

**IMPROVING INCOMES CHALLENGE  
WHITE PAPER**

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# **ENABLING SMALLHOLDER FARMERS TO IMPROVE THEIR INCOMES**

**Sustainable Food Lab and Business Fights Poverty have been collaborating to advance learning on how to improve the economic benefits of trade for smallholder farmers and their families.**





# INTRODUCTION

Sustainable Food Lab and Business Fights Poverty have been collaborating to advance learning on how to improve the economic benefits of trade with smallholder farmers. Growth in those farmers' incomes is fundamental to economic and social development, to farmers' ability to reinvest in their farms and to the sustainable supply of crops bought by global companies. This paper aims to clarify the roles and levers for companies and other actors, often working together, to help increase smallholder farmers' incomes. The paper is based on input and interviews with experts from business, NGOs, donors, UN bodies and research organisations.

# WORKING WITH SMALLHOLDER FARMERS A BUSINESS OPPORTUNITY

Over the past decade, food and beverage companies have paid increasing attention to the business and social value derived from sourcing programmes with smallholder farmers

Many global companies buy significant amounts of the crops they need from smallholder farmers in Africa, Asia and Latin America. They may source either directly from smallholders or indirectly, through traders. For example, SABMiller (which was acquired by AB InBev in 2016) brews beers in countries such as Uganda and Mozambique using locally-sourced barley, sorghum and cassava grown by smallholders. Mars, in production of their confectionery and food products, works with cocoa farmers in Africa, coconut, rice and mint farmers in India and South Asia.

There are many reasons why companies choose to work with smallholder farmers. Often companies invest in smallholders because they are the main producers of a given crop and the only source for securing, improving, or expanding supply. In some cases, investing in local smallholder supply chains reduces sourcing costs and minimises price volatility and currency risks. Developing

smallholder supply chains may also be linked to a company's sustainability strategy and may positively impact their brand, reputation and license to trade.

In the traditional model for smallholder sourcing programmes, companies buy from smallholder farmers, often via long and indirect supply chains. These programmes may include support for yield improvements, but it can be challenging for companies to identify who the farmers are and the impacts of the supply chain on farmers' productivity and livelihoods. Companies may adopt standards that are sometimes linked to third party certification, but the links between these schemes and livelihood benefits are often difficult to measure and may be questioned by farmers themselves.

While some good progress has been made in understanding and enhancing smallholder supply chains, significant challenges remain. Millions of smallholder farmers are steeped in poverty and unable to meet their basic needs. From a business perspective, smallholder supply chains are often difficult to manage, with challenges such as low and variable yields, poor quality and side-selling (i.e. selling outside the contract, to a different buyer).

## A new model is emerging which redefines success for sustainable sourcing programmes

Under the new model, a company sees its role not only as providing a market for crops grown by smallholders but as a catalyst for improving agricultural productivity, competitiveness and livelihoods of farming communities.

**This means playing an active and engaged role, often in partnership with others, in activities such as:**

- Increasing transparency along the value chain to understand who the farmers and other actors in their supply chain are
- Supporting farmers to improve yields, which in turn can help to increase incomes (assuming there is a market for increased production)
- Working with relevant stakeholders to facilitate access to the skills, inputs, technology and financial services needed by farmers
- Investing in programmes to improve livelihoods, food security and women's empowerment
- Developing approaches to measure the impact of their trading relationships with farmers
- Finding ways to move beyond pilot projects and implement effective models at scale.

**There are many reasons for companies to take a more engaged approach towards managing and strengthening their smallholder supply chains. These include:**

- Promoting long-term supply chain security, ensuring that farming of the crops needed by global companies is viable into the future;
- Increasing production and achieving higher quality levels by optimising supply chains
- Aligning with companies' values and purpose and meeting the imperative to address the Sustainable Development Goals (SDGs);
- Strengthening the transparency of supply relationships, building the resilience of those relationships in the face of future pressures;
- Strengthening relationships with governments;
- Helping to meet rising expectations from local and international stakeholders.

The Sustainable Development Goals agreed in 2015 set out an increased role for business as an enabler of poverty eradication. Donors and development agencies are increasingly seeking public-private partnerships, with expanded development roles for business.

Civil society groups have become more focused and demanding; they expect to see evidence that companies' programmes are making a measurable difference. There is pressure on global companies to play a greater role in

inclusive growth, finding ways to tackle the rise in inequality that has often accompanied development. This is demonstrated by initiatives such as Oxfam's Behind the Brands campaign and the Global Living Wage Coalition and VOICE Network's pressure for cocoa sector reform.

Businesses are increasingly aware of these rising expectations and of the positive business and societal impacts that can be achieved by strengthening smallholder competitiveness and incomes. Many businesses have already set goals related to the sustainable sourcing of commodities and to improving farmer livelihoods.

However, it is not easy to bridge between the world of diverse small-scale producers and the need for consistent supply and quality demanded by modern procurement. Investing and working with smallholders often takes patience and creativity to develop mutually beneficial models. The new emerging model of sourcing from smallholders recognises that for small scale farmers to become successful supply chain partners in formal markets, they need to invest in their farms. That requires both an attractive return on investment for them and a household income that supports ongoing investment in both farm and family.

## Enabling farmers to improve their incomes is a complex challenge, with many interdependent levers

### The determinants of farmers' incomes

At the most basic level, a smallholder farmer's income is simply revenue minus costs. Improving incomes appears superficially straightforward. It requires support for changes that lead to growing revenues (e.g. through yield improvements, quality improvements and price increases) while minimising costs. Yet even at this level of analysis, difficult choices already come into focus. Investments in yield or quality improvements usually require up-front cost increases (perhaps through the use of better seeds, fertilisers, pesticides or irrigation). Improving the productivity of some crops may even require an initial reduction in revenue. Cocoa trees, for example, may need to be replaced entirely, with a three to five year wait for the new crop.

The farm size, asset base and family size are all critical determinants of a smallholder farmer's income. Farming families' income rarely comes from a single source: there are often several crops grown (some for food, others for sale) as well as a mix of other income-generating activities through the year. These may be farm-related activities (such as selling animal products), services linked to a family asset (e.g. using a vehicle as a taxi), or other services (such as laundry or the collection of firewood). Diversification creates an ongoing set of choices for family members about where to invest their time and other limited resources, in order to maximise the overall benefits to the family.

## Reliability of incomes may be as important to farmers as increasing incomes

In an industrial economy, “improving incomes” might be used interchangeably with “increasing incomes.” For smallholder farmers, this is not necessarily the case. Reliability of income may be the most important consideration, with the first priority being to cover anticipated essential family expenditure. So investments that could, in principle, increase future income may be rejected because they involve increased risks and upfront costs. Familiar but inefficient techniques and inputs may be preferred instead.

Reliability requires managing the risks of catastrophic crop failure and market-related risks such as price collapse. It also means ensuring the family income covers expenditure throughout the year, when the timing of major expenses (such as farming inputs, or the costs of healthcare or education) are unlikely to coincide with the cash-crop harvest. This need for income-smoothing through the year is a major motivation for the diversification of income sources by farming families. In the light of these complexities, the participation of farmers in the process of assessing suitable income interventions is essential.

## Possible unintended consequences

A related question is “whose incomes are improved?” There are typically significant inequalities of power and wealth within rural communities. Interventions aiming to support improvements in some farmers’ incomes may have unintended equity consequences. If relationships are created only with those who already have influence in a farming community, existing patterns of inequality can be made worse.

Less obviously, the creation of a commercial market for what was formerly a subsistence crop may lead to a loss of

control of that income stream by women (where women traditionally grow and manage subsistence crops while men lead on decision-making for cash crops). This can have further consequences within the household, as men tend to spend less of their average income (compared with women) on productive investments such as health and education.

## Many factors influence economic well being

Ultimately improving incomes is a means to the end of improving families’ quality of life. This means that improved incomes alone will not necessarily improve quality of life and promote economic development, for example if farmers lack access to basic public services such as health and education.

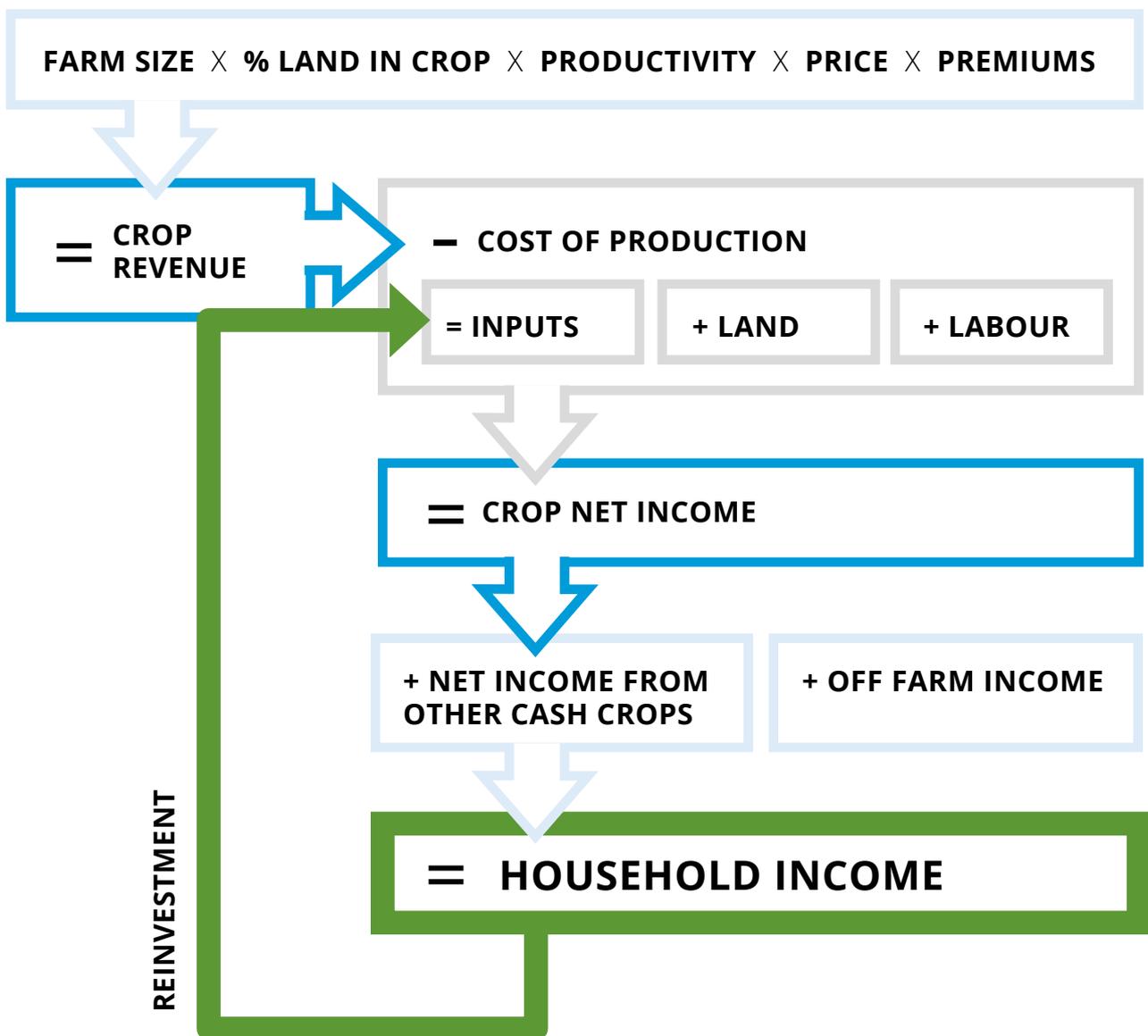
This leads to a consideration not only of what goods and services can be purchased with improved incomes, but also support for access to basic public services such as health and education, along with other critical determinants of wellbeing. And it requires understanding the consequences for power dynamics, in particular for women’s empowerment, of any interventions intended to improve incomes.

## The importance of understanding context

Commercial value chains exist within specific market, social and environmental contexts. For example, price regulation of a crop can stabilise or limit farm-gate prices; quality primary education increases the chances of escaping poverty; a deforested landscape quickly loses soil fertility and is more vulnerable to extreme weather. Global companies need to understand how these contextual factors affect incomes and wellbeing.

**Figure 1** below summarises the components of a farming family's income. Below we set out some of the most important levers that affect one or more of these components of income, and the roles of actors who may have different degrees of influence over those levers.

**Figure 1: Components of a farming family's household income**



An immediate insight arising from Figure 1 is that there are many different routes towards improvements in farmers' incomes. The rural poor typically depend on multiple sources of income, including the value of the food and livestock they produce for home consumption. For most companies, the opportunities to support improvements in incomes are primarily in the cultivation and trade of the crop that they are purchasing. The levers for achieving improvements may go beyond opening market access and increasing productivity.

### We see the following levers as fundamental for income improvements:

- Agricultural services: improving know-how, inputs (seeds, fertiliser, tools), warehouses, drying sheds, post-harvest machinery
- Growth of markets including domestic markets
- Provision of financial services: credit,

loans, savings, insurance

- Decent market access: stable demand, fair prices, favourable terms of trade
- Gender: women's participation and equal economic empowerment
- Provision of basic services: including water (domestic and irrigation), quality education and health
- Strengthening of agricultural and non-agricultural sectors in the local economy

**Two examples**, from India and Uganda, help to show how these different types of lever often work together in cases where farmers' incomes are being improved in a sustainable way.

## Box 1: Two farmer case studies

### Mint in India

Most commercial mint species produce both the flavour of mint oil and the cooling sensation of menthol, but only *Mentha arvensis* has high enough menthol levels to produce menthol as a standalone by-product.

It is produced almost exclusively by 750,000 smallholders in northern India. Many of these farmers live below the \$1.90/day poverty line, often growing staple crops to feed their families on less than a hectare of land. They plant mint in between crops of these staples, and it is usually their only cash crop. Smallholders distil the mint oil, which unlike most other crops will survive in a container for years if properly stored, acting as savings as well as an income source. Smallholders can sell when the price is right, or when they need cash for farm inputs, healthcare or education.

In 2015, with the assistance the Sustainable Food Lab and Agribusiness Systems International (ASI), the Wm. Wrigley Jr. Company conducted an initial study in the mint growing area around Lucknow in Uttar Pradesh, India. It reflected that mint generates a significant portion of annual household crop income at about 39% when the economic value of sustenance crops being grown for household consumption is considered. As a portion of total household cash income mint provides about 12% in

addition to cash from day labour, selling handicrafts and animal products, and small-scale forestry. Approximately 60% of a household's food needs are grown on their farm. Cash income generated from mint and other income generating activities is used to purchase additional food items, farm inputs, housing, healthcare, education, marriage, and unforeseen costs

By focusing on mint agricultural practices including improvements in rootstocks and know-how, there is potential to improve smallholder incomes from mint without disrupting their other income generating activities. Wrigley, together with ASI and two of Wrigley's mint suppliers, are proceeding cautiously and are continuing to test and learn which practices can be quickly scaled, listening to smallholders and engaging with actors in the local mint value chain. In 2016, good agricultural practices including two new cultivars, modified irrigation techniques and different mulching practices were trialed on 180 test plots in Uttar Pradesh. The results showed that water use can reduce significantly, while increasing yields by 50-100%. Based on these promising results, Wrigley is scaling up to work with 2,500 farms in 2017.

## Box 1. Two farmer case studies (Continued)

### Sorghum in Uganda

When SABMiller acquired Nile Breweries Limited (NBL) in 1997, beer was considered a luxury in Uganda. Alcohol was popular, but people opted for cheaper, unregulated brews that threatened public health. NBL introduced a new, low-cost beer made with local sorghum instead of imported barley, enabling 15,000 subsistence farmers to access commercial markets and improve their incomes.

Eagle Lager was introduced in 2002. An impact study in 2016 among 800 smallholders found the average annual income of sorghum households supplying NBL to be more than double that of a control group. Sorghum accounts for 31% of total household income, while the rest comes from other crops and activities. Sorghum earnings are 17% higher when married couples manage their plots together, compared with plots managed by husbands alone. This shows that empowering women through agriculture has a positive impact on yields and development.

Many stakeholders acted together to make this possible. NBL's core contribution was a secure market – the company invested in commercialising a new crop and developing a new supply chain, including a network of farmers' associations and aggregators made up of thousands of smallholders. NBL also invests in agricultural extension services, skills training and subsidised inputs. Critically, the Ugandan government offered an excise tax break for beer made with local ingredients, enhancing the business case for NBL. Because of limited clean water and high HIV infection rates, civil society organisations and government health departments carried out community health campaigns, with funding from USAID and NBL. In 2016, to further strengthen skills and competitiveness in the sorghum supply chains, NBL partnered with TechnoServe to roll out a capacity building programme for aggregators and 2,000 farmers – with a focus on women and youth empowerment.

# Different actors' roles in improving incomes

**Farmers** hold the responsibility for choosing whether and how to farm. Ultimately the goal is for agriculture to be an attractive and profitable endeavour that preserves natural resources and generates shared value for all involved.

The example of sorghum in Uganda illustrates how no one actor can take responsibility for actions to help improve farmers' income. **Companies** have particular roles to play; other roles can only be taken on by other actors, including farmers themselves, governments, financial institutions, local and international civil society organisations.

The role of global companies is primarily as a buyer, either in an existing market, or potentially creating a new market for a crop. Companies can also play a catalytic role, in partnership with other public and private sector stakeholders to enable training, provision of better or cheaper inputs, and to facilitate access to cheaper credit or local savings and loans schemes. In the absence of others, some companies are taking on these roles directly – on the grounds that they are all essential parts of a coherent package of support for smallholder farmers. This risks creating dependency and may not play to a global company's strengths. In some sectors, these efforts are being coordinated by an industry body or multi-stakeholder platform, with companies playing an active role.

**Governments** have the broadest range of roles in creating the conditions necessary for improvements in smallholder farmers'

incomes. These include setting the right policy framework, from land rights (in particular women's title to land) to tax policy. Basic services such as health and education are central to the enabling environment, alongside the creation and maintenance of infrastructure essential for market access. Governments have an essential role in developing the resilience of farming and freshwater systems in the face of climate change. Governments also need to play a central role in the delivery of effective agricultural extension and research services.

**Civil Society** and donors have important roles in providing expertise on issues such as equity, community engagement, farming techniques and resilience. Another vital civil society role is helping to bring farmers together into groups to reduce transaction costs, increase bargaining power, build practical local collaboration (such as renting a harvesting machine) and share knowledge. **Donors** have a role in underwriting risks of loans from banks to farmers, as well as shaping national agricultural policies and systems and supporting local governments to invest in agricultural development.

We must, however, recognise that even with coordinated action by the right mix of actors, in many areas farming alone will not be enough to enable farming families to attain a decent standard of living. This may be because of limited land, large family size and/or distance from markets. In these cases, a discussion ideally led by the public sector is needed for agricultural transition and development of non-agricultural sectors for other employment opportunities. Each of the actors listed in Table 1 will have roles in enabling such a transition to be successful.

# Table 1: Roles in improving incomes

**Table 1** shows how many of the most important levers for improving farmers’ incomes require coherent action by multiple actors. (Table entries show a variety of roles for a given income lever, with recommended lead roles highlighted in **bold**.)

## Lever 1:

Agricultural services: know-how, inputs (seeds, fertiliser, tools), warehouses, drying sheds, post-harvest machinery

Link to SDGs: 2, 12, 13

Note the important enabling factor: land tenure

<b>National Government</b>	<b>International donors, UN agencies</b>	<b>Civil Society:</b> International and National NGOs	<b>Financial institutions</b>	<b>Private sector:</b> local and international	<b>Industry bodies and multi-stakeholder platforms</b> (eg World Cocoa Foundation, Ethical Tea Partnership)
<p><b>Increase investment in rural infrastructure, agricultural research and extension services and provide resources, inputs and knowledge to farmers</b></p> <p><b>Ensure that all men and women have equal rights to ownership and control over land and natural resources</b></p>	<p>Influence and support government to start/improve services supporting smallholders.</p> <p>Fund improved agriculture programmes (including research) for smallholder communities</p> <p>Lobby govt and private sector for improved provision of affordable quality inputs</p> <p>Set up crop or sector level initiatives and support governments to facilitate public-private sector partnerships</p>	<p>Develop, implement and monitor capacity-building programmes with smallholder communities</p> <p>Ensure adequate community representation in agriculture programmes</p> <p>Form and strengthen farmer groups / associations</p>	<p>Provide low cost loans and credit to farmers and associations to cover advance purchase of inputs</p> <p>Facilitate financial skills training at both farm and enterprise levels to enable better decision making on investments</p>	<p><b>Support smallholder communities (direct or via partner) to access high quality low cost inputs, for example fertiliser, crop protection, machinery, postharvest storage and training on improved farm management</b></p> <p>Invest in agricultural research, innovations and variety development for the crops purchased</p> <p>Share experiences and knowledge and use the company’s global reach to scale agricultural innovations</p>	<p>Establish knowledge sharing platforms, best practice tools, and common indicators (eg on measuring impact of capacity building)</p> <p>Lobby donors and government for effective policies and sector reform</p> <p>Convene and/ or help facilitate public-private partnerships and sector platforms</p>

# Lever 2:

## Provision of financial services: credit, loans, savings, insurance

Link to SDGs: 1, 8, 9, 10

<b>National Government</b>	<b>International donors, UN agencies</b>	<b>Civil Society:</b> International and National NGOs	<b>Financial institutions</b>	<b>Private sector:</b> local and international	<b>Industry bodies and multi-stakeholder platforms</b>
<p>Create a favourable policy environment to encourage financial institutions and mobile companies to invest in offering new financial products for rural communities</p>	<p>Lobby government to provide enabling environment for local finance institution development</p> <p>Where required, directly support through provision of patient capital for new initiatives</p>	<p>Support smallholder communities to access and use financial services, eg formation of savings and loans groups (which can later be linked to more formal financial products) and financial literacy training</p>	<p>Develop new, innovative products (savings, loans, credit) which meet the needs of smallholder farmers and farmer organisations (e.g. cooperatives) – leveraging digital solutions where possible</p>	<p>Facilitate access to input finance and other financial products by linking farmers to financial institutions, and providing off-take guarantees/ contracts</p> <p>Where input finance is not yet available, companies can (directly or through partners) provide inputs at subsidised rates (e.g. seeds and fertilisers provided to farmers before the planting season and cost deducted from the total money paid to farmers after harvest)</p>	<p>Lobby government and local financial organisations to provide credit, savings and insurance schemes</p> <p>Encourage and facilitate financial risk-sharing among multiple stakeholders (i.e. financial institutions, companies, donors) – to make it easier for farmers to access financial services</p>

# Table 1: (Continued) Roles in improving incomes

## Lever 3:

Decent market access: stable demand, fair prices, favourable terms of trade

Link to SDGs: 2, 8, 12

National Government	International donors, UN agencies	Civil Society: International and National NGOs	Financial institutions	Private sector: local and international	Industry bodies and multi-stakeholder platforms
<p>Provide incentives and skills development programmes such as tax breaks, export facilitation schemes, guidance/regulation on decent wages</p> <p>Create suitable policies and an enabling environment to support growth of local agricultural sectors and investment from global companies</p>	<p>Invest in programmes to support local market development and programmes to help smallholder farmers access commercial markets – local and international</p>	<p>Facilitate community involvement in determining national/local income benchmarks</p> <p>In the case of certified crops - support producer communities on premium fund use - develop community development plans and implement projects.</p> <p>Build capacity of smallholder farmers and organisations to access commercial markets</p> <p>Hold government and private sector to account</p>	<p>Provide finance system to allow sale and purchase of goods and inputs, including international markets</p>	<p><b>Provide stable, predictable demand for purchased crop, with transparent pricing and terms of trade that ensure smallholders can cover cost of quality inputs required for sustainable agriculture</b></p> <p>Where companies have committed to a specific certification scheme – pay a premium to farmers for meeting required standards</p> <p>Offer incentives for producing higher quality crop</p>	<p>Set industry wide standards and practices that can help to ensure sustainable income for smallholder farmers</p>

# Lever 4:

## Gender: women’s participation and equal economic empowerment (*Cross cutting theme, applicable to all levers above*)

Link to SDG 5, 10

National Government	International donors, UN agencies	Civil Society: International and National NGOs	Financial institutions	Private sector: local and international	Industry bodies and multi-stakeholder platforms
<p>Build on existing commitments eg Beijing Declaration, and integrate women’s participation and empowerment targets into national development action plans</p> <p>Enshrine equality principles into national frameworks and laws, eg equal rights for all, nondiscrimination at work</p> <p>Provide education and training for girls and women</p>	<p>Provide technical support and long term flexible financing for initiatives supporting women’s participation and development.</p> <p>Lobby government and civil society to remove barriers to women’s participation and economic empowerment, and monitor progress</p>	<p>Provide infrastructure and services to support working mothers and fathers</p> <p><b>Ensure access (directly or via govt) to education for all girls, and skills development for women</b></p> <p>Promote equality through community initiatives and advocacy</p> <p>Measure and publicly report on progress to achieve gender equality</p>	<p>Provide products developed specifically for women, for example credit (if no collateral available as assets in husband’s name), and women’s groups saving schemes</p>	<p>Ensure all employees and suppliers along the full supply chain are respected and paid equal wage for equal work. Promote the creation of decent and empowering jobs for women throughout supply chains, with responsible employment practices, including gender diversity, safe and healthy workplaces free of harassment and discrimination, and opportunities for women to advance.</p> <p>Purchase from women-owned enterprises and ensure women can access training and capacity-building programmes (e.g. employing female extension officers, encouraging husbands &amp; wives to jointly attend training etc)</p> <p>Monitor impact of supply chain development and livelihood improvement programmes on women and men.</p>	<p>Integrate into industry standards criteria that ensure equal income/ wages, working conditions and development opportunities for all smallholder farmers - men and women.</p>

# Table 1: (Continued) Roles in improving incomes

## Lever 5:

### Provision of basic services: quality education, health and water (domestic and irrigation)

The example below illustrates the roles required for water provision; related but different roles would be needed for health or education services.

[Link to SDG 6](#)

<b>National Government</b>	<b>International donors, UN agencies</b>	<b>Civil Society:</b> International and National NGOs	<b>Financial institutions</b>	<b>Private sector:</b> local and international	<b>Industry bodies and multi-stakeholder platforms</b>
<p><b>Have primary responsibility to ensure water availability for all (basic human right).</b></p> <p><b>Build community potable water infrastructure, reservoirs, drainage.</b></p> <p><b>Awareness raising and monitoring of use of water via health/agriculture outreach workers</b></p> <p><b>Ensure access for women and girls</b></p>	<p>Provide funding for local NGO partners for implementation of water projects.</p> <p>Bring in expertise and share knowledge/ lessons from global experience.</p> <p>Lobby and support government to provide potable water and irrigation services</p>	<p>Build community capacity to maintain water assets, eg set up water committee to be responsible for repair of potable water system, water regulation committee for regulation of irrigation channels</p> <p>Lobby and support govt to provide services</p> <p>Hold government to account for provision of water</p>	<p>Provide services such as bank accounts for community groups involved in water management and low cost loans for investment in water infrastructure improvements (eg installing rain water tanks)</p>	<p>Ensure that supply chain is not causing negative impacts on local environment and water supply (eg reducing water table)</p> <p>Where water is not readily available in sourcing communities, lobby government, donors, I/NGOs to provide water</p> <p>Provide low cost potable water and irrigation systems, and training for maintenance</p>	<p>Lobby national governments and donors to provide water services meeting specific needs of industry/ crop</p> <p>Ensure members aware of local context and help identify if water an issue for cultivation and processing of crop (eg cotton).</p> <p>Where water is a critical issue, develop industry best practice standards</p>

# Appendix

## Practical considerations for companies seeking to improve farmer incomes – insights from stakeholder interviews

### INTRODUCTION

We interviewed 20 respondents to help shape this paper, bringing in perspectives from companies, donors, UN agencies, research organisations, NGOs and campaigning networks. They helped frame the above analysis of how companies could structure their strategy and investment on improving smallholder farmers' incomes. They also shed light on practical considerations that could help companies decide what to emphasise in their sourcing strategies and programmes. Seven questions in particular kept coming up in these conversations, and below we summarise some of the most helpful insights shared in response to those questions.

### 1. How can companies help make productivity improvements a genuine win-win?

Improving productivity offers a major potential win-win for farmers and companies. Gaps between current and achievable yields remain huge, particularly in Africa: estimates from Uganda suggest a yield 34% gap of in sorghum and 40% in barley. Cocoa yields in some countries of West Africa could be doubled.

But companies can misjudge the trade-offs from a farmer's point of view. Without availability of adequate market demand, improving yields is meaningless. Worse, rapid production increases can destabilize

markets and cause price collapses. Also when risk minimisation and cash flow dominate farmers' decision-making, it is rational for them to be suspicious of investment now for uncertain returns later.

Simple interventions that minimise up-front costs may be better than strategies that promise much higher productivity but at greater cost. This may require the use of cheaper inputs in some contexts. There may also be a need to demonstrate that sources can be trusted (e.g. overcoming farmers' justified fears about adulteration), while avoiding the latest expensive seeds, pesticides and fertilisers. A focus on increasing know-how to ensure good use of those inputs is also a vital investment in both cost-saving and productivity growth.

Companies could also consider investing in the productivity of crops grown by farmers alongside the crop the company is buying. For example, productivity growth in cocoa is inherently slow (because it requires renovating or replacing trees) but this can be mitigated by rapid growth in a crop sold in local markets like cassava or plantain, or a higher value crop like pineapple. This may be essential to make the transformation of cocoa production viable, where farmers cannot afford to wait 3-5 years for the new trees to become productive. Financing renovation of perennial crops and only renovating a percentage of a farm each year are other strategies to support farmers through this period of decreased cash flow.

## 2. What is the role of price in offering a sustainable route to increasing farmer incomes?

Some campaigning organisations highlight the problems that arise when smallholder farmers receive only a small fraction of the price that crops or commodities fetch in international markets. They argue that smallholder farmers have a right to a greater share of value distribution and so global companies must accept a reduction in profitability as a means to increase prices paid to farmers.

Others believe that simply increasing price without changing the underlying conditions does not lead to a sustainable improvement in incomes. This is because:

- Payment of price premiums (where these are not linked to improvements in quality or other commercial criteria) are often insufficient to lift farmers out of poverty. For example, formal certification schemes are a valuable tool; however, the payment of a certification-based premium alone will often be insufficient to help farmers meet their basic needs and continuously improve their livelihood.
- A choice by some companies to reduce profitability will negatively affect their competitiveness relative to others and will therefore reduce future market demand for the crop (which will in turn harm farmer incomes).
- Offering a price premium outside a win-win-win business strategy is in effect a form of old-style philanthropy or CSR. When market conditions change or CSR budgets are cut, such models are unlikely to be sustainable.

There is increasing consensus among stakeholders that price increases can play a role in improving farmer incomes, but that in order for these to be sustainable, the following factors are important:

- Prices should be changed by creating the market conditions under which prices will rise, e.g. through supporting farmers to improve quality standards or offer more value-added services.
- Prices increases are more likely to be sustainable when applied across the board (e.g. by all major buyers within a sector or by a public institution managing the crop) rather than by a select few.
- Prices can be increased across an entire sector by strengthening the competitiveness of the sector as a whole. For example, in the Malawi 2020 initiative, tea prices and wages to plantation workers have been increased through efficiency and quality improvements, which have allowed the whole country's tea sector to remain competitive on world markets.
- Price incentives can be effective when included in a direct and transparent trading relationship that details the criteria for the price increases and the expectations of both buyer and supplier.

## 3. What could help farmers access and benefit from financial services?

Companies that have close relationships with farmers can leverage this proximity to overcome the absence of collateral for securing loans. Contracts and, more broadly, the relationship with the company, are assets that can be relevant for local financial institutions in considering the risk profile of farmers. Where a company's judgement of farmer creditworthiness is more positive than a distant bank's judgement, it may be economical for the company to partially underwrite the risk of loans to farmers or farmers' organisations, as well as drawing lenders' attention to the security offered by the company's ongoing

local purchasing programmes. Donors can also play a role in underwriting these risks.

Credit itself carries hidden risks for smallholder farmers, on top of typically high interest rates. Debt is itself one additional future risk to manage. Ideal projected returns on credit for investing in productivity improvements may not materialise because of market- or weather-related events. Inputs are often adulterated: farmers may find fertiliser contains sand, for example. Yield improvements have often failed where one element of a suite of interventions is missing: a frequently-cited example is where credit is spent on expensive inputs without adequate training in their use. Equally, this may not be a problem of knowledge but of opportunity cost. Farmers may not be able to devote the necessary time to making the most of their productivity investments, because of the time they need to spend on their other diversified income-generating activities.

Farmers may well prefer local savings schemes over loans, in part because cash income varies widely over the course of the year. For example, the Ethical Tea Partnership employed one person in Malawi in April 2016 to begin work on savings schemes for smallholder tea farmers. After five months, they had 80 savings groups running, against a target of 60 for the year, suggesting huge demand. Companies can work with other partners to support the setting up and formalization of such schemes. Savings groups also offer their members an opportunity to build up collateral, which affects their risk rating, and can enable them to access formal financial services (e.g. bank accounts, savings & loans products, input finance) in the future.

Breaking the dependence on local high-interest loans may have further cost-saving benefits. Local finance providers are also often the providers of inputs, with a strong incentive to supply seeds, fertilisers and

pesticides with a high profit margin, rather than those most appropriate for farmers. In addition to breaking the hold of existing interest groups such as these, support for institutions that build trust may also be valuable and is often overlooked. Trust can be the foundation for cheaper sources of finance within the community; it can also be built through more formal local savings and loans groups. Company assurance on the quality of inputs may be highly valued where adulteration is common.

#### **4. What would help farmers manage risk better?**

The rural poor are risk averse. Markets that pay consistent prices, on time and in cash may be considered more desirable than new buyers who may come in with a higher price but disappear in the next harvest season. Both the net amount and the level of security of farmers' incomes are important to consider. A diversity of crops that can be grown and sold at different times of the year will smooth a family's income and decrease the incidence of food insecurity. Accumulating assets such as a bicycle, truck or water pump can deliver value in the cultivation of the main cash crop as well as minor food crops; they may also contribute to the development of other small-scale enterprises.

Insurance is rarely available for smallholder farmers. Health insurance, crop insurance and life insurance would all help farmers manage risks in ways that could free them to invest more in productivity growth and quality improvements. Global companies may be able to help facilitate openings for new forms of insurance for smallholder farmers in similar ways to other financial services, or through sharing risk with farmers directly.

Company support for better post-harvest technologies and techniques may have rapid returns for farmer incomes and quality of product supplied, as well as

reducing risks. Poor storage facilities increase risks both of crop loss and market risks. Farmers are often forced to sell at harvest time when prices are lowest; some even end up buying back the same crops for food at other times of the year, when prices are higher. These are areas where global companies may not have the right expertise, but where they could, with the right partnerships, reduce risks and help to overcome major barriers to improvements in farmers' incomes.

Other actions by companies to help reduce farmers' risks include support for income diversification (for example, enabling easy-win yield improvements for crops grown alongside the crop supplied to the company); minimising the up-front costs of inputs; and offering greater flexibility on quality, such as facilitating a route for farmers to sell the part of the crop that fails to meet the company's quality standards.

Above all, companies can help create the context through which farmers will find it more attractive to invest in their farming systems by reducing risk through the terms of trade. Improving payment terms (in particular payment speed), sharing risk and offering longer term contracts can all increase the confidence of farmers that their investments will produce a return with manageable risks.

## **5. What is the right balance between companies' roles as a catalyst and as a provider?**

Companies have great potential to shape the conditions for income improvement. Some company approaches to achieving this begin by providing a service to farmers. Others involve co-ordinating and working with partners to ensure the right services and conditions are in place.

For example, some companies co-invest in critical technical services; others have helped establish third party extension services. Some have directly provided

critical inputs such as fertilisers or better varieties; others have developed partnerships with major providers such as Bayer to ensure an appropriate, inexpensive, unadulterated package of inputs is available. Some companies have directly funded new storage facilities; others have brokered or pressed for new investment in processing, transport and related infrastructure. A catalytic role is the more common approach to help improve farmer incomes. Bringing farmers together (to reduce transaction costs or strengthen bargaining power, for example) is often led by civil society groups, sometimes with company support where trust levels are high.

In interviews for this paper, a number of companies expressed the concern that they were being drawn towards roles as "provider" in areas that do not build on their company strengths. The pressure to do so arises from an absence of natural partners and an inability of governments to fulfil what would naturally be their roles. The consensus among companies is that they should be focusing on what they do best – but that the many barriers set out in this paper inevitably mean that companies will often play at least a catalytic or brokering role, finding the right partners with the experience and local connections to overcome those barriers. Greater collaboration between donors, companies and civil society groups will be essential to make progress in tackling the broader barriers linked to the enabling environment.

## **6. What kind of partnerships will work best to help improve the enabling environment?**

Supply chains operate in particular ecological, regulatory and social contexts. Farming families with access to quality primary education, adequate health care, clean water and functioning infrastructure for transporting, processing and selling

their goods will be more likely to succeed. Farmers who can readily access information on pest and disease control, new planting material and affordable credit will have more ability to invest in their farm and maximize its income generating potential. Land rights are also fundamental.

These contextual factors can be assessed to identify both the barriers and opportunities prior to developing any programme to increase smallholder incomes. Nestlé has developed a global approach to this contextual assessment known as their Rural Development Framework. The assessment produces a pre-competitive, broad contextual analysis of a region, and lays the foundation for a conversation within the company and among stakeholders of the various barriers and opportunities to improve livelihoods.

While these enabling factors are all primarily the responsibility of governments, companies can in many contexts play a stronger role in making the economic and business case for a greater government focus on solving problems in these sectors. An argument made by major direct investors in a country may strengthen the hand of those championing change within governments. Joint approaches to governments by companies, NGOs and donors may be even more influential, demonstrating a broad-based economic and moral imperative, rather than self-interested lobbying.

Practical partnerships to tackle enabling environment problems also have a role. In the management of scarce water resources in contexts as diverse as India, South Africa and Colombia, for example, SABMiller (now AB InBev) has worked closely with farmers, NGOs and governments to overcome barriers to using water efficiently, in ways that secure water resources for all. The Sustainable Development Goals framework anticipates companies working in similar ways with donors, NGOs and governments, each playing specialist roles to overcome

challenges in areas such as infrastructure, health, education and agricultural extension.

Finally, companies and governments need to consider how best to bear or share the adjustment costs of transitioning to more resilient crops, inputs and practices, in the face of climate change, water scarcity and other environmental threats. These are threats to farmers' incomes, to the resilience of companies' supply chains, to global food security and to countries' future growth. But farmers often have more immediate risks at the front of their minds: investment in a transition to resilience may not be their top priority. Companies, donors, civil society and governments will need to work together to lead this transition.

## **7. How can companies measure progress in improving incomes and wellbeing?**

Investing in smallholder chains can be complicated and costly, and companies can risk losing their return on that investment – either in terms of social impact or increased supply. Making a commitment to improved smallholder incomes requires a practical way to monitor progress. Typically companies have one of the following reasons to measure:

1. Gain insight into your supply chain and establish traceability
2. Optimize trade and service delivery to farmers for improvements in productivity, resilience, and quality
3. Communication – to external stakeholders and internal decision makers

Clarifying your purpose for measuring helps to define the depth and frequency of measurement. Consider your target audience for the data – is it external or internal? – and how your company

**Figure 2.** An example of a framework for measuring outcomes on economic well being

Impact Areas	Learning Question	Indicator
Livelihood	Are the farmers experiencing improved economic stability?	Food Security: Access to sufficient food
		Income
		Assets
		Poverty Likelihood
		Perceived Well-Being

is positioned to act on the results of measurement. Finally consider your investments (including your trade) and how you expect those to contribute towards improved incomes. This theory of change will drive selection of the right metrics. There is no sense measuring the impact that access to credit has on farmers' income if you are neither investing nor have any influence on this.<sup>1</sup>

Income metrics typically measure cash incomes, assets, factors that show likelihood of being in poverty, and food security. Below are the metrics agreed upon in the Sustainable Food Lab's community of practice on Smallholder Performance Measurement.

### BENCHMARKS FOR MEASURING IMPROVEMENTS IN INCOME

If we measure incomes, then what are we measuring against? There are several benchmarks for income and poverty; the two most commonly referenced are national poverty lines and the World Bank's international poverty line, currently at \$1.90/day. Some companies compare to the typical salaries earned in that country by standard jobs like teacher or day labourer. An emergent concept is the living income benchmark, which draws on the Living Wage methodology, and collects the costs of a decent standard of living in a location to establish a locally relevant threshold of decency and wellbeing.<sup>2</sup>

**1** There are a number of excellent resources available for guiding a company to develop a measurement approach, for example: Committee on Sustainability Assessment (<http://bit.ly/2xcXteQ>) Progress out of Poverty Index (<http://bit.ly/2wF1ec1>) Oxfam Poverty Footprint Methodology (<http://bit.ly/2ejL5aU>) Sustainable Food Lab (<http://bit.ly/2xROkFS>) ISEAL (<http://bit.ly/2wMvUpM>) IDH Tools to evaluate ROI on service delivery to farmers (<http://bit.ly/2xRsMjh>)

**2** for further information on this work please see <https://www.isealalliance.org/LivingIncome>

**Box 2.**

## Measuring incomes within Unilever's Sustainable Living Plan

Unilever's Sustainable Living Plan describes the company's sustainability ambitions, formulated into more than 50 time-bound targets. One of these is to: "engage with at least 500,000 smallholder farmers in our supply network. We will work with our suppliers to help them improve their agricultural practices and thus enable them to become more competitive. By doing so we will improve the quality of their livelihoods."

To better know and report on the impact of sourcing on smallholder livelihoods, Unilever tested a lightweight, farmer survey approach for measuring conditions in smallholder supply chains. By anchoring the measurement approach in Unilever's supply network, the company can both report on progress and diagnose issues with the potential to improve outcomes. The survey<sup>1</sup> was developed to assess smallholder performance along 12 key indicators established in consultation with a team of external expert practitioners. The initiative is being evaluated for cost-effectiveness and applicability to duplication in a number of different chains.

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1 <http://bit.ly/2fkB4Sv>



### FOR FURTHER INFORMATION

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