from the Covid-19 pandemic, however, might help make this shift more acceptable.

### Issues arising

- Smallholder farmers are caught in a perpetual poverty trap.
- The reality at the moment is that work with smallholder farmers is still based on a series of discrete projects, and is not joined up. A key challenge is how to reach scale. This will require greater collaboration between existing initiatives (which the Innovation Forum project is intended to foster), and in particular with host government extension services.
- It has become an often-repeated mantra that more collaboration is needed to effect change in smallholder supply chains. Yet collaboration remains rare. This is because too little work has been put into understanding the real motivations of those being asked to collaborate. Being more specific, and looking for particular geographies and topics in which different stakeholders can collaborate, is likely to be more successful, rather than talking about the need for cooperating in the abstract.
- At present, sustainability is not sustainable. Activities are typically undertaken on a commodity-specific basis, and so overlaps and efficiencies are missed. This can be even at the basic level of visibility of what sustainably-produced goods are available, and where nothing systematic exists. Moreover, the link to the mainstream of business operations remains fragile.



Attention in almost all commodities has been focused almost exclusively on smallholders themselves, not further downstream to other key actors whose interests and welfare are as important to the development of sustainable supply chains as those of farming families

91 OECD. Fourth High Level Forum on Aid Effectiveness. <https://www.oecd.org/dac/effectiveness/fourthhighlevelforumonaideffectiveness.htm> (accessed 30/11/20)

## Next steps

**The challenges for smallholder farmers should be viewed within their wider context, both locally and internationally**

This report was intended to share the knowledge and insights from the different working group members. However, it is also meant to be used to scope the next stage of work, which is to examine smallholder supply chains in specific geographic areas. Necessarily, the findings in this report are generalised, and are drawn from the experiences and insights of individuals working in many different places. What we intend to do next is to examine in more granular detail the themes which the process to date has brought to light.



The 'local landscape'

### Options for collaboration

The research for this report has demonstrated clearly the lack of join-up between different initiatives working with smallholder farmers. Even sustainability initiatives within companies do not appear to be well networked with each other. Interviews identified a number of examples of this, and the lost opportunities that result. In one case, a company's cocoa project had brought agronomists into an area to work with farmers. As is often the case, these farmers grew other crops and wanted support on these crops as well. However, this support was refused because the agronomists were being paid for by the cocoa sustainability programme. Another example is a company that deals only in one product, yet for good reasons works with its farmers to grow other crops as a means of income diversification. Yet the sponsoring company had no interest in these additional crops, and had no means to find other companies that might be interested in buying sustainably produced goods. In a third example, a company working with coffee growers had encouraged intercropping with pepper. This company also buys sustainable pepper, yet no internal mechanism exists to bring the two sides together.

A key aim of the next phase of this project, therefore, needs to be to identify all smallholder sustainability projects that are underway in the selected geographies. Even though practical considerations are likely to make formal collaboration an aim for the slightly longer-term, even a process of mapping initiatives that work in the same areas might allow some sharing of experience; avoidance of duplication, for example, of



Harvesting corn, Santa Catarina, Brazil

farmer training; and, perhaps an opportunity to examine the potential for closer cooperation.

In the longer term, there may be a strong rationale to move beyond only those companies working in agricultural supply chains, but to collaborate also with those operating in different sectors. A 2018 study by the Global Agribusiness Alliance, for example, examined the potential for agriculture companies to collaborate with the mining sector. As the study argued: "Both sectors play an important role in generating sustainable rural livelihoods. Extractives represent more than 50% of national exports in 16 developing and emerging countries and agriculture contributes around 30% of the GDP in many low-income countries."<sup>92</sup>

### The political economy at local level

This research project was predicated on the idea that it is important to understand the challenges facing smallholder farmers within their wider context: the so-called landscapes approach. A clear finding of this report is to confirm that, indeed, it is vital to understand local socio-political realities at the local level. Many of those interviewed stressed the need for their projects to respect indigenous governance processes and structures, as a part of which the hiring of local staff is of key importance.

A further aim of the next phase of this project, therefore, ought to be to formalise this understanding, which, at present, is likely to exist in the minds of local staff, rather than expressed and shared more widely. By making explicit that which is currently largely implicit, and by sharing the insights of a number of different project teams in

92 Global Agribusiness Alliance. A shared role in poverty alleviation and land stewardship. GAA, Geneva. 2018v



We understand too little about income levels or health and safety for those workers in the supply chain between farm and port

a given area, it may be possible to develop a shared understanding of local realities. This might then provide a basis for understanding how existing project work might be scaled up in ways that would work given the local realities.

A specific factor to be explored within these political economy analyses is the situation of local extension services. As has been stated elsewhere in this report, government-provided extension workers should be the main vehicle for farmer education, but frequently are not. A number of reasons have been identified for why this might be – lack of incentives, poor resourcing and so on. But what are the specific issues in the geographies that we select? Is the extension service effective? In which case how can it be better used? Or is it deficient in various regards, in which case what might be done to help improve it over time?

### Beyond the farm

The vast majority of the work to date to address smallholder supply chains has focused on farming communities themselves. Whilst we have some insights into what goes on between goods leaving the farm and when they arrive at a port, our understanding of this part of the supply chain is, at best, patchy. Even were it possible to eliminate social and environmental harm at the farm level, supply chains would still remain unsustainable if harm exists off the farm.

Selecting specific geographies to examine will mean that we can look in more detail at the ‘farm gate to port’ part of the chain and gain more insight about what potential challenges exist, and how these might be addressed.

### Government engagement

It is clear that, at some point, company- or NGO-led smallholder farming initiatives need to engage with host governments. This report has identified a number of key issues which might make that engagement difficult but, as with the other aspects of the next stage of work, it will be important that, as we start to look at specific regions, we examine the country-level political economy challenges.

Again, at this stage, the aim is limited. It is too early to mandate what ought to be done, but at an initial assessment needs to be made of the challenges facing host governments in relation to their farming policies and engagement.



### The ‘international landscape’

This research project – and indeed the concept of landscapes/ jurisdictional approaches as they are currently conceived – began with the idea that a key step in moving towards durable smallholder commodity supply chains would be to look at the context in which those farmers live. However, what has become apparent through our research is that understanding and seeking to alter this ‘local landscape’ is not sufficient. If smallholder-based supply chains are to become genuinely sustainable, then change is needed, too, in other spaces, many of which are geographically distant from farming communities themselves.

### The need for significant systemic change

Much of the change that is needed is systemic on a vast scale. Over time, if sustainability issues are to be genuinely sustainable, then many of the ways of doing business that have become normal will have to change. The very core of sustainability is to attribute value to the concept that a crop is produced without adverse social or environmental consequences. Yet, at present, international markets do not recognise that additional value: a ‘commodity’ is the same no matter what negative externalities might have accompanied its production.

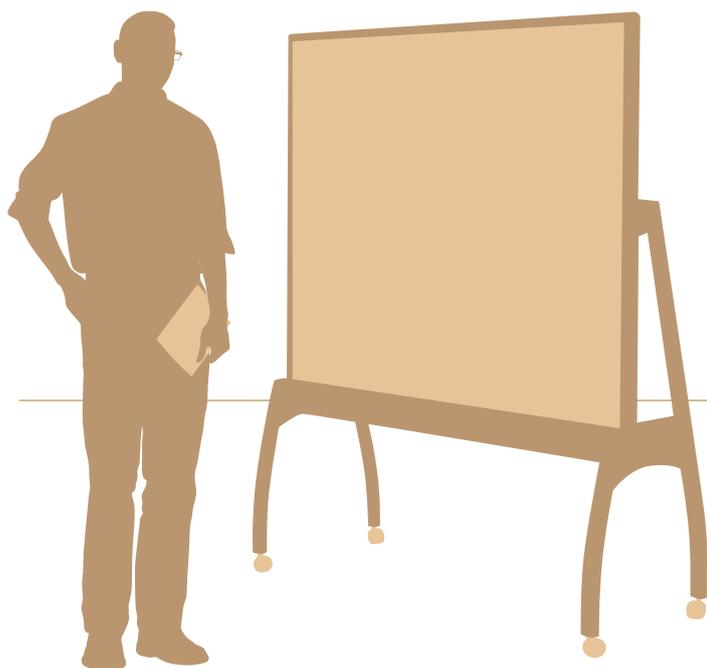
The relatively-low proportion of certified products that exists

suggests that many commodity buyers remain indifferent to sustainability concerns. These markets are unlikely to change. It is hard, therefore, to avoid the conclusion that spot and forward commodity markets are fundamentally antithetic to the idea of sustainability, and that therefore companies serious about their sustainability commitments will need, over time, to shift fundamentally how they procure their raw materials.

However, for the purposes of this report, macro-level observations like this are not helpful. 'Change everything' is not an actionable recommendation to make, even though it may be true. What steps might be taken which will be doable, yet meaningful in shifting the dial on current practice and norms?

### A 'sustainable goods marketplace'

Even from the relatively small research process we have undertaken so far, it is clear that there are a great deal of inefficiencies in the production and marketing of sustainably-produced goods. Even within individual companies (albeit very large ones) there seems to be no



internal mapping what sustainably-produced commodities are produced, and where. Examples abound of situations in which farmers being supported on one crop, perhaps coffee or cocoa, who are encouraged – for reasons of income diversification or for agronomic reasons – to produce other goods. Yet there is rarely a link for these other goods to buyers of those crops, which are, of course presumably also sustainably produced.

If this is the case even within individual companies, then how much more inefficiencies will exist across the entire smallholder sustainability 'industry'. There is no effective mechanism – or indeed any mechanism at all – to bring sellers of sustainably-produced goods together with buyers of them. Self-evidently, this is highly inefficient, and means that many resources and much effort is going to waste.

As has been observed earlier, the fundamental challenge of mainstream commodity markets is that issues of social and environmental sustainability are not attributed value. Over time, therefore, it would seem relevant to seek to develop a parallel market for sustainable commodities.

A first step towards this would be to map existing production of sustainable commodities. The proposed mapping of different initiatives in the localities that this process examines will be a good starting point for this as we will get at least some insights into the different commodities produced in each place.

A next step would be for the members of the action-research working group to map their own sustainable production. What goods are produced, where, and in what quantity. Ideally, over time this might reveal new markets to those whose projects are producing sustainable commodities; and those with a demand for these commodities may find new suppliers.

Too often, analyses of the situation in origin countries are too simplistic and poorly researched. There is a need to dig much more deeply in to why any given country faces challenges and to develop solutions based on that better understanding

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# About the research coalition



## Clinton Development Initiative

Building on a lifetime of public service, President Clinton established the Clinton Foundation on the simple belief that everyone deserves a chance to succeed, everyone has a responsibility to act, and we all do better when we work together. For nearly two decades, those values have energised the work of the foundation in overcoming complex challenges and improving the lives of people across the United States and around the world.

As an operating foundation, it works on issues directly or with strategic partners from the business, government, and nonprofit sectors to create economic opportunity, improve public health, and inspire civic engagement and service. Its programmes are designed to make a real difference today while serving as proven models for tomorrow. The goal of every effort is to use available resources to get better results faster – at the lowest possible cost.

The initiative firmly believes that when diverse groups of people bring resources together in the spirit of true cooperation, transformative ideas will emerge to drive life-changing action.



## COLEACP

COLEACP is an association of companies and experts committed to sustainable agriculture. Its mission is to develop inclusive, sustainable trade in fruit and vegetables and other food products, focusing on how African, Caribbean and Pacific (ACP) countries trade with one another and with the European Union. COLEACP operates through strategic collaborations that form the basis of its ongoing support to the agri-food sector in ACP countries.

COLEACP's vision is that ongoing changes in the global agri-food model will require continuous capacity building and training for current and future generations of producers, entrepreneurs, consultants, technicians and all economic actors in the agricultural and food system. This means moving forward and growing sustainably by giving companies and people the means to flourish while respecting the environment and the humanity of each individual. It means continuously capitalising on and disseminating COLEACP's knowledge, know-how and specialised expertise, acquired over the years in all areas of the fruit and vegetable sector, to contribute to a profound transformation of agriculture that meets the needs of food security, ecosystem conservation and economic growth.



## CottonConnect

CottonConnect is an enterprise with a social mission to re-imagine the future for supply chains. Since its creation in 2009, CottonConnect has worked with more than 20 global brands and retailers, and over 560,000 farmers in India, Pakistan, China, Egypt and Peru, contributing to a wider benefit for over a million people in cotton farming communities.

CottonConnect works with global brands and retailers to help them source more fairly and sustainably, providing visibility and understanding of the textile producers and raw material farmers. Brands are connected with farmers enrolled in sustainable agriculture training programmes such as REEL Cotton, BCI and organic, and can feed the raw materials produced directly into their products through transparent and traceable supply chains. CottonConnect's programmes, including the REEL Cotton programme, Farmer Business School, and Women in Cotton, have achieved proven results in reducing the environmental impact of raw material production, and improving livelihoods of workers and their communities. The Market Linkages programme has driven accountability and connectivity upstream in the supply chain. This holistic approach supports the building of a more resilient future.



Deutsche Gesellschaft  
für Internationale  
Zusammenarbeit (GIZ) GmbH

## GIZ

GIZ is a German development agency headquartered in Bonn and Eschborn. The organisation mainly implements technical cooperation projects of the Federal Ministry for Economic Cooperation and Development (BMZ). However, it also works with the private sector and other national and supranational government organisations.

The Sustainable Agricultural Supply Chains Initiative (INA) is an association of 70 or so stakeholders from the private sector, civil society and politics. Together they aim to achieve more sustainability in global agricultural supply chains and improve the living conditions of small farmers. The INA takes a cross-resource approach. As part of GIZ's Sustainable Supply Chains and Standards programme it works closely with colleagues who have many years of expertise in individual raw materials. Also through close exchanges with commodity-specific multi-actor partnerships, INA creates synergies to effectively combat deforestation and low wages and incomes. The focus of INA's work is on deforestation-free supply chains and living incomes for farmer households.



## Golden Agri-Resources

GAR is the world's second largest palm-based agribusinesses. It manages nearly half a million hectares of palm oil plantations, including smallholder farmers, across Indonesia. GAR's vertically integrated business works from seeds to shelf, with refining capacity meaning it can produce specialty fats, oleochemicals and biodiesel to feed and fuel the world.

Sustainability is an essential part of the business principally guided by the GAR social and environmental policy (GSEP). This is shared with employees, smallholders, suppliers, and customers and is the driver behind GAR's vision of a sustainable palm oil industry.

GAR sees farming palm oil as an effective way to create jobs and alleviate poverty, providing opportunities for communities to secure better livelihoods. As one of the largest plantation companies in Indonesia, operating largely in rural and remote areas, GAR not only plays an active role in the well-being of employees, but also in the wider communities where it operates.



## Nestlé

Nestlé is the world's largest food and beverage company. It is present in 187 countries around the world, and its 291,000 employees are committed to Nestlé's purpose of enhancing quality of life and contributing to a healthier future.

Nestlé offers a wide portfolio of products and services for people and their pets throughout their lives. Its more than 2,000 brands range from global icons like Nescafé or Nespresso to local favourites like Ninho.

Company performance is driven by its nutrition, health and wellness strategy. Nestlé is based in the Swiss town of Vevey where it was founded more than 150 years ago.