



State of
Sustainability
Initiatives

Smallholder Farmers And Enabling Their Access to Sustainable Markets

Commentary Report

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Smallholders and Sustainable Markets

How smallholder farmers are defined varies greatly across countries and regions since their categorization can depend on a variety of factors such as living standards, land ownership, agricultural activity and production scale, access to assets and resources, and share of family labour. Smallholdings may vary from 0.5 to 500 hectares in Australia while the Food and Agricultural Organization (FAO) categorizes farms under 2 hectares as small (Mass Wolfenson, 2013).

Smallholder farmers are vital for transitioning to more sustainable forms of agriculture. Improving their participation in sustainable agricultural supply chains represents a significant opportunity that could lead to substantial benefits, such as poverty reduction, gender equity and a healthier environment.

FAO highlights the importance of smallholder farmers for enabling a transition to a more sustainable society, since resilient and equitable food systems underpinned by sustainable agriculture are essential to tackling poverty and environmental issues (FAO, 2014b). Sustainable agriculture is characterized by: 1) a greater adoption of agro-ecological farming practices; 2) an equitable distribution of costs and benefits among supply chain stakeholders; and 3) the involvement of all actors in governance systems (United Nations Forum on Sustainability Standards, 2010).

The Importance of Smallholders

Although smallholder farming plays a significant role in global agricultural production and sustaining rural livelihoods, smallholder producers often live in poverty and struggle to access or participate more equitably in sustainable agricultural supply chains (Loconto, 2014; Potts et al., 2014). Thus, increasing smallholder participation in sustainable markets is an important sustainable development opportunity.

Depending on context and circumstance, agricultural voluntary sustainability standards (VSS) can be barriers or catalysts for smallholder access to sustainable markets (Loconto, 2013). VSS-compliant agricultural production requirements can be costly, and smallholders may not have the means to make the necessary initial and ongoing investments. On the other hand, those who can afford it often benefit from extension services, access to markets and more financial stability (Loconto, 2013). This commentary touches on the opportunities and challenges for smallholders to access markets via their participation in VSS.

VSSs and Smallholders

The challenges and opportunities for smallholder participation in VSS depend significantly on individual contexts. Although there is currently no generalizable evidence that agricultural VSSs unfailingly benefit smallholders in the form of enhanced yields, farm gate sales, reputation and improved capacities, their adoption and implementation often require additional

FACTS ABOUT SMALLHOLDERS

- There are over 470 million smallholder farms covering up to 2 hectares each, accounting for 84 per cent of the world's farms and covering only 12 per cent of global agricultural land (FAO, 2014b).
- The majority (95 per cent) of farms are smaller than 5 hectares, occupying 75 per cent of all farmland in low-income countries and 50 per cent in lower-middle income countries (FAO, 2014b).
- In Africa, smallholders farm up to 60 per cent of all agricultural land (International Finance Corporation, 2013).
- In many cases, doing agribusiness with smallholders is a necessity (International Finance Corporation, 2013).
- Approximately 370 million (72 per cent) of family farms are smallholder farms operating on less than 1 hectare (FAO, 2014a).
- Smallholders are often disadvantaged, and rural poverty accounts for about 75 per cent of world poverty (Maybeck & Redfern, 2014).
- Coffee production is dominated by smallholders, who produce around 70 per cent of certified coffee worldwide (Potts et al., 2014; Potts, van der Meer, & Daitchmna, 2010).
- 90 to 95 per cent of cocoa production comes from smallholders on 3 hectares of land or less (Potts et al., 2014).

resources and investments in the form of training, new cultivation and business processes, and required infrastructure (Loconto, 2014). Smallholders often do not have the resources or capacities to comply with VSS requirements, which can exclude them from sustainable markets (Maass Wolfenson, 2013; Belton, Hague, Little, & Sinh, 2011; Busch & Carmen, 2004). For instance, compliance with VSS can be related to farm size and assets (Loconto, 2014).

This outcome is, perhaps not entirely surprising, given the natural inclination of the market to seek lowest cost sources of production. To the extent that larger farms may be able to demonstrate compliance with international standards at a lower per unit cost than smallholder farmers, the market for certified products may actually self-select for larger farms thus resulting in a form of the "Sustainability Standards Paradox" (Potts et al., 2014).

Numerous institutional factors can influence smallholder participation in VSS and their markets such as buyer and trader financial support; non-governmental organizations' (NGOs') sustainability projects; farmers' organizational arrangements (e.g., cooperatives, associations and outgrower schemes); and government engagement through green public procurement, agricultural extension services, farm cooperative and association legislation, infrastructure development and trade policies (Loconto, 2014).

The Inclusion of Smallholders

There are numerous opportunities to improve smallholder participation in VSS. Many organizations are actively working to improve their accessibility to smallholders. In some cases, smallholders have proactively taken steps to enhance access to VSS and sustainable markets. NGOs such as the Sustainable Commodity Action Network are undertaking capacity building efforts for smallholders such as technical assistance and business management (Sustainable Commodity Assistance Network, 2016). Institutions can introduce policies and infrastructure that facilitate smallholder access to VSS. The ISEAL

Did you know?

Farmer cooperatives enable smallholder access to VSS and sustainable markets by providing economies of scale. A larger number of farmers can share costs and resources. For this reason, they are conducive for managing and implementing VSS programs and reducing overall transaction costs via collective processes. They also have more bargaining power, enabling access to markets and credits.

Alliance has been working with its VSS members to improve smallholder accessibility (ISEAL Alliance, 2014). For instance, harmonizing VSS processes can help smallholders comply with different schemes. Some VSSs have developed standards specifically for smallholders, while others have established funds to

Figure 3- Benefits, challenges, opportunities and needs for smallholders' adoption of VSS schemes



Sources: Loconto (2014); Meybeck & Redfern (2014); Aidenvironment (2013); Luijk (2011)

assist smallholders overcome the financial barriers that may exist in meeting VSS compliance. For instance, Fairtrade was arguably the first VSS working on assisting smallholder farmers by providing them with fair wages for their harvest in the form of minimum returns and premiums which has protected them from commodity price volatility (Fairtrade, 2011). By being the first VSS to focus on smallholders, they paved the way for other VSS to do the same. The Roundtable on Sustainable Palm Oil established a smallholder fund, worth MYR 11.5 million as of 2014, to support the adoption of sustainable palm oil farming practices aligned with their scheme (State of Sustainability Initiatives, 2014).

The Roundtable for Sustainable Biomaterials recently adopted a standard for the “production of biomass feedstock by smallholders and for micro and small-scale feedstock processing and biomass production” (Roundtable for Sustainable Biomaterials, n.d.). The standard, which has a flexible smallholder definition, is designed for farmers with less than 75 hectares of land and revolves around four main compliance requirements for groups and members: 1) “awareness raising and support activities” for the group members on the RSB scheme requirements; 2) “compliance at

group management level” refers to management and functioning requirements that the group should have in place (e.g., conformity with relevant laws, regulations and labour rights); 3) “compliance at overall farm management” relates to the agricultural practices of a group member implemented within the entire farm; and 4) “compliance at biomass production plot” refers to practices implemented by a group member within the biomass production plot included in the scope of certification. The RSB smallholder standard also specifies that they are exempt from Principle 5 - Rural and Social Development since they may be direct beneficiaries of the socioeconomic development they achieve (Roundtable for Sustainable Biomaterials, n.d.).

Smallholders organized in groups can take advantage of economies of scale by sharing VSS adoption and compliance costs (Hansen & Trifković, 2014). Capacity-building projects focused on better agricultural practices supported by government agencies and NGOs can strengthen capacities for smallholders to participate in VSS schemes (Aidenvironment, 2013). The development of a smallholder-focused VSS scheme could differentiate their production in the marketplace and possibly capture a price premium.

As detailed in the chart above, smallholder needs have to be addressed if they are to overcome the challenges they face in accessing VSS which is an important opportunity as they stand to benefit from them the most. Various institutional efforts in the form of outgrower schemes¹, national sustainable consumption and production as well as farmer subsidies, infrastructure development, regulatory and incentive policies have assisted smallholders adopt VSS schemes and access sustainable markets (Maybeck & Redfern, 2014). Despite existing government support for smallholders, additional extension services providing smallholders with financial, administrative and technical advice should be further explored (van Luijk, 2011). For instance, the Finance Alliance on Sustainable Trade estimates that smallholders, many of whom subscribe to VSS, need approximately \$450 billion in finance per year to grow their operations and access markets for their products (Finance Alliance for Sustainable Trade, 2016). Clearly more needs to be done in the form of strategic research, effective approaches and investments to assist smallholders access sustainable markets.

Ensuring smallholder wellbeing is a critical component to sustainable agricultural production and supply chains. Unfortunately, smallholders face special challenges in accessing VSS and their markets as a result of the “Sustainability Standards Paradox” where larger farms may be able to achieve compliance at a lower per unit cost than smallholder farmers. A growing number of VSS are seeking to address this challenge but more effective approaches and investment are needed.

¹ “Outgrower schemes, also known as contract farming, are broadly defined as binding arrangements through which a firm ensures its supply of agricultural products by individual or groups of farmers.” See Felgenhauer & Wolter (n.d.).

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