Small-Scale Farmers in Liberalised Trade Environment
Proceedings of the Seminar on October 2004 in Haikko Finland

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Preface

The Ministry for Foreign Affairs of Finland went through two exercises in 2003, namely the elaborations of the Government Resolution for Development Policy and the Ministry for Foreign Affairs’ Strategy for Rural Development. During these, the need for in-depth discussions on agriculture and, in particular, on the role of small-scale farmers in developing countries, emerged strongly. This triggered a process, which reached its peak with the Seminar on Small-Scale Farmers in Liberalised Trade Environment, in Haikko, Finland, on October 18-19, 2004. The seminar gathered together representatives of farmer and producer organisations, researchers and agricultural policy planners and makers from partner countries, Finland and international organisations.

The idea was to bring together people who have different perspectives to agriculture and, in particular, to the possibilities of small-scale farmers, who globally represent the majority of the poor in rural areas. The structure of Finnish agriculture has been based on small and medium size farms up to the last decade and is undergoing profound changes. This was one of the reasons for integrating both the Ministry for Foreign Affairs, the Ministry of Agriculture and Forestry and the Finnish producer organisation, the Central Union of Agricultural Producers and Forest Owners (MTK) in the process already from the earliest stages. The Service Centre for Development Cooperation (KEPA) participated in the organising committee, providing several contacts to the organisations representing the poorest farmers in developing countries. Another implicit reason for the involvement of various stakeholders in the process was the attempt to promote harmonisation between different policy areas by providing an opportunity for exploring the points of view of different participants through the small-farmer perspective. The perspective can be shared by both northern and southern farmers as well as developing and developed country farmers.

This publication is the result of the process hopefully contributing to both achieving the Millennium Development Goals and the harmonisation of different policy areas.
Acknowledgements

There were numerous people without whom the seminar would not have been realised and who deserve to be thanked. From the beginning, the Organising Committee, comprising of civil servants from the Ministry for Foreign Affairs of Finland (MFA), the Ministry of Agriculture and Forestry and the Central Union of Agricultural Producers and Forest Owners (MTK), and the Service Centre for Development Cooperation (KEPA) guided the process in a spirit of good collaboration. In particular, we would like to mention Mr. Veli-Pekka Talvela from the MAF and Tapio Kytölä from the MTK who integrated the Finnish perspective in the design of the event. The key note speaker, Dr. Joachim von Braun from IFPRI, launched an inspirational atmosphere to the seminar and assisted us to sum up the recommendations. All the presenters made a considerable effort to enlighten the different perspectives to the subject. During the seminar, the chairs of the plenary sessions and the working groups played an invaluable role by facilitating the discussions and assisting to collect the ideas of the participants. Behind the scenes there were several trainees and university students who helped with all the practical arrangements. Specifically, the trainees of the MFA merit a recognition: Ms. Taru Hermunen, Ms. Kati Pohjanpalo and Ms. Paula Väänänen, who helped with the practical arrangements and contributed significantly to the preparation and technical editing of this publication. In addition Ms. Matleena Varinen and Ms. Salme Liuska-Laitinen from the MTK contributed enormously to the practical arrangements. Our thanks go also to Ms. Nina Hyytiä, who coordinated the university student group from the Department of Economics and Management in the seminar, organised and led an undergraduate course in the topic of the seminar at the university, and contributed to the preparation and technical editing of this publication. But most of all, we would like to send our appreciation to the participants of the seminar for their time and contribution to the event.

The editors in Helsinki, March 21st, 2005

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Opening Speech

Pertti Majanen
Under-Secretary of State
Ministry for Foreign Affairs
Finland

We celebrated the World Food Day the 16th of October, which highlights one of the biggest challenges we face in today's world: the challenge of halving the proportion of people who suffer from hunger by the year 2015.

This target is related to the first of the MDGs which we, as member states of the UN, have agreed upon as our common framework in our efforts to reduce poverty and support equitable economic and social development in the world.

Since the adoption of the Millennium Declaration and the MDGs as our joint agenda in 2000, significant progress has been made in several fronts but the results are uneven. According to the latest monitoring reports provided by the multilateral organisations, the target of halving the proportion of people suffering from hunger can be achieved at the global level - mainly due to positive developments in China and India. However, sub-Saharan Africa and Latin America are seriously off-track, as are a number of other countries in other regions. In sub-Saharan Africa, less than 20 percent of countries are expected to reach the target. In some countries, especially in Europe and in Central Asia, malnutrition is increasing.

It is obvious that we need to strengthen our efforts to achieve the goal both in developed and in developing countries. The need for increasing support to agriculture and rural development has been highlighted in a number a recent policy documents of multilateral and bilateral organisations. In the beginning of October, NEPAD (The New Partnership for Africa's Development) also underlined the importance of agriculture for the future of Africa in the African Partnership Forum in Washington. Finland has prepared a Strategy for Rural Development in order to give more attention to this area. The Strategy highlights three focus areas for Finnish development policy: 1) Support for national strategies and institutions; 2) Support for the livelihoods strategies of the poor, especially rural women and contribution to economically sustainable productive and income-generating activities, and 3) Support for research, extension, training and services that benefit the poor.

Agriculture has a pivotal role for a large number of developing countries and it has been acknowledged in most of the national PRSPs (Poverty Reduction Strategy Processes). A very important element is of course trade, and in particular, the on-going negotiations on the Doha Development Agenda that urge all the parties to work toward concrete
advances in liberalising trade, strengthening multilateral trade rules and reducing trade-distorting subsidies.

We need to pay attention to the distribution of the benefits that openness of trade can promote. With regards to agricultural commodities, Asia has been increasing its share of the world market but Africa has lost both in relative and absolute terms. In Africa, the developments for agricultural commodities seem to reflect the disappearance of extension services and government supported marketing and distribution systems.

In developing countries, the share of small-scale farmers and the proportion of population depending on agricultural production for their food security and income is high, on average approximately 80 percent. These are the people who are most probably suffering from hunger and poverty. Rural development is a complex issue and requires complex solutions including support to agriculture, off-farm income generation, general infrastructure and investment climate. This contributes not only to the reduction of rural poverty but also eases up problems in urban centres by minimising immigration from rural areas to cities. Since the majority of those people who produce food in developing countries are small-scale farmers, we need to look at poverty from their perspective.

This seminar will attempt to identify how we can take into account the views of the small-scale farmers and ensure that they will get their share of the benefits from globalisation at different levels and by different actors. This seminar is a small step in the process towards achieving the eradication of hunger and poverty, but we believe that this issue is one of the crucial ones.
Opening Speech

Veli-Pekka Talvela
Director General for International Affairs
Ministry of Agriculture and Forestry
Finland

Our Distinguished Guests, Representatives of International Organisations, Colleagues, Dear Friends,

On behalf of the Ministry of Agriculture and Forestry of Finland I have the great pleasure to address this seminar. The seminar is another excellent example of good cooperation between the Ministry of Agriculture and Forestry and the Ministry for Foreign Affairs in the field of development policy.

The two Ministries have intensified their concerted efforts for the policy coherence for development. We acknowledge that in order to gain success in the struggle for the Millennium Development Goals, the rural societies and small-scale farmers are key sectors to cooperate with. One important step in this work is the creation of Finland's Rural Development Strategy for International Development. This was done last spring on the basis of the Government Resolution on the Development Policy Programme 2004.

In order to strengthen the normative basis for food security, the Finnish Ministries have also participated actively in the work of the Intergovernmental Working Group on Right to Food (IGWG). The FAO Committee on Food Security set up this working group in the autumn 2002. Its task, based on the Communiqué of the World Food Summit Five Years Later, was to elaborate a set of voluntary guidelines to support the progressive realisation of the right to adequate food in the context of national food security. We are pleased that the work of the IGWG is now finalised precisely in the timetable set by the FAO Committee on Food Security. In spite of some misgivings, the final document is a clear step forward. Now, for the first time we have a principal agreement on an international level of what the right to adequate food as a basic human right means. Now we have to continue our work in order to bring the guidelines, institutions, indicators and information onto a more practical level.

The Finnish development policy stakeholders have been trying to analyse our specific strengths in pursuing development policy objectives. I believe one of those strengths is clearly our historic experience in rural development in general and food security in particular. In a relatively short span of time, about 100 years, this country advanced from a state of frequent crop failures and even famine to self-sufficiency in food. All this took place in spite of a harsh climate and unfavourable farming conditions.
For the past almost a hundred years, the structure of Finnish agriculture has been based on small and medium size farms which are owned and operated by the farming families themselves. Men and women alike share the ownership and work of their farm on an equal basis. In order to improve the processing and marketing conditions of their farm products, the Finnish farmers created private co-operative companies more than hundred years ago. Still today these co-operative companies are the biggest food processors in Finland.

We are fully aware of the fact that these Finnish experiences normally cannot be duplicated and fitted seamlessly to another time and location. Natural conditions, historic experiences and different paths of development have created their unique courses in each country and region. However, we believe that it is always worth studying if there is something that can be learned from one another.

I already mentioned the importance of policy coherence in our work. I willingly admit that this is not an easy subject to us in the agricultural sector. I believe that for all of us, incoherence is painfully familiar in any given political sector including national politics. However, coherence between development policy and the other policies is one of the issues that has to be addressed seriously if we are to get anywhere near the goals we have set for ourselves in the Millennium Declaration. It is a great challenge to both industrialised countries and developing countries alike.

Policy coherence, however, has to be defined. We all need to know what we should do, where is it that we are falling short of our commitments. As in any other process, in order to evaluate the progress, the criteria and indicators must be set. To facilitate this work for the industrialised countries, the OECD Committee on Agriculture has asked Professor Alan Matthews of the Trinity College in Dublin to prepare an overview paper called “Policy Coherence for Development: Issues in Agriculture”. The Committee will discuss the draft document in its meeting in the beginning of December. One of the key sectors which are addressed in Professor Matthews’s paper is trade policy.

With the Doha Round of talks aimed at liberalising world trade we are experiencing the second round of negotiations involving also agricultural commodities. The Uruguay Round left most of the developing countries well short of what they expected in terms of a result that would benefit their trade, too. Now, as the WTO members gave this round the title "Doha Development Agenda", the expectations are high.

Dear friends, I am happy to notice that the October climate in Finland has not scared you as the topic of this seminar is an important one. We, the organisers, have been asking ourselves: “What does agricultural trade liberalisation mean to small-scale farmers? Will they be winners or losers? Will anything change?” This is the issue we have invited you to discuss here with us. I am looking forward to an extremely interesting event. Thank you for your attention.
Dinner Speech

Esa Härmälä
President
Central Union of Agricultural Producers and Forest Owners (MTK)

Ladies and Gentlemen,

It is my sincere pleasure to address this seminar, which is being attended by participants from all over the world. Our topic of discussion is essential to farmers, who must earn a living within the context of liberalising trade. I want to thank the Ministry for Foreign Affairs and the Ministry of Agriculture and Forestry for taking the initiative and arranging this seminar to exchange views on the issue at hand. I would also like to thank the organisers of this event.

There is a need for cooperation between farmers and countries both in the North and the South. This seminar is an excellent forum for that. As the Vice President of the International Federation of Agricultural Producers, I am personally pleased to participate in hosting this seminar here in Finland, my home country.

Please allow me to present some key figures on Finland and Finnish agriculture. Finland is a very sparsely populated country, with an average population density of 15 people per square kilometre. The population density is roughly comparable to Zambia, whose surface area and population are about twice that of Finland, if my sources are correct. Even though Vietnam and Finland have approximately the same surface area, Finland has a population of just 5 million to Vietnam’s more than 80 million inhabitants.

Finland is a country of forest and lakes. Almost 70 percent of the surface area is covered by forest and 10 percent by water. The surface area of water is larger than that of arable land, which accounts for around six percent of the total surface area. Our climate is challenging for agriculture. Many of you come from countries where there is a long dry season, in preparation for which you must store food and feed produced during the wet season. Our "dry season" has also begun. Plants do not grow any more due the cold weather. Soon snow will cover the entire country and we will have to use the food and feed produced during the three summer months.

We are able to cultivate less than 10 different plants, each with its own northern limit within Finland. These plants cannot be cultivated beyond this point. In the very south of the country we are able to produce wheat, rye, sugarbeets and rapeseed. Up to the central part of Finland we can produce barley and oats. Only grass and potatoes can be grown throughout Finland, including Lapland. Milk is the most important produce of Finnish farmers. We are also self-sufficient in pork, eggs and poultry.
About four percent of the Finnish labour force is engaged in agriculture. Even as recently as the 1950s, one-third of the total Finnish population were engaged in some form of agriculture. In 1950, we had more than 300,000 farms in Finland. Now the number of farms is about 70,000. The change has been rapid.

In recent years, Finnish farmers have been put under a great deal of pressure by liberalised trade. Finland joined the European Union in 1995. Before that Finland had its own rather protectionist agricultural policy. We then suddenly opened our borders to the 14 other EU member states. At the same time, the EU started the implementation of the WTO Marrakech Agreement, which lowered tariffs and support.

This year EU has expanded again, bringing the total number of member states to 25. This has significantly increased competition in the agriculture and food sectors. The process of EU expansion is still going on. Candidate countries, such as Bulgaria, Romania and Croatia, are awaiting their admission to the EU. Other western Balkan states and Turkey are also lining up for EU membership.

Every day in Finland, eight people leave agriculture for other occupations or to retire. Agricultural employment declined approximately 40 percent between 1990 and 2000. This trend continues.

I think that Finnish farmers and farmers in your countries have problems because of trade liberalisation. There are countries with more favourable agricultural conditions. There are more competitive farm structures. There is more pressure from the multinational production input industry, food processing industry and retail chains. In trade negotiations, more consideration must be given to difficult situations in certain countries around the world.

It must be understood that the liberalisation of trade as such cannot be the answer. Whether in Finland or developing countries, everyone must maintain the right and possibility to produce basic foods domestically. Food supply cannot be left solely in the hands of traders. There will always be those who are able to produce food more cheaply. Therefore, a solid agricultural policy is needed to secure the livelihood of farmers.

Volunteer farmer co-operatives should be encouraged to increase the bargaining power of farmers on the market. In all countries, the state authorities and farmer organisations should work together to help small-scale local producers to gain access to the market in their own area as well as in their home country. This is the first step toward creating market access. Producing food domestically is the key to economic growth. This is what we have tried to do. Most of the food we eat in Finland is still Finnish.

Soon we will have dinner together. We are serving some specialities from Finland, such as reindeer meat. I hope that everyone here enjoys this evening together. If you have any
questions or comments, we still have a few minutes to discuss them before moving into the dining room.
Executive Summary

Tiina Huvio, Jukka Kola and Tor Lundström

Background

The Seminar on Small-Scale Farmers in Liberalised Trade Environment was organised in Haikko, Finland October 18-19, 2004, by the Ministry for Foreign Affairs and Ministry of Agriculture and Forestry of Finland.

The ultimate objective of the seminar was to promote the First Millennium Development Goal to halve the proportion of people living in extreme poverty and hunger by 2015. Three quarters of the world's poor live in rural areas and the majority of these people depend on agriculture for their living. Therefore, agriculture and in particular small-scale farmers' position in the future will determine whether we are achieving the goal. In the globalising world, this is a complex target, which requires efforts in both developed and developing countries.

The starting point of the seminar was the fact that trade liberalisation is one of the key features of globalisation. The definition of small-scale farmers varies greatly in the world and as such represents a widely diversified group from middle class family businesses well-integrated into the market economy to subsistence farmers, who constitute almost 75 percent of the world’s poor.

The benefits of trade liberalisation and globalisation are not equally distributed, representing both opportunities and threats for small-scale farmers. Technological and political developments under the rubric of ‘globalisation’ connect food and agricultural systems in developing countries with the rest of the global economy. Farmers from a wide variety of agro-ecological, economic and social backgrounds are brought into competition through a common market. Globalisation has generally been considered as a threat among subsidised farmers in the developed countries. However, many developing countries view free trade as providing an opportunity for their agricultural sector to compete on the world market. The fact is that trade liberalisation is changing the environment for agri-food policies and business. Multilateral trade agreements increasingly influence the terms of trade, while the role of individual states is decreasing.
Agro-industry markets and commercial farms will continue to integrate and grow, and small-scale farming will have increased difficulties to compete on the global market.

The realisation that the majority of the world’s food insecure and malnourished people are food producers may seem obscure. The key theme of the seminar was on how the large majority of poor small-scale farmers are affected by trade liberalisation. Trade liberalisation and its effects on subsistence farms are multidimensional and complex, nevertheless integrating strong relationships between agricultural productivity, hunger, and poverty. How could global, national, and regional policies be translated into effective strategies and actions to eradicate poverty and hunger? For policies and actions to be effective, an understanding of the reality and the relationships involved is important. Further, it is imperative to recognise that small-scale farmers are not only targets of pro-poor policies, but partners and agents for developing livelihoods and generating capital for economic growth to achieve the goal of poverty reduction.

Seminar Proceedings

A month and a half prior to the seminar the organisers opened up an e-discussion forum on the seminar website on a few key subjects. It was thought that the forum would bring together seminar participants the world over and allow them to discuss issues they considered particularly important with regard to the position of small-scale farmers vis-à-vis the global markets, their governments and the supply chains. However, this debate received only a few contributions, mostly from developed countries, and mainly from consultants and academics.

The seminar was officially opened on Monday, October 18 by two opening addresses given by Under-Secretary of State Pertti Majanen from the Ministry for Foreign Affairs and Director General Veli-Pekka Talvela from the Ministry of Agriculture and Forestry. Dr. Joachim von Braun, Director General, IFPRI, continued with the key note speech, in which he gave a holistic overview of the situation and the role of small-scale farmers in today’s globalising world. The two other main speakers, Dr. Camilla Toulmin, Director at the IIED and Dr. Rosebud Kurwijila, The Commissioner for Rural Economy and Agriculture, African Union, followed by presenting two papers that particularly focused on the role, challenges and future prospects of small-scale farming in Africa. The morning ended with two case studies on the experiences of small-scale farmers from two rather different countries, Mozambique and Vietnam. These sessions were chaired by Dr. Mafa Chipeta from FAO.

Seminar work took also place in the form of working groups focusing on the following issues: supply chains and small-scale farmers, broader dimensions of agricultural policy, political power of small-scale farmers and the role of producer organisations, and the links of global mechanisms to small-scale farmers’ reality. Each working group started
off with a short introduction by an invited speaker. The working groups discussed and drafted their findings, which were presented at the end of the group work sessions on the second day, followed by a general discussion, in which key issues were once more debated under the direction of the chairwoman Ms Alexandra Trzeciak-Duval from OECD.

**Working Group 1** covered the subject of **Supply Chains and Small-Scale Farmers**. The group concluded that there are many different forms of supply chains, each with its rather specific requirements and “modus operandi”. Any strategies for positioning small-scale farmers better within the global economy must recognise that there is a substantial asymmetry in power and information within various supply chains. Exploitative relationships between powerful companies and very weak organisations representing small-scale farmers can neither build real “partnerships” nor should be seen as a model for liberalised market economy. The importance of domestic and regional markets was emphasised being actually more important for small-scale farmers than the more competitive international markets, especially in Africa. More coherent policies were called for in rich countries concerning aid versus trade. National governments have a role in facilitating pro-poor trade opportunities and deals e.g. at WTO, and promoting innovative risk insurance schemes. The importance of farmers' own organisations was emphasised.

**Working Group 2** discussed the **Broader Dimensions of Agricultural Policy in the Case of Small-Scale Farmers**. A clear role and responsibilities for the various actors (governments, intergovernmental organisations, private sector, non-governmental organisations, donors and farmers themselves) were called for with improved dialogue on e.g. private sector linkages with the small-scale farmers. In general, small-scale farmers have poor access to the market and poor access to credit or other types of finance. They are vulnerable to the supermarket chains and concentrated market mechanisms. Further, Group 2 emphasised the importance of improved organisation capacity of farmers' organisations. Small-scale farmers need help in order to become integrated into the production chains.

**Working Group 3** debated the **Political Power of Small-Scale Farmers and the Role of Producer Organisations**. Farmers' organisations have two roles: influencing national policy, and providing information to their members and the wider society. Influencing regional and global issues requires networking and international cooperation between various farmers' organisations. There is a tendency towards the work in farmers’ organisations being hi-jacked by the resourceful, well-off farmers. This has made it even more difficult to reach the poor. Financial sustainability is one of the biggest problems the organisations are faced with. Farmers’ organisations should be developed in such a way as to make them more attractive to farmers, providing incentives and encouragement for them to join.
Working Group 4 assessed Global Mechanisms and how these could benefit or affect small-scale farmers. Small-scale farmers, particularly in poor developing countries, face huge obstacles when trying to enter the global market. The barriers are many, including poor human and financial resources, the lack of infrastructure, and the lack or inadequacy of supporting government and farmers’ institutions that would represent them, facilitate market access, and boost demand on the international arena. At the present small-scale farmers are also confronted by a myriad of risks which were previously cushioned either by the state or by other arrangements. There is obviously a need for investment in risk management. Small-scale farmers’ low political and negotiating power can reduce the political will to improve the economic position of rural areas. As a result, small-scale farmers from poor developing countries are at the mercy of the rich and powerful in dealings such as e.g. the Doha Development Agenda (DDA) and the WTO negotiations. However, the WTO could, if successful, be the best alternative to protect small producers' benefits.

Conclusions and Recommendations

At the end of the seminar, the conclusions were summarised by Dr. Joachim von Braun, Director General, IFPRI, and discussed by the participants.

The small-scale farmers have an important role both as targets and actors in reaching the MDGs and are key agents for growth and poverty reduction. For this to be realised, global, national, and regional policies need to be in place so that effective strategies and actions can be designed. Today, such strategies and action programmes do not exist which may lead into new development frustrations. The present lack of strategy, lack of implementation capacity, and lack of resources needs to be addressed.

The rural small-scale farmers of today are going through a critical situation. Young people growing up on the farms are not attracted to the life of rural poverty and hard labour. Stagnation in the rural economies and a lack of livelihood opportunities will additionally encourage the young generation to look for alternative lifestyles away from the farms, with even increasing problems accumulated to urban areas.

There was a broad consensus that trade liberalisation has significant benefits for many low-income countries at least at an economy-wide level. But these benefits will only be accrued if developed countries reduce their protectionism, and if developing countries reduce the number and extent of trade barriers among themselves.

The distributional and poverty-reducing effects of the benefits of trade liberalisation are less clear. Research is lacking in this area, in particular on the dynamic effects of trade liberalisation policies for the poor. Rapid trade policy reform without prior social safety net implementation for the poorest was, therefore, not finding much support at the
seminar. The large heterogeneity among small-scale farmers was noted at the seminar. At least three different types of small-scale farmers need to be distinguished in relation to domestic and international markets: 1) small subsistence farmers with access only to local markets, 2) small-scale farmers who operate in the national market and 3) small-scale farmers who have access to international market channels. Addressing the diversity of small farmers by appropriate policies and programmes requires trade financing, infrastructure improvement, and institutional innovations, including the strengthening of cooperative and contract farming.

These conclusions lead to some suggestions for actions:

1. The agenda for trade policy reform serving developing country farmers and rural communities must be combined with finance for development. There is a need for a new pro-poor focus in agricultural and rural sectors in development finance.

2. Classifying “developing countries” appropriately (in view of their diversity) for trade negotiations according to their economic and institutional characteristics was called for.

3. Public goods that help to link small farmers to market opportunities must be more invested in, including improved infrastructure, contract security, research and technology, and improvement of information access. Investment in access to information, innovation and research that will benefit small farmers remains a major area for public action.

4. Social protection, education, and health in rural areas are key elements for successful transition management for the resource poorest, small-scale farmers. Due attention to HIV/AIDS, especially in Africa where small-scale farmers in rural communities are most affected by the disease, was called for.

5. Small-scale farmers must be enabled to gain political power through organisations. These organisations must be self-governed and represent their members, create the capacity to influence policy, and provide member services, e.g. insurance and credit. But these organisations require financial independence and political integrity to be effective. Government facilitation - not subsidisation - was called for. Strengthening small-scale farmers’ market power was highlighted as well. An appropriate legal framework together with self-help initiatives in support of farmers’ organisations were recommended to address the growing power imbalance.

6. A new division of labour among key actors was called for at the seminar. International and national actors, including governments, civil society organisations, and the private sector should optimise their respective roles in interactions. They should invest in market development and in integrating poor communities into future oriented business strategies. This is especially true in rural banking and insurance industries and not merely in input and output related manufacturing and trade.

7. It is crucial to achieve sound management of the supply chains at the local, regional and global level and to address distorted competition. An innovative partnership of public actors with the private sector is critical for creating opportunities for small farmers in the rapidly changing market contexts, including their connection to the retail sector, where food systems and agriculture are increasingly shaped by the supermarket culture.
8. In order to *maintain and develop a vibrant rural economy*, special attention should be paid to the changes in the social fabric of smallholder communities. The small-scale farm sector is aging and is changing its gender composition, mainly because of the rapid *migration* of young and predominantly male rural workers into the cities. Among the needed initiatives, giving rights to women farmers in relation to land and banking and the investment in social protection for the aged are of growing importance.

It is important that the future challenges facing small farmers are addressed by alliances of different actors and not just from a singular agricultural trade policy, or farm business, or development-aid policy perspective. The various perspectives have to come together in order to find feasible and efficient policy solutions.

The seminar organisers were asked to carry this initiative into their respective national development policy as well as into the European Union’s relevant decision-making bodies. In view of the long term challenge of the transformation of the small-scale farm sector, participants of the seminar urged the organisers to remain with this important policy theme.
PART ONE

Background Papers
1. Small-Scale Farmers in Liberalised Trade Environment

Joachim von Braun

1.1. Introduction and Overview

Small-scale farmers are at the centre of concerns about globalisation, and rightly so because they are the largest employment and small business group among the world’s poor. Their businesses use mostly local resources and face local constraints, which are deeply affected by global economic change. Such change is difficult for small farmers to project and assess. As a result, millions of small farmers and their families feel trepidation about the future. With the impacts of globalisation on small farmers, however, much depend on domestic policies, especially the scale and pattern of investments in public goods such as infrastructure and innovation systems, and effective social safety nets. In the coming decades, policymakers must rise to the challenge of developing “transition management” strategies for and with small farmers to facilitate their passage through these historically uncharted waters. The political, social, and economic stakes are very high. Without a new and comprehensive inclusion of small farmers in strategies aimed at achieving the Millennium Development Goals, especially that of cutting poverty in half by 2015, these goals will remain beyond reach.

The world’s poor small farmers are at a critical juncture. Policies must be designed to facilitate their potential role as important contributors to development. This requires active public policy. A global transformation in the food and agriculture market system is underway from a linear relationship between farmers, traders, agro-industry, and consumers toward complex interactions between and among those four actors. These developments currently tend to lead to bifurcations in the world agricultural systems of the types outlined in Table 1.

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1 Director General, International Food Policy Research Institute (IFPRI).

2 The research assistance of María Soledad Bos (IFPRI) in developing this paper is gratefully acknowledged, as are helpful comments on an earlier draft by Ashok Gulati (IFPRI) and Rajul Pandya-Lorch.

3 Globalisation is an intensification of political, technological, economic, social, and cultural relations that stretch beyond state borders. It includes integration of global input and output markets, global sharing of information and knowledge, and development of global rules, such as rules governing integration of food and agriculture markets.
Table 1. Bifurcations of world agriculture: stylised facts (von Braun, 2003).

<table>
<thead>
<tr>
<th>Agricultural Domains</th>
<th>Dominant</th>
<th>Marginal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farms</td>
<td>Large</td>
<td>Small</td>
</tr>
<tr>
<td>Agro-ecologies</td>
<td>Sustainable</td>
<td>Non-sustainable</td>
</tr>
<tr>
<td>Technologies</td>
<td>Using advanced science</td>
<td>Little connected to science</td>
</tr>
<tr>
<td>Markets</td>
<td>Integrated</td>
<td>Fragmented</td>
</tr>
<tr>
<td>Agro-industry</td>
<td>Competitive</td>
<td>Non-competitive</td>
</tr>
<tr>
<td>Consumers</td>
<td>Rich</td>
<td>Poor</td>
</tr>
<tr>
<td>People directly affected</td>
<td>Few</td>
<td>Many</td>
</tr>
</tbody>
</table>

Small farmers exhibit specific characteristics and play different, sometimes multifunctional “roles” in different regions of the world. These multiple roles must be assessed in a rural development context and include not only the key function of farmers as crop and livestock producers, but also diverse societal roles such as engines of economy-wide growth in early development stages, sources of employment generation and poverty reduction, and providers of ecosystems services. Obviously these roles vary by country and more broadly by region, and differ in significance in different stages of economic development. The problems specific to smallholders include high transaction costs per unit of output due to small surpluses; low risk bearing capacity; low access to finance, technology and information; and low capacity to implement food safety measures. On the other hand, small farmers may have some advantages over large enterprises; for example their high labour-to-land ratio may help them in high value agriculture, which normally requires more labour, provided they can overcome other constraints. Trade liberalisation has implications for all the aforementioned small farmer roles, problems, and opportunities.

This paper takes a fresh look at the changing roles and future challenges of small farmers in the context of globalisation, particularly in regard to changing domestic and international market conditions. Not only does increased global trade in terms of inputs and outputs change the situation of small farmers, but the emergence of a broader concept of “trade,” encompassing exchange in services, finance, information, and migration, changes the parameters of competition among farms—small and large. Emerging trends and structural changes in the smallholder sector across the world shall be assessed, especially the relationship between smallholder farming and poverty.

The question, How does trade liberalisation affect small-scale farmers?, needs to be addressed in location- and time-dependent contexts. Trade liberalisation exposes small farmers to much broader market risks and opportunities. Small farmers are dynamic actors who respond rapidly to economic incentives and risks they perceive in their environment. In a more globalised economy, however, the relevant information base of small farmers is limited. Information can be scale-neutral, but that depends on government action and institutional innovations alongside technological innovations, especially new forms of pro-small farmer cooperation and contracting.
This paper comprises four sections. Part one assesses the roles and characteristics of small farmers in different regions of the world; part two reviews small farmer strategies; and part three analyses the effects of trade liberalisation on small farmers. Part four is a discussion of the policy and research implications of the analyses.

1.2. Changing Farming Structures and Roles of Small Farmers

1.2.1. Definition of Small Farmer

Defining the term small farmer is a challenging task. In this paper we are mostly interested in farm “smallness” as it relates to the income and poverty status of people on farms. The definition of small farmer has been widely linked to the size of the landholding (or the number of livestock) owned or managed. The main disadvantage of this definition is that it may not be relevant for all regions and all crops. A small farmer with market access producing a high-value crop and another farmer on the same size farm cultivating a staple crop for home consumption can hardly be compared in a meaningful sense. Land quality and access to resources such as water are also key differentiators of small farms. It is important to capture these institutional and technical characteristics in the definition of small farmer. Unfortunately, such a refined definition is currently not feasible due to a lack of internationally comparable statistics.

Alternative definitions identify small farmers as resource poor farmers. For example, the productivity of a small piece of irrigated land would probably match that of a much larger piece of rain-fed (or degraded) land. Small farmers can also be defined from the labour angle, taking into account whether the family provides the majority of labour and whether the farm provides the principal source of household labour income (Narayanan and Gulati, 2002). Given our concern with poverty, an income-based definition of small farmers would be most appropriate. However, because of a lack of comparable information, in this research we categorise small farmers based on the size of landholding, and specify their characteristics across regions. Where possible, we incorporate income-related information, especially information related to changes in markets and trade.

1.2.2. Theoretical Determinants of “Smallness” in Agriculture

The factors that advantage and disadvantage small farms compared to large farms have been debated by economists for years. The issue is one not only of equity, but also of efficiency. The seminal research of Schultz (1964) on the efficiency of small and poor farmers brought to an end misleading debates equating small with inefficient. The
fundamental insights of Tschajanov (1923) based on empirical analyses of the relationships between labour use and farm size in Russia in the first decades of the 20th century emphasised that the small farm (including household plots for home production) should not be viewed as just a short-term transition phenomenon. It is an economic reality and it directly depends on the household utility function, and on the underlying economic conditions in product and labour markets as well as social system risks.

The concept of returns of scale has been used to probe many of the theories of optimal farm size (Chavas, 2001). Sen (1962) observed an inverse relationship between farm size and yield in Indian farms. Empirical studies of this inverse relationship in the 1970s found that in India small farms are more technically efficient than large farms (Yotopoulos and Lau, 1973; Berry and Cline 1979). These studies also found that there are constant returns of scale in Indian agriculture, providing a rationale for not consolidating small farms on the grounds of economies of scale. Hired labour is the main reason for the lower productivity of larger farms (Binswanger and Rosenzweig, 1986).

Family workers are cheaper and more efficient than hired workers because (1) family members receive a share of the profit and thus pay greater attention to quality of work than hired labour, (2) family members require no hiring or search costs, and (3) each family member assumes a share of the risk. In many cases the small family farm is the optimum size because scale economies that arise from using inseparable inputs (like agricultural machineries) are offset by the scale diseconomies that arise from using hired labour (Hayami, 1998). Because the dispersion of agricultural operations over large spaces requires monitoring costs, small family farms are often more productive than large farms that depend on hired labour. On the other hand, large farms enjoy a credit cost advantage while small family farms enjoy a labour cost advantage; a U-shaped relationship emerges between farm size and productivity (Binswanger and Rosenzweig, 1986). Additionally, the optimal farm size will be heavily influenced by the capacity of small versus large farm communities to engage in political lobbying and rent seeking and development of the non-agricultural sector, especially in regard to the opportunity cost of labour. Ultimately, the optimal farm size will be the one under which labour productivity of the agricultural sector approaches that of the non-agricultural sector, given the same quality of labour. However, transitions to such a state can take a long time due to institutional rigidities, transformation risks, and policies.

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4 For farms in developed countries, the hypothesis of an inverse relationship might not apply. For example, a study of the profitability of Utah dairy farms (Kumbhakar, 1993) and an analysis of the relationship of economic efficiency and farm size in California in the 1970s (Hall and LeVeen, 1978) both found that small farms, on average, are less profitable relative to medium-sized and large farms. According to Hall and LeVeen (1978), sources of the cost advantage of large farms can be economies of size, pecuniary economies of size (volume discounts of purchase inputs), and quality of resources.

5 Greater political lobbying power may be an added advantage of large farms. Furthermore, market characteristics can have a major impact on farm size, such as the limitations in competition and legal enforcement of contracts leading to mega conglomerates of farms of tens of thousands of hectares—as, for instance, in Russia—to facilitate control over the supply chain for food processing and the retail sector (Koester, 2003).
1.2.3. Worldwide Small Farm Patterns and Change

The world currently contains about 460 million farms, if we include small household agricultural production. Table 2 depicts their estimated size distribution (not controlled for land quality). Approximately 85 percent of the world’s farms are smaller than 2 hectares, and of those farms smaller than 2 hectares, 90 percent are in low-income countries. Farm sizes in sub-Saharan Africa and Asia remain predominantly less than 1 hectare, and there is evidence that farm size is gradually shrinking over time.

Table 2. An approximation of world farm size distribution, late 1990s. (von Braun, 2003)\(^a\).

<table>
<thead>
<tr>
<th>Farm Size (hectares)</th>
<th>Percentage of All Farms</th>
<th>Number of Farms (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 1</td>
<td>73.2</td>
<td>333.95</td>
</tr>
<tr>
<td>1–2</td>
<td>11.7</td>
<td>53.29</td>
</tr>
<tr>
<td>2–5</td>
<td>8.9</td>
<td>40.28</td>
</tr>
<tr>
<td>5–10</td>
<td>3.0</td>
<td>13.77</td>
</tr>
<tr>
<td>10–20</td>
<td>1.5</td>
<td>7.12</td>
</tr>
<tr>
<td>20–50</td>
<td>0.8</td>
<td>3.72</td>
</tr>
<tr>
<td>50–100</td>
<td>0.4</td>
<td>1.67</td>
</tr>
<tr>
<td>100–1,000</td>
<td>0.4</td>
<td>1.98</td>
</tr>
<tr>
<td>&gt; 1,000</td>
<td>0.1</td>
<td>0.30</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0</strong></td>
<td><strong>456.07</strong></td>
</tr>
</tbody>
</table>

\(^a\) Derived from United Nations Food and Agriculture Organization (FAO) World Agricultural Census, 1990; Supplement to FAO World Agricultural Census (various years, 1990–1997); and various other country statistics.

Small farmers have different characteristics in different regions of the world (Table 3). In most of sub-Saharan Africa, more than 96 percent of farmers operate on a small scale, farming less than 5 hectares.

Table 3. Approximate farm size by world region (FAO, 1997).

<table>
<thead>
<tr>
<th>World Region</th>
<th>Average Farm Size (Ha)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>1.6</td>
</tr>
<tr>
<td>Asia</td>
<td>1.6</td>
</tr>
<tr>
<td>Latin America and Caribbean</td>
<td>67.0</td>
</tr>
<tr>
<td>Europe</td>
<td>27.0</td>
</tr>
<tr>
<td>North America</td>
<td>121.0</td>
</tr>
</tbody>
</table>

In Asia, small farmers play an even more prominent role. In most Asian countries, more than 95 percent of farmers hold less than 5 hectares of land. In China, 93 percent of farms are less than 1 hectare in size. Farms of less than 5 hectares in size account for 63 percent of the total area under cultivation in India and 89 percent in Indonesia. The average size
of farms in Asia is 1.6 hectares, and in countries like Bangladesh and China this number is close to half a hectare.

Farm holdings in Latin America and the Caribbean are larger; the average size for the region is 67 hectares (17 hectares if Argentina is not considered). Latin America and the Caribbean also have the highest Gini coefficients for land distribution among all regions, implying that this region has the largest inequality in land holdings. In contrast, countries from Africa present a more equal distribution of land with the lowest Gini coefficients among regions.

Access to land has a critical bearing on the participation of smallholders in markets, as well as on the benefits they receive from market liberalisation. Furthermore, many of the rural poor in Asia and Africa either lack access to land altogether, or to sufficient land for food production. Landlessness in rural South Asia is closely related to poverty. The bottom income quartile of agricultural households in many African countries are virtually landless, having less than 0.12 hectare per capita; in Ethiopia and Rwanda, the poorest quartile have access to less than 0.03 hectare per capita (Jayne et al., 2001). This has severe implications for food security and opportunities for economic growth: access to land and the size of landholdings are strongly correlated with improving incomes of Africa’s rural poor and achieving broad-based economic growth (Deininger, 2003; de Janvry and Sadoulet, 2002).

Small farms do not quickly diminish in number in the economic development process. In Europe, about 30 percent of farms are less than 5 hectares in size. Those farms cultivate only around 5 percent of the total land. In Spain and Portugal, small farms represent more than 60 percent of farms. A different profile of small farms exists in central and eastern European countries. In those countries, subsistence farming is negatively related to GNP per capita and economic growth, and food and labour market risks exert an influence on household small farming in this context (von Braun and Lohlein, 2003).

In summary, the smallest farms on average are found in Africa and Asia. In those two regions the vast majority of farming is done on farms of less than 2 hectares. Hence, when we talk about small farmers on a global scale, we must largely focus on Africa and Asia. When we look at patterns of change, the differences become even stronger. We observe that farms in developing countries tend to get smaller and farms in middle- and high-income countries tend to get larger (Table 4). An explanation of these trends can be found in land policies and the returns to labour on and off farm, which are determined by employment, technology, and market opportunities. In view of the large differences in population densities between Africa and Asia, population density seems less of a

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6 Research has shown that women’s lack of landownership reduces their productivity as farmers by restricting their access to credit and extension advice, and by limiting their influence in decision-making. Moreover, where women have independent rights to land or are recognised as co-owners of land with their husbands, they also have more bargaining power within the household, which has been shown to increase the proportion of household income spent on food, education, and welfare of children (Meinzen-Dick et al., 1997; Quisumbing et al., 1995).
fundamental determinant of farm size. Productivity growth of small farms in Asia played a crucial role in the initial growth of the Asian economies, and that role remains strong in parts of Asia, particularly so in South Asia. In Africa, small farms are even more critical for economic development.

Table 4. Change in average size and median size of farms, selected countries (FAO, 1997).

<table>
<thead>
<tr>
<th>Countries</th>
<th>Census Year</th>
<th>Average Size (Ha)</th>
<th>Change in Average Size</th>
<th>Median Size for Area (Ha)</th>
<th>Change in Median Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Congo, DR</td>
<td>90</td>
<td>0.53</td>
<td>Decrease</td>
<td>0.76</td>
<td>Decrease</td>
</tr>
<tr>
<td></td>
<td>70</td>
<td>1.51</td>
<td></td>
<td>1.80</td>
<td></td>
</tr>
<tr>
<td>Ethiopia</td>
<td>89/92</td>
<td>0.80</td>
<td>Decrease</td>
<td>1.30</td>
<td>Decrease</td>
</tr>
<tr>
<td></td>
<td>77</td>
<td>1.43</td>
<td></td>
<td>2.30</td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>91</td>
<td>1.55</td>
<td>Decrease</td>
<td>3.40</td>
<td>Decrease</td>
</tr>
<tr>
<td></td>
<td>71</td>
<td>2.30</td>
<td></td>
<td>5.50</td>
<td></td>
</tr>
<tr>
<td>Philippines</td>
<td>91</td>
<td>2.16</td>
<td>Decrease</td>
<td>4.30</td>
<td>Decrease</td>
</tr>
<tr>
<td></td>
<td>71</td>
<td>3.61</td>
<td></td>
<td>5.40</td>
<td></td>
</tr>
<tr>
<td>Brazil</td>
<td>85</td>
<td>64.64</td>
<td>Increase</td>
<td>670</td>
<td>Increase</td>
</tr>
<tr>
<td></td>
<td>70</td>
<td>59.96</td>
<td></td>
<td>520</td>
<td></td>
</tr>
<tr>
<td>United States</td>
<td>87</td>
<td>186.95</td>
<td>Increase</td>
<td>740</td>
<td>Increase</td>
</tr>
<tr>
<td></td>
<td>69</td>
<td>157.61</td>
<td></td>
<td>530</td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>89</td>
<td>31.46</td>
<td>Increase</td>
<td>52</td>
<td>Increase</td>
</tr>
<tr>
<td></td>
<td>71</td>
<td>22.07</td>
<td></td>
<td>33</td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>95</td>
<td>30.26</td>
<td>Increase</td>
<td>73</td>
<td>Increase</td>
</tr>
<tr>
<td></td>
<td>71</td>
<td>14.18</td>
<td></td>
<td>20</td>
<td></td>
</tr>
</tbody>
</table>

1.2.4. Broad Transformations of the Small Farming Context

The transformation of smallholder agriculture is part of an economy-wide and societal change. It entails the processes of urbanisation, partly driven by differential growth across sectors. These processes are briefly reviewed below.

Over the past three decades, the non-agricultural population has increased much more rapidly than the agricultural population (see Table 5 and Figure 1). Urbanisation will affect farmers across the world, but most importantly in Africa and Asia, where small farmers predominate. In sub-Saharan Africa (SSA) and South Asia in the last decade, non-agricultural population growth was three times that of agricultural population growth. In Latin America and the Caribbean (LAC), we can even observe the agricultural population shrinking, as is the trend in developed countries. In sub-Saharan Africa and South Asia, more than 50 percent of the population, more than 1 billion people, still depends directly on agriculture.
Table 5. Agricultural and non-agricultural population growth rates by decade (World Bank, 2004).

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sub-Saharan Africa</td>
<td>22</td>
<td>26</td>
<td>24</td>
<td>77</td>
<td>57</td>
<td>68</td>
</tr>
<tr>
<td>East and South East Asia</td>
<td>9</td>
<td>11</td>
<td>4</td>
<td>51</td>
<td>36</td>
<td>38</td>
</tr>
<tr>
<td>South Asia</td>
<td>18</td>
<td>13</td>
<td>13</td>
<td>41</td>
<td>48</td>
<td>44</td>
</tr>
<tr>
<td>Latin America and the 4</td>
<td>–8</td>
<td>–9</td>
<td></td>
<td>44</td>
<td>39</td>
<td>32</td>
</tr>
<tr>
<td>Caribbean</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Developed Countries</td>
<td>–18</td>
<td>–16</td>
<td>–30</td>
<td>15</td>
<td>11</td>
<td>10</td>
</tr>
<tr>
<td>World</td>
<td>11</td>
<td>10</td>
<td>6</td>
<td>31</td>
<td>27</td>
<td>29</td>
</tr>
</tbody>
</table>

Figure 1. Agricultural population as a percentage of total population, 1970–2002 (World Bank, 2004).

The pressure for change in Asia’s small farm sectors can be assessed by comparing the levels and trends in labour productivity in industry and services relative to agriculture (Table 6). The labour productivity ratio of industry relative to agriculture is much higher in China than in other Asian countries. This ratio has risen substantially in China over the past 20 years while the same indicator for other countries has remained stable or fallen. The labour productivity ratio between services and agriculture approaches parity in Taiwan and Korea.
Table 6. Trends in the ratio of labour productivity of industry and the service sector to that of the agricultural sector in East Asia (Zhang and Tan, 2004).

<table>
<thead>
<tr>
<th></th>
<th>China</th>
<th>Philippines</th>
<th>Korea</th>
<th>Indonesia</th>
<th>Malaysia</th>
<th>Taiwan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry/Agriculture</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1987-1989</td>
<td>4.6</td>
<td>4.4</td>
<td>2.5</td>
<td>7.2</td>
<td>2.7</td>
<td>3.9</td>
</tr>
<tr>
<td>1995-1998</td>
<td>5.4</td>
<td>4.5</td>
<td>2.4</td>
<td>7.0</td>
<td>2.1</td>
<td>4.7</td>
</tr>
<tr>
<td>2001-2002</td>
<td>7.5</td>
<td>4.2</td>
<td>3.1</td>
<td>6.5</td>
<td>2.5</td>
<td>4.5</td>
</tr>
<tr>
<td>Services/Agriculture</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1987-1989</td>
<td>3.8</td>
<td>2.1</td>
<td>2.6</td>
<td>3.6</td>
<td>1.5</td>
<td>1.6</td>
</tr>
<tr>
<td>1995-1998</td>
<td>3.2</td>
<td>2.1</td>
<td>1.9</td>
<td>2.8</td>
<td>1.8</td>
<td>1.7</td>
</tr>
<tr>
<td>2001-2002</td>
<td>4.0</td>
<td>1.8</td>
<td>1.7</td>
<td>3.0</td>
<td>1.9</td>
<td>1.3</td>
</tr>
</tbody>
</table>

The small farm sector is in dynamic change almost everywhere. Agrarian countries, where most work is in agriculture, are characterised by cheap farm labour and expensive capital. Small farming tends to be economically efficient under those conditions. As countries grow and diversify and workers leave agriculture, capital becomes cheaper and large farms become economical (Hazell, 2001). Against this background, we turn now to the implications of market change and trade liberalisation for small farmers.

1.3. Smallholder Strategies in a Changing Market Context

Small farmers can, in principle, follow one of three avenues to secure their economic future:

1. Grow through specialisation, diversification, and commercialisation (e.g., into high-value products).
2. Seek additional off-farm income and become a part-time farmer.
3. Follow a strategy to exit farming (including migration).

The opportunity for a small farmer to pursue any of these theoretical options (or a mix of these in a household context) depends on access to markets (i.e., product markets, markets for services, and labour markets) and the competitiveness of small farmers in those markets, and these factors in turn depend on supportive policies. Poor small farmers and their families cannot take large risks. In the absence of vibrant economic growth, none of the aforementioned options exists and smallholders are locked in. This is the reality for many smallholders. If smallholders consider the actual and perceived risks and opportunities on their small farms (with current production patterns) as advantageous, as compared to more specialised farming or off-farm work, then such households remain focused on subsistence farming. Subsistence farming thus represents a risk-coping survival strategy. Flawed international trade policies and lack of domestic market reforms with impaired institutions could therefore result in detrimental scenarios for small farm households that could translate into a massive expansion of subsistence farming in parallel to globalisation.
1.3.1. Growth through Specialisation, Diversification, and Commercialisation

For low-income countries, specialisation and commercialisation of farming households within a more diversified economy is part of a desirable development process. An early stage of this process is the transformation of small farm subsistence production. High risk of income fluctuations of farm households in poverty and high transaction costs are the basic reasons for the prevalence of subsistence farming. Policy must facilitate a transition that does not unduly replace (old) subsistence-related production risks with (new) market and policy failure risks, the profiles of which the poor may be much less able to estimate. Price and exchange rate fluctuations are part of these new risks in globally exposed small farms. Avoidance of trade shocks and concern for appropriate scheduling of input and output market reform are important considerations in this respect. That market-oriented policies and the forces of trade are advantageous to development is unquestionable. However, open trade policies do not benefit everyone and not all at the same time, and the risk that policies or markets may fail, and risks inherent in household-level complexities, are also real, and need to be recognised as potential determinants of inefficiencies and inequities.

Diversification in agriculture typically combines specialisation at the farm level and more diversified production and processing at the regional level. The main advantage of diversification of crops is that it can generate additional employment opportunities in rural areas. For example, growing vegetables is substantially more labour-intensive than growing cereals, especially in regard to post-harvest activities. Thus, specialisation in the growing of vegetables increases demand for agricultural labour and pushes up rural wages. As a corollary, agriculture in particular and the rural economy in general become more commercialised. Commercialisation of subsistence agriculture can occur on the output side, with increased marketed surplus, or on the input side with increased use of purchased inputs (von Braun, 1995). As the level of commercial orientation increases, mixed farming systems give way to specialised production so as to be able to respond rapidly to market prices and quality inputs. Diversification at the agricultural sector level is therefore consistent with specialisation at the farm level. Commercialisation leads to a diversity of marketed products at the national level and, at the same time, to increased regional- and farm-level specialisation (Pingali and Rosegrant, 1995). As mentioned above, commercialisation of agriculture benefits the poor by directly generating employment and increased agricultural labour productivity. However, commercialisation in conjunction with failure of institutions, policies, or markets can be detrimental to household welfare.

Even with well-functioning factor and product markets, it is easy to imagine scenarios in which some poor producers in low-income countries lose out due to commercialisation. Such scenarios include the “agricultural treadmill,” late access to new commercialisation and technical options, and a host of “bad policies.” Increased market supply coupled with highly inelastic demand is one such scenario in which some producers lose. The resulting...
agricultural treadmill—increased supply leading to lower prices—is a reality with important regional and international dimensions. Assessing the effects of commercialisation and technical change from the perspective of producers only is misleading. Once the consumption effects and other general equilibrium effects are included in the assessment, the treadmill effects are usually diffused (Binswanger and von Braun, 1991). Commercialisation is at different stages in different regions of the world. East Asian countries are further along the agricultural commercialisation pathway, while South East Asia and Latin America are moving rapidly toward commercialisation. In contrast, countries in South Asia and sub-Saharan Africa are at the beginning of the commercialisation pathway. Although the rate of commercialisation differs by country and region, all countries are moving in the same direction of increased commercialisation. Small farmers are not fully exploiting the potential gains of commercialisation and specialisation, however, largely because farmers prefer to forego some of the potential gains of commercialisation in order to maintain household food security based on their own production of food crops (von Braun, 1995). This approach provides insurance for farm households where income is uncertain. In theory, this strategy may be viewed as a second-best solution compared with full market integration. However, given the risky economic environments within which many small farmers operate, and the lack of other insurance options, their strategy of maintaining their own food supply may be the economically first-best solution.

The situation in Africa provides a good example of how development and urbanisation can benefit small farmers. An urbanised population tends to consume more fish and meat, vegetable and animal oil and fats, fresh fruits and vegetables, and prepared foods, offering African farmers important new windows for diversification into high-value products for regional and domestic markets. Trade of this type, especially in fish, fruits and vegetables, and processed foods, already accounts for more than 40 percent of the total value of agricultural products traded across borders in the region. Africa’s small farmers are well positioned to capture substantial shares of these growing markets, as illustrated by the recent rapid rise of peri-urban dairy farming in some East African countries.

The consumption and production of high-value food products are increasing rapidly in developing countries. This creates opportunities for small farmers to become involved in this rapidly evolving sector. Consumption of animal products and fruits and vegetables is expanding rapidly due to population growth, urbanisation, and higher incomes (Delgado et al., 2001). In addition to domestic demand for these products, exports to developed countries have also increased. Global markets for high-value agricultural products have become increasingly concentrated with greater vertical integration between producers and consumers. These high value agricultural commodities are in most cases perishable, in which case fast delivery from producers to consumers or processing farms is critical. This special characteristic demands a much more closely coordination between planting, harvesting, marketing and processing than in the case of traditional farmers marketing
systems (Hayami, 2004). Effective participation by developing-country producers in these growing global markets requires access to specialised information, technology, professional knowledge, assets, institutions, infrastructure, and liquidity. Small farmers may turn to two key strategies to get involved in high-value agricultural production: producer-marketing cooperatives and contract-farming schemes (Delgado et al., 2001). Well-managed contract farming has proven effective in linking the small farm sector to sources of extension advice, mechanisation, seeds, fertilizer, and credit, as well as to guaranteed and profitable markets for produce.

The rapid rise of the supermarket in Africa, Asia, and Latin America over the past 10 years has transformed agri-food markets at different rates and depths across regions and countries (Reardon et al., 2003), and has created opportunities and challenges for small farmers. For example, the standards and supply reliability demanded by supermarkets raise the bar for small producers (Boselie et al., 2003). Markets are shifting from fragmented, local markets to larger centralised, wholesale markets. This integration is accelerated by urbanisation and improvements in roads, and thus it takes place at different rates over regions, countries, and zones. From the earliest to the latest adopter of supermarkets, the regions range from Latin America to Asia to Africa, roughly reflecting the ordering of income, urbanisation, and infrastructure and policies that favour supermarket growth. In contrast to traditional multilevel and fragmented marketing systems, supermarket supply chains are shorter, more condensed, and involve direct delivery to centralised distribution centers (Boselie et al., 2003). The rise of the supermarket has tended to lower information costs and risks because supermarkets generally communicate clear quality grades and standards with which suppliers must comply. Furthermore, the contact between supermarkets and their suppliers acts a channel for consumer information from the supermarkets, who have better access to urban consumers, to farmers. Given that many of the production techniques required to grow crops of the type and quality demanded by supermarkets cannot be mechanised, there may be very limited economies of scale in production. Indeed, small producers may have lower production costs because they achieve higher yields and are less capitalised. At present, however, the great majority of products acquired by supermarkets in Latin America come from medium and large farmers. The continuation and deepening of this trend toward a broader application of stricter quality and safety standards by supermarkets will pose a challenge for small farms.

1.3.2. Seeking Additional Off-Farm Income and Becoming a Part-Time Farmer

Turning to non-farm income is one strategy farmers use to cope with farm resource constraints and risky farm income. The rural poor work in the non-farm sector much more than is generally realised, particularly in the commerce, manufacturing, and service sectors (von Braun and Pandya-Lorch, 1991; Haggblade et al., 1989; Reardon 1997; Reardon et al., 1994). To the extent that trade liberalisation raises the perception (or
reality) of farm income volatility, we should expect small farmers to increasingly adopt this strategy. In the late 1990s, for example, as much as 46 percent of rural household income came from non-farm sources in selected Latin American countries, and the proportion was approximately 45 percent in Africa and 35 percent in Asia (Narayanan and Gulati, 2002). Hazell and Haggblade (1993) showed that the share of household non-agricultural income is inversely related to farm size, with landless and near-landless workers deriving between a third and two-thirds of their income from off-farm sources. Agricultural growth coupled with growth in the non-farm economy offers synergistic opportunities for poverty reduction and income growth beyond agricultural growth alone. In sub-Saharan Africa, gains in agricultural income and calorie consumption as a whole will be severely limited if the non-agricultural economy does not grow (Diao et al., 2003b).

Despite the large proportion of smallholders currently involved in multiple jobs, for many small farmers, especially in Africa, this strategy has not led to an escape from poverty. Household surveys in Ethiopia, Kenya, Rwanda, Mozambique and Zambia between 1990 and 2000 show that the poorest farmers are those that have the least access to land and also those with the lowest off-farm income. In each of these countries, households with small per capita landholdings are not able to earn enough off-farm income to compensate for their low farm income. In Kenya, for example, 71 percent of households in the lowest per capita land quintile are living below the poverty line, whereas only 32 percent of households in the fourth quintile live in poverty (Jayne et al., 2001).

Inspection of the income structure of small farmers in Benin and Malawi reveals a diverse pattern (Table 7). In the case of Benin, crop sales represent the largest source of income for small farmers, followed by non-farm enterprises. In the case of Malawi, non-farm enterprises are the main source of income for small farmers whereas crop sales are the major income source of larger farms. The proportion of the total income accounted for by crop sales increases with farm size in both Benin and Malawi. Income from non-farm enterprises decreases for households with larger farms and so does agricultural wages. In both countries, livestock sales increase with farm size.
Table 7. Income by source and farm size category, Benin and Malawi as percent of total (Kherallah et al., 2001)\textsuperscript{b}.

<table>
<thead>
<tr>
<th>Source</th>
<th>Benin Smallest Farm Size Quintile</th>
<th>Benin Largest Farm Size Quintile</th>
<th>Malawi Smallest Farm Size Quintile</th>
<th>Malawi Largest Farm Size Quintile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crop Sales</td>
<td>48</td>
<td>60</td>
<td>15</td>
<td>39</td>
</tr>
<tr>
<td>Livestock Sales</td>
<td>6</td>
<td>7</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Non-farm enterprises</td>
<td>20</td>
<td>16</td>
<td>40</td>
<td>17</td>
</tr>
<tr>
<td>Agricultural Wages</td>
<td>4</td>
<td>2</td>
<td>9</td>
<td>2</td>
</tr>
<tr>
<td>Non-agricultural wages</td>
<td>10</td>
<td>5</td>
<td>19</td>
<td>30</td>
</tr>
<tr>
<td>Remittances</td>
<td>4</td>
<td>2</td>
<td>11</td>
<td>4</td>
</tr>
<tr>
<td>Pensions, gifts, assistance</td>
<td>0</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Other</td>
<td>7</td>
<td>5</td>
<td>3</td>
<td>0.5</td>
</tr>
</tbody>
</table>

\textsuperscript{b}Based on the IFPRI/ LARES Small Farmer Survey for Benin, 1998 and the IFPRI-APRU Malawi Small Holder Farmer Survey, 1998\textsuperscript{7}.

1.3.3. Exit Strategies, Including Migration

The trend of rural to urban migration remains strong in Asia and Africa and is partly reflected in the urbanisation trends described above. Migration operates as a risk management strategy and a way to ease liquidity constraints in the absence of insurance and credit markets. Migration can be from rural to urban areas, as in China, or from rural to more prosperous rural areas, as in West Africa. In both cases migration provides a mechanism for coping with the adverse effects of trade liberalisation on specific countries or specific sectors of their economies. Migration is determined by push and pull factors, with differences in income, job opportunities and wages acting as incentives to migrate until conditions in the sending and receiving sectors or countries even out. Typically, migration decisions by small farmers are joint decisions taken by the entire household.

Since the start of economic reforms in 1978, China has seen its largest ever labour flow from primary sectors to other sectors. Large income differentials between agricultural and non-agricultural employment provide strong incentives for labour to move to the non-agricultural sector. The proportion of Chinese who were employed in agriculture decreased from 71 percent in 1978 to 48 percent in 1996 (Tuan et al., 2000).

Small-farmer dominated West Africa provides the highest number of intraregional migrants in sub-Saharan Africa, and it is the primary region sending migrants to Europe. Nevertheless, regional migration flows are higher than migration out of Africa. In this region, migration is characterised by being temporary or “circular labour migration”. International labour migration predominantly involves movements from rural to rural

\textsuperscript{7}The results refer only to cash income and exclude the value of goods produced by the household. The structure of overall income (including home consumption) would show a greater importance of agriculture.
areas, although migration from rural to urban areas also occurs. For example, a study of migration from Burkina Faso to Ivory Coast showed that before migration the most important source of income for households was agriculture and livestock farming, representing 60 percent and 18 percent respectively, whereas after migration agriculture became an even more prominent source of income, representing 85 percent of all income sources (Konseiga, 2004). The same study showed that migrant households saved more when living in Cote d'Ivoire and were also able to get more credit. Migration is to be explained in a household context by income differentials and as a risk coping strategy, and is in this context expected to be partly temporary.

While migration is a strategy option for small farmers, the external effects of migration on communities and the economy must also be considered. Policy, including trade policy, can have a major impact on the push towards migration out of rural areas by enhancing income opportunities in those areas through better access to markets and productivity enhancing technology.

1.4. Implications of Trade Liberalisation and Market Reforms for Small Farmers

The effects of trade liberalisation on actors in the domestic economy depend on the prevailing differences in domestic markets versus international markets before liberalisation and the capacity of actors (e.g., small farmers) to respond. The effects result from

- Changes in price levels for inputs and outputs,
- Changes in price volatility,
- Indirect effects through relative protection in agriculture versus other sectors of the economy, and
- Exchange rate and other macro-economic effects.

Until recently, agriculture in low-income countries has been discriminated against through a host of dis-protection policies. In the 1990s this changed in many countries, at least for staple crops (grains). Aggregate measures of support of agriculture no longer show general price discrimination in developing countries. In this respect, developing countries are better positioned for smooth opening up. Price volatility, however, especially in traditional export markets relevant to small farmers such as coffee and cotton, remains an issue. Moreover, in the past domestic price volatility has often exceeded international price volatility. Furthermore, new non-price measures of discrimination have become more relevant, such as standards and quality stipulations.

The actual transmission of the effects of the opening of international markets through the food market system can be impaired. Given existing economies of scale and that
innovations in small farmer institutions and technologies are often lacking, small farmers may be prevented from benefiting from access to trade. Furthermore, if local oligopsonies shape the market situation confronting small farmers, a more liberalised international trade environment may do little to change the market access constraints of small farmers.

Studies that evaluate the implications of trade liberalisation for poverty in general far outnumber those that focus exclusively on the predicate of the smallholder (Narayanan and Gulati, 2002). However, to the extent that smallholders constitute a substantial part of the rural poor, studies analysing the implications for poverty in general are still relevant, especially for Asia and Africa, where poverty and smallholder agriculture overlap to a great extent. Most of the research in this area is sector or crop specific, with many studies focusing on a single commodity.

Any analysis of trade liberalisation on smallholders must also distinguish between short-term and longer-term effects. The short-term effects of trade liberalisation on smallholders result from changes in relative prices, holding current production and consumption patterns constant. To assess the impact on farmers and their households it is important to analyse both the production and consumption roles of the farmers. Their status as losers or winners will depend on whether they are net sellers or net buyers of the commodities under analysis. In the longer term, the farm and household response to price changes will show whether or not smallholders have benefited. In the medium and long terms, cropping patterns are expected to shift to activities whose relative profitability is higher or to those crops whose prices rise if farmers are net sellers. On the consumption side, small farm households are expected to move toward those items whose relative prices have declined. The pay-off of trade liberalisation takes time to manifest. The long-term responses include investment and migration. For most countries, agricultural liberalisation generates larger gains over time than in the short term. In addition, most studies assume that price changes at the border are transmitted smoothly down to farmers, which is usually not the case, especially in developing countries. The extent of price transmission will depend on domestic policies and structural and institutional factors.

The outcomes of trade liberalisation depend greatly on the domestic and international institutional frameworks under which liberalisation is pursued, and on investments that accompany or follow liberalisation and that may lower costs of trade and facilitate scaling up. Fundamentally, markets depend on sound political and economic institutions to operate. Institutions are the “rules of the game”—i.e., the relationships between actors, such as firms, consumers, and the state—that embody the incentives that make markets function efficiently (North, 1990). Institutions play critical roles in strengthening agricultural markets; in particular, they are instrumental in reducing transaction costs, managing risk, building social capital, enabling collective action, and redressing missing markets (Orden et al., 2004).
1.4.1. Institutional Frameworks for Liberalisation and Small Farms

The framework of liberalisation policies is set at domestic, regional, and international levels. Bilateral- and regional free trade agreements, as well as multilateral agreements, are currently implemented or negotiated in parallel. A rules-based trading system, sustained with transparency and clarity through multilateral institutions such as the World Trade Organization (WTO), is of fundamental importance for low-income countries and their small farm sectors. For such a system to be credible, the rules of global trade must work as effectively for the poor as for the rich. At present, multilateralism is at a crossroads. Prompted partly by a lack of progress in WTO negotiations, a host of bilateral trade negotiations are in progress; however, bilateral agreements between large, affluent countries further marginalise low-income countries. In this global setting, restoring the effectiveness of multilateralism through the WTO is essential. The extent to which this can be achieved in the coming decade will depend both on the substance of the WTO rules and on the transparency and inclusiveness of the process through which those rules are implemented. Countries emerging as centres of global growth, and poor countries large and small, will participate in a rules-based world trade system only if they are included in its decision-making processes. The new rules must be written jointly by all nations—rich, middle-income, and poor—not just by a few powerful members. The future of millions of small farms and the people they employ in low- and middle-income countries worldwide depends on improved access to well-functioning markets. Food and nutrition security of the poor is much affected by market and trade reforms in agriculture. Agriculture is a critical sector in which a rules-based global trade system must work to the benefit of the poor. However, agriculture has long been treated as an exception to the rules, as a special case left outside the trade liberalisation process. As a result, extensive subsidies and border protection measures continue to block opportunities for those poor people whose best income sources are farming and value-added farm products. If the poor remain losers in agricultural trade, then the trade rules adopted cannot be justified and the effectiveness and credibility of the WTO will be impaired.

Small farmers participate significantly in world trade. For example, small farmers produce most traded tropical fruits and vegetables, spices, and herbal and medicinal plants, as well as a large proportion of traditional export crops such as coffee and cotton. Fruits and vegetables alone now account for nearly 20 percent of developing-country agricultural exports. In the livestock sector, international market integration of small producers is less obvious. However, if not discriminated against, small farms compete successfully with imports from external large-scale producers in sectors such as fruits and dairy. Small farmers in many parts of the developing world already have a strong foothold in trade. The ongoing policy negotiations in the WTO’s Doha Round will facilitate further trade opportunities for small farmers. The WTO’s Doha Ministerial Declaration (WTO, 2001) calls for the following:
• Substantial reductions in trade-distorting domestic support.
• The reduction of, with a view to phasing out, all forms of export subsidies.
• Substantial improvements in market access.
• Special and differential treatment for developing members in all elements of the negotiations.

The framework agreement approved by WTO members in July 2004 goes further in specifying aspects of agriculture negotiation, but it leaves many aspects wide open for future negotiations (WTO, 2004).

1.4.2. Trade Liberalisation and Agriculture in Developing Countries

Numerous studies have assessed the impacts of trade liberalisation on agriculture in developing countries. To the extent that these studies address small farmer dominated regions, they give a broad picture of liberalisation effects.

A partial equilibrium analysis simulating complete trade liberalisation (the removal of all agricultural subsidies and trade barriers) in food markets worldwide for 16 commodities shows that cereal prices would be significantly affected by complete trade liberalisation (Rosegrant et al., 2001). The price of rice would increase the most, by 14 percent, followed closely by maize, wheat, and other coarse grains. Most significant are the net economic benefits, considering the net benefit to producers (change in producer surplus) plus the net benefit to consumers (change in consumer surplus), which show that both developed and developing countries would benefit from full trade liberalisation. The biggest single party to gain from complete liberalisation would be sub-Saharan Africa, when comparing the value of the benefits to the value of that region’s agricultural production. This is partly because African farmers would face less competition from subsidised exports from Europe and other developed countries.

Taking a different methodological approach, worldwide general equilibrium simulations suggest that removing trade barriers, subsidies, and support would cause aggregate world prices of agriculture commodities to rise by more than 11 percent relative to an index of all other prices (Diao et al., 2001). Agricultural support and protection in developed countries is found to be a major cause of low agricultural prices and, implicitly, a tax on net agricultural exporters in developing countries. This simulation predicts an increase in world trade of agricultural commodities (freer trade results in more trade), but no change in the level of total agricultural production in the aggregate.

As mentioned above, three core trade liberalisation policies to come out of the Doha Round are (1) the elimination of agricultural import barriers, (2) the elimination of agricultural export subsidies, and (3) the elimination of domestic support in developed countries. In an analysis of the effect of each of these policies on cereal production, Diao
et al. (2001) found that the effect of each policy on production levels would vary among countries. Removing tariffs worldwide would stimulate production in most agricultural sectors, albeit to a small degree for most sectors. In contrast, removing only export subsidies worldwide or removing only domestic support in developed countries would have a negative, although almost negligible, effect on most agricultural production. The negative effect on agricultural production in developed countries would be much larger than the rise in production in most sectors in developing countries.

Not all domestic policy support instruments have the same degree of detrimental effect. Production-stimulating policies cause subsidy “injury” to non-subsidised farmers, whereas income support that stimulates production causes less injury. The argument that income support is less harmful than price support remains controversial. Farmers in poor countries are suspicious of how much production stimulus any support generates. A dollar of income support may stimulate production to a lesser extent than a dollar of price support, but if the scale of income support is large and increasing, the overall impact on production stimulus may remain substantial.

In the area of tariffs and market access, the objective should be to achieve meaningful openings for trade. There are many issues here: whether high tariffs will be reduced on the sensitive commodities for which liberalisation would benefit developing countries; whether commitments to lower bound tariffs will result in lower applied tariffs and increased trade; how specific rules for aggregating tariff reductions affect their impacts; and whether tariff-rate quotas can be expanded, administered effectively to open market access, and ultimately eliminated. Diao et al. (2001) demonstrate using a general equilibrium model that full trade liberalisation will in the long run benefit almost all countries and developing countries in particular due to reform-induced changes in their patterns of investment, growth in capital stock, and growth in their total factor productivity.

The following four steps are needed to make agricultural trade liberalisation work for the poor. The last step listed, that trade policy reform must be combined with development investment to create level playing fields, is especially critical.

First, **developed countries must reduce their farm-sector support and border protections.** Support policies and border protections employed by wealthy Organisation for Economic Cooperation and Development (OECD) countries cause harm to the agricultural sectors of developing countries. These policies include price guarantees, income support measures, and input-related and crop insurance subsidies that stimulate farm production. They also include tariffs and tariff-rate quotas that restrict market access and export subsidies that move high-priced farm products into world markets. By blocking market access and driving down world prices for agricultural commodities, developed-country policies reduce agricultural exports from the developing world USD 37 billion (25
percent) annually (Diao et al., 2003a). In addition, national GDP among developing countries is reduced by USD 14 billion annually.

Second, developing countries must also open their markets. Nearly one-third of the agricultural trade of developing countries is with other developing countries, and this share is growing. But these countries also erect substantial trade barriers to agricultural products. Among the large developing countries, such as Brazil, China, India, and Mexico, tariffs applied to agricultural products average more than 25 percent—these are higher tariff levels than many low-income countries impose. Developing-country governments that are united in seeking the benefits from reduced agricultural subsidies and protection in rich countries have been divided about the best course of action regarding their own agricultural trade barriers. Those countries with strong agricultural export potential have called for more open markets, but those fearful of negative effects on their poor farmers, including among agricultural exporters, have been reluctant to endorse such moves. If developing countries were to join in agricultural trade liberalisation, their added GDP gains would be USD 23 billion annually (Diao et al., 2003a). This is more than the gain in developing country GDP (the USD 14 billion mentioned previously) that would be achieved if only the developed countries undertook agricultural reforms. The primary source of the additional gains is a lowering of internal prices faced by food consumers due to reductions in their countries’ trade barriers. Most small farmers are net food purchasers and hence stand to benefit from agricultural trade liberalisation as “consumers.” However, such reforms also create distributional impacts between those developing countries that are best able to gain from trade openness versus those less able to do so. The benefits from reduced trade-distorting subsidies and border protection globally will not be universal or evenly distributed among poor countries. Targeted assistance policies will be needed for some countries or regions and population groups, particularly among the least developed, whose agricultural resources and other circumstances leave them poorly positioned to benefit under new trade rules for agriculture. This includes the need for attention to price instabilities in low-income countries that may hurt the poor, especially when markets are not functioning well. As trade barriers are reduced, benefits for poor farmers, and additional gains for food consumers, in countries less able to compete on a global level will come not only from multilateral trade policy reform, but also from complementary domestic investments and policy improvements.

Third, countries must not use safety and quality regulations as protectionist instruments. The fastest growing world agricultural markets for developing countries are those for fruits and vegetables, livestock products, and other high-value commodities. For these high-value products, regulations and standards related to safety and quality play a large role in determining trade opportunities. The WTO embodies agreements to discipline agricultural and food safety and quality regulatory decisions that are primarily sovereign prerogatives. These WTO disciplinary agreements call broadly for countries to meet legitimate regulatory goals in the least trade-distorting manner. The effectiveness of these
disciplinary agreements is an important aspect of a rules-based agricultural trade system. Dispute settlement cases show that the WTO has imposed modest disciplinary actions on unnecessary agricultural and food regulatory measures. The outcomes of these cases suggest that complainants win when a sanitary or phyto-sanitary measure lacks a basis in risk assessment; that even the measures of developed countries with high scientific and regulatory capacity can be successfully challenged; that the WTO will rule to limit unnecessary quality, as well as risk-related, measures; and that developing countries can be successful complainants. Developing countries have a lot at stake in the rules for food regulation. Stringent developed-country regulatory measures to address health, safety, and quality goals can close off market opportunities. It is a daunting task for the smallholder economies of many poor nations to implement food safety standards that can be traced and monitored from “fork to farm.” New institutions and resources are needed to make it happen. There is, therefore, a great need to increase the capacity of developing countries to produce agricultural products that meet the exacting standards of importing markets.

Fourth, development assistance must complement trade agreements. For the poor in developing countries, greater international market access is only part of what is needed. Trade policy reforms must be complemented with public investment. To make the Doha Round truly a “development round” requires an innovative combination of trade policy reform and enhanced development financing that facilitates market functioning. This requires closer coordination among the WTO and development finance organisations, such as the World Bank and regional development banks. Gains for developing countries from strengthening markets will come from simultaneously enhancing their physical and institutional infrastructures for agriculture, reducing domestic marketing channel inefficiencies, and eliminating internal barriers to private investment. Trade policy reform and international assistance to agriculture in poor countries are complements, not substitutes, in creating benefits for the poor people who are concentrated in global agriculture. For both trade policy and development aid, differentiation is needed among developing countries based on observable quantitative criteria.

1.4.3. Effects of Liberalisation on Poverty and Farmer Income

Valenzuela et al. (2004) analysed the effects of trade liberalisation on poverty, breaking up the results by type of household grouped according to earnings specialisation. Although they did not distinguish among agricultural holdings based on size, we know from the discussion of farm structures earlier in this paper that small farms predominate in the countries that they studied. The analysis combines macroeconomic impacts, using the Global Trade Analysis Project (GTAP) database, and a micro-simulation analysis that draws on household surveys (see Table 8). The earning effects take into account only the rise in income due to trade liberalisation (the analysis includes only removal of tariffs, quotas, and agricultural export subsidies, leaving in place agricultural subsidies). The
poverty effects take into account earning and spending effects that are sensitive to changes in prices.

### Table 8. Short- and long-term impacts of global trade liberalisation on earnings (percent change) and on poverty (percent change in poverty headcount) in agricultural specialised households (Valenzuela et al., 2004).

<table>
<thead>
<tr>
<th>Country</th>
<th>Per Capita Earnings (% change)</th>
<th>Poverty Headcount (% change)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>All Households</td>
<td>Agr. Specialised Households</td>
</tr>
<tr>
<td></td>
<td>SR=short run</td>
<td>LR=long run</td>
</tr>
<tr>
<td>Malawi</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SR</td>
<td>1.54</td>
<td>5.66</td>
</tr>
<tr>
<td>LR</td>
<td>2.98</td>
<td>4.48</td>
</tr>
<tr>
<td>Uganda</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SR</td>
<td>0.95</td>
<td>0.52</td>
</tr>
<tr>
<td>LR</td>
<td>−0.03</td>
<td>0.02</td>
</tr>
<tr>
<td>Zambia</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SR</td>
<td>−0.32</td>
<td>0.92</td>
</tr>
<tr>
<td>LR</td>
<td>0.78</td>
<td>1.81</td>
</tr>
<tr>
<td>Mozambique</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SR</td>
<td>3.18</td>
<td>2.07</td>
</tr>
<tr>
<td>LR</td>
<td>2.84</td>
<td>2.61</td>
</tr>
<tr>
<td>Vietnam</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SR</td>
<td>17.23</td>
<td>7.53</td>
</tr>
<tr>
<td>LR</td>
<td>17.78</td>
<td>11.25</td>
</tr>
<tr>
<td>Bangladesh</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SR</td>
<td>1.48</td>
<td>−0.37</td>
</tr>
<tr>
<td>LR</td>
<td>6.99</td>
<td>6.94</td>
</tr>
<tr>
<td>Philippines</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SR</td>
<td>2.11</td>
<td>−0.39</td>
</tr>
<tr>
<td>LR</td>
<td>3.43</td>
<td>2.63</td>
</tr>
<tr>
<td>Indonesia</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SR</td>
<td>1.48</td>
<td>1.38</td>
</tr>
<tr>
<td>LR</td>
<td>2.83</td>
<td>2.61</td>
</tr>
</tbody>
</table>

The study's main insights are that poverty in general is reduced after trade liberalisation for almost all countries in the sample presented (with the exception of the Philippines in the short term and Zambia in the long term [no change]). The poverty of small farmers (i.e., households whose earnings come from agriculture) generally decreases (with the exception of Zambia [no change]). Earnings in (small) farm households increase for almost all countries in the short- and long-term (with the exception of the Philippines and Bangladesh in the short term). Overall, the impacts are not particularly large, although Vietnam stands out as an exception. In sum, based on this analysis, trade liberalisation is not a panacea for poverty reduction in farm households, but it does help.  

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8 The sample represents the maximum number of country household surveys available that matches the country coverage in the trade-modelling database, GTAP version 6.

9 The distributional effects of agricultural policies in high-income countries show that the distribution of support is similar to the distribution of output (OECD 1999). The largest farms, and hence the most prosperous ones, are the main...
Using a similar methodology, Hertel et al. (2004) analysed the effects of different trade liberalisation policies for the case of Indonesia. They found that in the short run poverty among agriculture-specialised households rises as a result of trade liberalisation. Liberalisation of Indonesia’s own trade policies increases poverty, especially in agriculture-specialised households, whereas agricultural and non-agricultural liberalisation by developed countries reduces national poverty in Indonesia. Moreover, liberalising the trade policies of other Least Developed Countries also reduces poverty, especially in agriculture-specialised households. The authors also analysed the impact of trade liberalisation across income distribution. They found that poor households in the agricultural stratum are hurt in the short run by global trade liberalisation. Only the wealthiest households in this group gain. The CGE-modelling results give some interesting insights, but they do not capture the welfare effects of small farmers comprehensively; for instance, price volatility and risk effects against which smallholders must insure themselves (at a cost) are difficult to capture.

1.4.4. Facilitating Small Farmers Enhancement through Market Opportunities and Support

Trade liberalisation needs to be assessed in the context of trade facilitating investments. This makes trade policy developmental. Access to infrastructure is vitally important for market efficiency and improved income opportunities. Furthermore, physical infrastructure development has an important bearing on the ability of smallholders to access new technology. A number of studies suggest that greater investment in infrastructure raises agricultural productivity and contributes to poverty reduction (Fan et al., 2000; Fan and Rao, 2003). In sub-Saharan Africa, weak road and transport infrastructure, electricity and communications networks, storage and market facilities, research and extension programs, and market information systems pose formidable barriers to developing markets (Torero and Chowdhury, 2004). For instance, transport costs are the most important component of marketing margins in sub-Saharan Africa, amounting to 30 to 60 percent of the operating costs of private traders (Kherallah et al., 2002). Fuel prices in Africa are much higher than in any other world region. Renkow et al. (2004) estimated that the fixed transaction costs that impede access to product markets for subsistence farmers in Kenya act as a value-added tax on the order of approximately 15 percent. Overall, Africa, especially in rural areas, has an “access gap” in four major infrastructure sectors: telecommunications, electrification, water, and roads (Torero and Chowdhury, 2004).

beneficiaries. Direct payments are more equally distributed than market price support. For instance, the Gini coefficients of direct payments are 0.56 in the European Union and 0.61 in the United States, whereas the Gini coefficients for market price support are 0.74 in the European Union and 0.98 in the United States.

10 Torero and Chowdhury (2004) note that Fay and Yepes (2003) predict that sub-Saharan Africa needs to invest around USD 25.9 billion annually between 2005 and 2010 in infrastructure development. Of this sum, USD 12.6 billion will be needed to maintain existing infrastructure and the rest to build new infrastructure. This will require annual investment of more than 5.5 percent of GDP.
Infrastructure and institutions are key determinants of the transaction costs paid by small farmers in markets, that is, the costs of obtaining and processing marketing information, negotiating contracts, monitoring agents, and enforcing contracts. If transaction costs are high, the effects of international trade liberalisation on small farmers are relatively small. Importantly, transaction costs vary by market participant, according to his or her unique bundle of constraints. Transaction costs have a formidable impact on the ability of the smallholder to take advantage of income-generating opportunities offered by markets (Delgado, 1999; McCullogh et al., 2001). Gabre-Madhin (2001) provides unique insights into the transaction costs incurred in Ethiopian grain markets. This research indicates that transaction costs (search labour plus capital holding costs) account for, on average, 19 percent of total costs, a significant share. Physical marketing costs, on average, account for 83 percent of total costs. However, transaction costs in deficit regions are higher than in surplus regions, possibly due to the greater risk of commitment failure in purchasing grain of unknown quality (Gabre-Madhin, 2001). The institution of brokers minimises such transaction costs and facilitates exchange; however, many traders continue to rely on personalised exchange.

Furthermore, access to financial and insurance markets affects the ability of smallholders to access agricultural markets, and the linkages involved are complicated by parallel markets (von Braun and Puetz, 1991). For instance, access to credit is a main factor in smallholders’ demand for agricultural inputs, and lack of access to fertilizer can have major adverse effects on output and credit market functioning. There is increasing consensus that credit constraints are at the base of the weak response of smallholders to market liberalisation. However, insurance schemes to help smallholders overcome such risks are lacking. In many cases, insurance schemes are difficult to implement in large developing countries, where farmers are numerous and dispersed (Gulati and Narayanan, 2002).

In sum, a comprehensive set of policies is needed to facilitate the economic advancement of small farmers. This requires taking note of the heterogeneity of small farmers, i.e., distinction between (1) small subsistence farmers, (2) small local market oriented farmers, and (3) small globally competitive market oriented farmers (Figure 2). Investments in institutions and infrastructure are required to facilitate the bridging of the access and market gaps. The aim is the uplifting of those who face real access gaps and market efficiency gaps to national and even international markets.

11 Search labour time and holding capital costs are estimated as shadow costs from the traders’ profit functions, using instrumental variable estimation to avoid simultaneity bias (Gabre-Madhin, 2001).
12 Even in long-distance transactions, traders use brokers for only 33 to 55 percent of transactions, and brokers handle only 16 percent of the total marketed surplus of grain (Gabre-Madhin, 2001).
1.5. Conclusions for Policy and Research

1. Overcoming poverty requires economic growth in poor countries, and especially so in rural areas. Economic growth and trade expansion in the process of globalisation have reduced poverty in many areas but not universally. Hunger, one of the most serious symptoms of poverty, has hardly decreased in recent years. Growth in the rural economy is essential for this and the small-holder sector is an important part of the rural economy. To facilitate the opportunities of globalisation for the rural poor requires governments to concentrate on the provision of public goods, rather than intervening in market transactions directly.

2. Small farmers can play key roles in fostering rural growth. It can no longer be assumed that the more than 400 million small farmers—whose families and communities rank among the poorest in the world—will in the future remain a peacefully suffering community. Information and access to political influence through elections and more decentralised political systems are changing the context. Small farmers need a viable economic future. Not addressing this problem will make it increasingly a global poverty and security issue and will leave the Millennium Development Goal to cut poverty in half by 2015 unachievable.
3. Multilateral trade policy reform under the WTO remains important for low-income countries. Bilateral and regional agreements are not a substitute. The steps forward under the (WTO) global trade negotiations should include, first, developed countries must reduce their farm-sector support and border protections; second, developing countries must open their markets with exceptions for the least developed countries; third, countries must not use safety and quality regulations as protectionist instruments; and fourth, development assistance must complement trade agreements.

4. National policies must support market opportunities to promote income growth for people in poverty. Transport infrastructure and information technology must connect the vast number of small farmers to the opportunities globalisation offers. Access to agricultural technology remains vital in order to take advantage of the potential of globalisation to reduce poverty. This includes attention to public investment in agricultural research providing such sustainable technology. Furthermore, to support rural entrepreneurs, governments must not intervene with distorting incentives for market agents. With competitive markets, profit seeking private entrepreneurs in rural areas will use community relationships to decrease transaction costs (Hayami, 2004). This will in turn result in efficiency improvements in marketing that will benefit both consumers and producers including poor farmers.

5. Strong farmer organisations are crucial for the articulation of farmers in markets and in policy-making bodies. International and national level support for these organisations, including their rightful formation, is still needed in many countries. But government should not promote farmers organisations such as cooperatives by granting local monopoly/monopsony powers (like regional franchising in farm product collection or input distribution), as this may turn out to be counterproductive to the welfare of small farmers. The local elite who control farmers’ organisation using their connection with governments tend to spend more energy in rent seeking than in making innovation for winning competition in the market. Thus, their assistance should concentrate on education, training, and supply of technical and market information in support of farmer organisations.

6. Globalisation, including trade policy reform, on its own is not sufficient to overcome poverty in the small farm communities. National government action, using known measures in the areas of nutrition, water supply, and health care, remains central to reducing poverty and increasing household food security. Economic globalisation needs expanded, complementary national and global social safety action to address the problems of poverty and hunger.
Policy research needs to address five major gaps that may hinder a steady international and domestic agricultural policy reform process:

- **Lack of specific information on distributional effects of policy changes at a country and regional level.** As national policies in developing countries are increasingly driven by regional constituencies, such disaggregated information is needed to make political processes more transparent. Assurances of national economic gains are no longer sufficient to facilitate reform progress in developing countries.

- **Lack of information on market (mal)functioning, especially in relation to competition in domestic food markets.** Trade reform effects can be countered not only by state- and local-level government interference but also by private-sector market controls. The competitive structures of agricultural markets, food-processing industries, and the growing retail industries need research attention. Antitrust regulations are largely missing in developing countries.

- **Lack of practical strategic guidance for investment in infrastructure and market related institutions.** In particular, the long-term effects of trade-facilitating investments are not well understood, although there seems to be considerable under-investment in this area.

- **Lack of information on actual risks confronting small farmers.** Small farmers are often sellers immediately after the harvest but buyers later. Generally, information on how much they sell and how much they buy is not readily available, and hence it is difficult to know the proportions of net buyers and net sellers among small farmers. Without this information, it is difficult to discern the impact of rising or falling prices resulting from trade liberalisation.

- **Lack of information on social safety nets and insurance systems that facilitate the protection of the poor, and especially the rural poor.** Reliable social safety nets in rural areas, adjusted to local circumstances, would facilitate trade and contribute to a growth agenda. Beyond their intrinsic social value, such safety nets would facilitate small farmers to risk entering new markets or leaving small farming.

These research gaps need to be addressed in parallel with market reform and rural infrastructure investment actions. Trade and market reforms favouring small farmers should not be delayed.
References


Hazell, P. (2001). The future of agriculture in Sub-Saharan Africa and South Asia: W(h)ither the small farm? Session opening statement at the Sustainable Food Security for All by 2020, Bonn, Germany, September 4-6, 2001.


2. Is There a Future for Family Farming in West Africa?  
Camilla Toulmin and Bara Guèye

2.1. The Role of Agriculture in West African Development

Agriculture is a centrally important part of the West African economy, providing 30-50 percent of GDP in most countries, the major source of income and livelihoods for 70-80 percent of the population, food supplies and revenue from export of cash crops. While the economies and peoples of the region are diversifying into a range of other activities, farming is likely to remain of central significance to incomes and livelihoods for the foreseeable future (Fafchamps et al., 2001). The current focus of donors and governments on meeting the Millennium Development Goals has focused attention on the rural economy, given that it is estimated that 70 percent of the world’s poorest people are rural dwellers. Improvements to the productivity and returns gained from agriculture have been identified as a key means to reach the poverty reduction targets. Governments in the region are therefore interested in seeing how agriculture might be “modernised” better to meet the many demands made of it.

Farmers’ ability to respond to new opportunities and to the challenges of globalisation are by no means assured. Farmers will continue to invest effort and capital in improving farm production where a reasonable return can be assured. But such returns are threatened by cheap imports, falling world market prices, and difficulties in accessing credit and inputs. At the same time, policies in favour of agricultural modernisation would appear to favour large-scale producers at the expense of the millions of family farms that make up the current agricultural sector. Such favouritism is justified by policymakers on the basis of family farms being unable to deliver a “modern” agricultural economy. Yet this position is based on a highly partial interpretation of the evidence available, which ignores the strong commercial activities of many smallholders, and the great contributions made to domestic food supplies and exports by millions of small farmers, as well as the broader multi-functionality arguments in favour of promoting smallholder agriculture.

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13 This paper is drawn from Transformations in West African Agriculture and the role of family farming, Camilla Toulmin & Bara Guèye. Issue Paper 123, Drylands Programme, IIED London. This paper was prepared as an initial scoping study for the OECD’s Sahel and West Africa Club Secretariat to provide the basis for developing a longer-term programme of work to examine the transformations underway in West African agriculture, and the challenges faced by small-holder production systems. This longer term work was to focus on the question: what is the future of the family farm in West Africa, in the light of the enormous changes that have taken place within agriculture over the last two decades and further likely changes to come? Preparation of the paper also benefited from a grant from the Swedish International Development Co-operation Agency (Sida).

14 Director, International Institute for Environmental Development (IIED) and Coordinator, IIED, respectively.
2.2. Transformations in West African Agriculture and Family Farming

2.2.1. Definitions and Typologies

West Africa exhibits a very diverse array of family farms, in terms of size, assets, market orientation, income, diversification of activities, reliance on migrants’ earnings and vulnerability to risk. A recent review of family farms in the global setting proposes a three-way classification of rural producers (Vorley, 2002), as shown below. The purpose of this typology is to examine levels of market involvement, access to technology and exposure to risk. Such an analysis of rural differentiation shows family farms, such as those in West Africa, largely caught in the second and third categories. While able until now to manage more or less, these farming enterprises may face a more challenging future as local markets and food systems become increasingly globalised.

Box 1. The three rural worlds.

**Rural world 1**: Globally competitive, embedded in agri-business, commodity producers and processors, politically well-connected, export-driven, adopters of Green Revolution and transgenic technologies.

**Rural world 2**: Locally oriented, with access to and control over land, multiple and diverse enterprises, undercapitalised, declining terms of trade and at serious risk of future impoverishment.

**Rural world 3**: Fragile livelihoods, limited access to productive resources, multi-occupational migrants straddling rural and urban life, unskilled and uneducated, dependent on low wage labour, redundant to global food and fibre production systems. (Vorley, 2002: 9)

However, it should be recognised that within each of these categories can be found a wide range of households in terms of size, activities, reliance on off-farm sources of income, land tenure situation and so on. Equally, it should be remembered that these are not watertight categories. There is likely to be mobility between these categories over time, and from year to year. For example, a farm household that suffers the loss of a key family member, through out-migration or death, may be forced to re-orient its pattern of production from a market focus to satisfaction of food needs. Conversely, a very good harvest in one year may provide the means for a household to invest in new equipment and pursue a more market-oriented cropping pattern in the future.

It is this diversity of farm households and their differential ability to respond to market opportunities, invest in productive assets and meet their needs that has led some observers to pronounce the end of the family farm. Those in favour of promoting investment in large-scale commercial agri-business can always find examples of impoverished, subsistence-based families, unable to cope with the multiple challenges of
prices, climate and risk. Those seeking to demonstrate the dynamism and viability of family farms can point to a very different set of smallholders who have clearly demonstrated their ability to address new markets and adopt new technologies. Policy measures need to consider how best to address the very different needs and pathways associated with each kind of producer.

In most parts of West Africa, farm production is based on family labour, which, while often unpaid, is assured a return in the form of longer-term rights and expectations. Thus, family farms rely on labour contributions from their various members who, in return, will receive food and shelter, support in times of illness and old age, and help with costs of marriage, tax payments, and so on. Equally, commitment of labour to the family farm enterprise ensures its members maintain their rights to the family’s property, when a division of the estate takes place. This web of mutual obligations and rights is under strain in many areas, as a result of economic pressures, shifts in religious and cultural values, and the breakdown of large domestic groups into smaller nuclear units.

While agricultural production relies heavily on family labour, non-household labour can often provide a significant additional source. Many farmers rely on hiring labour from other families in the village or on seasonal farm workers for land preparation, cultivation, harvesting and processing their crops. This may be due to insufficient labour being available within the family (as a result of illness, or out-migration) or due to a strategy of agricultural expansion. Thus, it is important to avoid seeing the family farm as an isolated economic unit focussed entirely on agriculture and reliant exclusively on its own resources. Further characteristics of family farms typically include a diverse set of activities and outputs involving a range of crop and livestock production, fishing, hunting and gathering, trade and craftwork as well as seasonal or longer term migration (Zoundi, 2003). Family farms often rely on a set of social networks linking relatives and neighbours in near and more distant locations, through which mutual support is provided. Maintenance and investment in these networks constitute an important element in the household’s strategy since they can provide an essential safety net in times of crisis. Within the family farm, access to land and farm assets tend to be acquired through inheritance or other social arrangements, such as loans (see Table 1).

In contrast to commercial enterprises, family farms tend to work relatively small areas of land. In Ghana, for example a study in 1997 showed there to be 800,000 cocoa smallholders, with an average farm size of 3 hectares, of which 60 percent had less than 2 hectares, and 80 percent less than 4 hectares (Owusu et al., 2002). In Benin, farm holding size averages 3.3 hectares (Minot et al., 2001). For Mali, cotton is grown by more than 200,000 farm households averaging 15 people, cultivating 10 hectares. The prioritisation of consumption over commercialisation is however undergoing change in many areas, given the growing need for cash, leading to important shifts in how land and labour are allocated between food and cash crops. Equally, grain is an important cash crop for some farmers, as well as providing for the household’s food needs.
Table 1. Comparison between family farms and commercial agriculture.

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Family Farms</th>
<th>Commercial Agriculture</th>
</tr>
</thead>
<tbody>
<tr>
<td>Role of household labour</td>
<td>Major</td>
<td>Little or none</td>
</tr>
<tr>
<td>Community linkages</td>
<td>Strong, based on solidarity and mutual help between household and broader group</td>
<td>Weak. Often no social connection between entrepreneur and local community</td>
</tr>
<tr>
<td>Priority objectives</td>
<td>Consume, Stock, Sell</td>
<td>Sell, Buy, Consume</td>
</tr>
<tr>
<td>Diversification</td>
<td>High, to reduce exposure to risk</td>
<td>Low, specialisation on very few crops and activities</td>
</tr>
<tr>
<td>Flexibility</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>Size of holding</td>
<td>Small, averaging 5-10ha</td>
<td>Large, may exceed 100ha</td>
</tr>
<tr>
<td>Links to market</td>
<td>Weak but becoming stronger</td>
<td>Strong</td>
</tr>
<tr>
<td>Land access</td>
<td>Inheritance and social arrangements</td>
<td>Purchase</td>
</tr>
</tbody>
</table>

Nevertheless, family farms face distinct problems, which include a growing shortage of land and its rapid increase in value, especially in peri-urban areas, illiteracy and poor access to schooling for many rural people, the low value accorded to the status of an agricultural smallholder, with the sons and daughters of farming households doing their best to escape a life of hard labour, for little return, the poorly developed organisation of smallholder agricultural producers, the question of inheritance and fragmentation of land holdings.

2.3. Agricultural Production: Yields and Harvests

2.3.1. Food Crops

The table below (Table 2) presents data for six West African countries on per capita production of major food crops for the period 1961-63 to 1997-99, derived from FAO statistics (Mortimore, 2003). The figures demonstrate the diversity between countries’ experience, with the case of Senegal and Niger sharing a marked negative trend for major cereals (rice, millet, maize, sorghum) over the period, but much more positive trends in cereal production for Ghana, Nigeria, Mali and Ivory Coast. For Ghana and Nigeria, there was a deep trough in farm production in the early 1980s and growing dependence on imported food. Subsequent policy shifts in favour of domestic agriculture helped provide greater incentives to farmers and a recovery in production levels.

In the case of Niger, lying almost entirely in the Sahelian and Saharan zone, the agriculture sector is particularly vulnerable to drought. As a consequence, cereal production has been badly hit by the rainfall failures of 1973-5 and 1983-4. Nevertheless,
evidence from Maradi Department in southern Niger shows increasing output per capita and rising yields (Hamadou, 2000). Growth in cowpea production was strongly positive, due in large part to high levels of demand from neighbouring Nigeria. In Mali, all four cereals recovered strongly from a trough in 1981, this upward trend continuing for rice and maize, while faltering for millet and sorghum. In Ivory Coast, per capita production of rice, maize, and millet rose by 30 percent over the period, although root and forest crop production declined by a similar percentage.

Table 2. Change in per capita production of major food crops, 1961-63 to 1997-99 (percent) (Mortimore, 2003).

<table>
<thead>
<tr>
<th>Country</th>
<th>Cereal crops</th>
<th>Root and forest crops</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ghana</td>
<td>Rice, maize, millet, sorghum</td>
<td>Cassava, yams, plantains</td>
<td>+ 59.8</td>
</tr>
<tr>
<td>Nigeria</td>
<td>Rice, maize, millet, sorghum</td>
<td>Cassava, yams, plantains</td>
<td>- 1.2</td>
</tr>
<tr>
<td>Mali</td>
<td>Rice, maize, millet, sorghum</td>
<td>Cassava, yams, plantains</td>
<td>+ 76.3</td>
</tr>
<tr>
<td>Niger</td>
<td>Rice, millet</td>
<td></td>
<td>- 24.2</td>
</tr>
<tr>
<td></td>
<td>Cowpeas</td>
<td></td>
<td>+ 131.2</td>
</tr>
<tr>
<td>Ivory Coast</td>
<td>Rice, maize, millet</td>
<td>Cassava, yams, bananas,</td>
<td>- 28.5</td>
</tr>
<tr>
<td></td>
<td></td>
<td>plantains</td>
<td></td>
</tr>
<tr>
<td>Senegal</td>
<td>Rice, maize, millet, sorghum</td>
<td>Cowpeas</td>
<td>- 41.2</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>+ 33.3</td>
</tr>
</tbody>
</table>

Comparable evidence is provided by a recent study of Burkina Faso (Mazzucato and Neimeijer, 2000). Here, taking data from FAO for the period 1961-1998, they show that yields of the most important crops have considerably increased over the last forty years, despite a 20 percent decline in rainfall. Rice and maize yields increased threefold while those for sorghum, millet and groundnuts doubled (Mazzucato et al., 2001). They go on to argue that “while increased mechanisation, migration and fertiliser use have contributed to some degree to the increase in rice and maize yields, those are unlikely to be significant factors in the case of the other crops. Farmers seem to have been able to even increase output without relying on external inputs to replenish soil fertility” (Mazzucato et al., 2001: 6).
Thus the overall trends for food crop production show a remarkable degree of stability for some crops, and increases for others despite often adverse climate, economic and policy environments. Such performance is particularly striking when combined with data on the substantial growth in export crops.

2.3.2. Export Crops

The table below shows the substantial decline in export crop prices for major commodities produced by West African agriculture, and sets the broader context for discussion of farm performance.
Table 3. Percentage change in primary commodity world prices, 1970-98 (Kherallah et al., 2002).

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cotton</td>
<td>13</td>
<td>-36</td>
<td>-24</td>
<td>-51</td>
</tr>
<tr>
<td>Cocoa</td>
<td>35</td>
<td>-65</td>
<td>27</td>
<td>-55</td>
</tr>
<tr>
<td>Coffee</td>
<td>5</td>
<td>-74</td>
<td>48</td>
<td>-61</td>
</tr>
<tr>
<td>Palm oil</td>
<td>-22</td>
<td>-64</td>
<td>123</td>
<td>-20</td>
</tr>
</tbody>
</table>

**Cotton**
Cotton has been a major export commodity from West Africa for the last 50 years. Current estimates show that 6 million farming households rely on cotton production in West Africa, involving perhaps as many as 18-20 million people. Cotton is produced entirely by smallholders, on farms varying from 3-20 ha in size. West Africa produces an estimated 2 million tons of seed cotton, 80 percent of which stems from the French-speaking countries, amongst which the principal producers are Mali, Ivory Coast, Benin and Burkina Faso. Growth in output has been substantial over the last decade, with a doubling in area cultivated and doubling of harvests between 1978/9 and 1988/9 and a further doubling to 1998/9 (Ton, 2001).

Cotton farmers are strongly affected by world market prices for cotton. World cotton prices are currently at their lowest levels for thirty years, at half the long-term average. This is the result of a large global harvest, generated in part by high subsidies paid to farmers in rich countries, combined with low levels of demand. Farmers in the US and EU are protected from this price slump by high levels of producer support in the form of subsidies. By contrast, major losses in incomes and revenues have been felt by many developing country farmers. West African producers have been badly hit, since there is no system of subsidies to protect farmers from such an adverse shift in world market prices. Given that all cotton production relies on smallholders, one can reasonably assume that they have all been damaged to some extent by the recent fall in world market prices.

**Cocoa**
Cocoa production in West Africa is mainly the business of Ivory Coast and Ghana, with minor levels produced by Nigeria, and Cameroon. New sources of global supply have been entering the market, from Latin America and East Asia (especially Vietnam and Indonesia). Hence West African farmers no longer have such a dominant role in global supply of cocoa. The current conflict in Ivory Coast, a country that in 2000 provided more than 40 percent of world market supply, has provoked a substantial hike in prices, of considerable benefit to neighbouring Ghana, as well as more distant producers. Cocoa is produced principally by smallholders in West Africa. There are a few large-scale plantations in both Ghana and Ivory Coast, but overall they represent a small percentage of output and cropped area. It is estimated for example that there are one million
smallholdings producing cocoa in Ivory Coast and 800,000 in Ghana. Thus, improved trade opportunities and good prices for cocoa have the potential to benefit a large number of small farmers in the region.

While cocoa production has, in the past, been an important channel through which poorer farmers with labour to invest could acquire land and rising incomes, this option has now disappeared so far as most Sahelians are concerned. With the current conflict in Ivory Coast, it remains to be seen how the cocoa sector will re-establish itself there and the respective rights and opportunities available to farming groups who cannot claim indigenous land rights.

There is limited evidence for the distributional impacts of recent trends on different parts of the cocoa farming sector. In the case of Ghana, the liberalisation of the cocoa marketing sector has been only partial, with some part of the export market opened to private licensed exporters, while the Ghana Cocoa Board (COCOBOD) retains the majority share. Konadu-Agyemang (2000) notes that while structural adjustment has brought improved incomes for some cocoa producers, it is principally the large-scale producers who have gained the lion’s share. In the case of Ivory Coast, the impacts of liberalisation of the cocoa sector have been widespread across the sector. Combined with growing political tension, they have generated deep and damaging cuts in income, and a rapid rise in poverty in many parts of the country (Losch et al., 2003).

2.3.3. Livestock Production

Livestock numbers, according to FAO, have grown throughout the region over the last 30-40 years (Mortimore, 2003). While individual countries have experienced major fluctuations during periods of drought in the 1970s and 80s, the index of livestock units per head of human population has remained broadly constant, implying a level of growth of 2-3 percent per year. There have nevertheless been major changes in terms of the distribution of livestock numbers within the region, as well as the make up of herds. In general, livestock have shifted southwards into higher rainfall areas, with a larger proportion held by settled farming groups. In addition many former mobile herders are now becoming more sedentarised. Thus, for example, the major part of the national herd in Mali is now found in the Sikasso region, where cattle provide valuable inputs into the local cotton farming system (traction, manure, assets). Equally, Ivory Coast has pursued a strong pro-livestock policy in the northern part of the country, attracting herders from neighbouring Mali and Burkina Faso, as well as encouraging investment in cattle amongst Ivorian farmers and traders. The proportion of the national herd made up by sheep and goats has risen, these animals conferring greater flexibility and resilience in

15 Statistics on livestock numbers are notoriously unreliable, given they represent wealth for many people and, in some countries are still a taxed asset. Aerial survey has helped get a better idea of the relative distribution of different livestock species in terms of location, but data on ownership of animals are especially poor.
the face of risk than cattle and camels, and offering prospects for lucrative fattening activities especially in the neighbourhood of major towns. Such fattening is of especial interest in the weeks before major festivals. Intensive milk and dairy production around major cities is also gradually being established.

There is little or no data regarding the structure of livestock ownership in different parts of West Africa. During the droughts of the 1970s and 80s, concern was raised regarding the impoverishment of many pastoral herders, forced to sell remaining breeding stock. While there was evidence for acquisition of herds during the drought by urban investors and farming populations able to benefit from falling animal prices and the desperate situation faced by pastoral households seeking food, there are no data to show whether such a shift in ownership has been maintained. Local level studies in farming areas tend to show a few households own the major share of village-held animals. Economies of scale make it easy to maintain a large herd, but difficult and slow to build up from a small base. Thus, for example, data from village studies in Mali show that many households own a pair of two of oxen. But large herds are restricted to a small number of households (Brock and Coulibaly, 1999; Toulmin, 1992).

2.3.4. Overall Agricultural Performance

Taking food and export crops together, many West African countries have been remarkably successful in generating rising levels of output in response to market demand at national, regional and global levels. Such evidence suggests that the farming sector has great capacity to increase production when conditions are right. This is even more marked if account is taken of the growth in many lesser crops for which data are not collected on a systematic basis, such as sheanut, sesame, fruit and vegetables (Wiggins, 2000). As Guyer (1997: 4-5) notes for Nigeria:

“Production and distribution systems have grown over the past several decades, and possibly at a rate which compares favourably with other historical cases even if not with the great spurt achieved in Asia through green revolution technologies. The food system has responded to demand despite difficulties of transport, no refrigeration, a narrow range of storage techniques and no commodity futures market. So even if up to 20 percent of food has been imported at certain moments, even if some of the urban poor fail to meet nutritional standards, and even if many urban inhabitants also farm, in comparative and historical terms the feeding of Nigerian towns across the great waves of macro-economic and political fluctuation has been an impressive achievement of productive technique and social achievement”.

West Africa’s agriculture, far from facing “crisis”, has been remarkably successful and responsive to new markets and opportunities. As shown by Mortimore’s (2003) study of farm performance over 1960-2000 for six West African countries, smallholders in most
countries have been able to increase substantially their levels of output and productivity, despite often adverse conditions.

**Box 2. Trends in West African crop production**

- Four of the six countries (the exceptions being Senegal and to a lesser extent Niger) have maintained food production per capita in terms of a ‘basket’ of staple food commodities, or improved it, and some have recovered from deep crises in the early 1980s, to levels comparable to or better than those of the early 1960s. Only in Senegal did the indices decline from the beginning to the end of this 40-year period; in Niger decline was arrested (though not reversed) after 1985.
- The performance of major crops, or of groups of crops, has often differed within the same country. An overall ‘food sufficiency index’ takes account of grain-tuber energy equivalents, allowing room for adaptive swings in crop preferences, both of consumers and of producers.
- Fluctuations, clearly attributable to rainfall variability (especially in Niger, Mali and Senegal), translate in per caput terms to a threat to food sufficiency at a national level, which increases the likelihood that food *security* comes under threat in poorer households, including those of many producers, who may de-capitalise their productive potential afterwards.
- There appear to be many adaptive strategies at work as producers shift among crops and diversify in response to food marketing opportunities. This process has been noted in Senegal where the traditional crops are most under threat.
- Since the production of food per capita only rarely correlates either with the growth of the total population or with the growth of the agricultural population, a simple demographic mechanism must be discounted in the food equation.
- Much more important is policy and the global economic environment, which better explain the widespread decline in food sufficiency that occurred in many countries during the 1980s, and the subsequent recovery in most of them. (Mortimore, 2003)

For four of the six countries examined above\(^\text{16}\), and for data from Burkina Faso shown in Figure 1, the last 30-40 years have shown much more positive experience with agricultural growth than is usually admitted by those asserting Africa’s agriculture to be in crisis. Despite periodic drought, switches in policy, devaluations and cutbacks in state support, farmers have managed to maintain growth in food production and kept pace with population growth, while at the same time expanding exports of key commodities. Livestock numbers have also been maintained, with a growing level of integration between animal and crop production in many areas. Cropping patterns have shifted towards a more diverse range of commodities, from basic grains to maize, cowpeas, sesame and market gardening, in response to growing urban demand generated from expanding urban centres (Cour and Snrech, 1998).

The widely experienced trough in agricultural productivity in the late 70s-mid 80s was corrected through changes in government policy towards the agricultural sector, such as

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liberalisation of markets for key commodities and abandonment of price controls on basic grains. Equally, tight controls over choice of crops within state-managed irrigation have been lifted, freeing farmers to take advantage of new markets, such as fruit and vegetables within l’Office du Niger in Mali. Where consistent support to farmers has been provided (such as technical assistance, credit, access to inputs, marketing), performance has often been remarkable with great capacity for growth in output and increasing yields (such as in the cotton zone of Mali).

2.3.5. Agricultural Livelihoods and Poverty

Have rural people become better off over the last 20-30 years? It is difficult to paint a clear picture as regards overall changes in incomes and welfare for West African farmers. While some have done well and flourished, others have become poorer. Micro-level case material shows that many households have been able to take advantage of new opportunities and improve their circumstances, through more dispersed allocations of family labour, into migration and other activities. The evidence does not support a picture of growing immiseration for all. Certain social groups have been particularly vulnerable to impoverishment. These include:

- *Households suffering a combination of misfortune, such as harvest failure combined with illness within the family and poor leadership;*
- *Pastoral herders who suffered heavy livestock losses in the 1970s and 1980s and have been unable either to re-stock, or gain secure access to land for farming;*
- *Those with weak claims to land, and those in peri-urban areas who find themselves thrown off their plots as land values rise.*

There are also clearly cases where, due to major events such as civil conflict, a large number of people find themselves substantially worse off than before. As noted earlier for Ivory Coast, the impact of structural adjustment measures combined with a collapse in world market prices and breakdown in social and political cohesion led to a threefold increase between 1987 and 2002 in those below the poverty line (Losch et al., 2003). The subsequent period of escalating conflict can only have brought a further rapid downward spiralling in incomes, livelihoods and security, except for those who have found a new niche in a war-based economy.

2.4. Large-Scale Farming: Agro-Industry and “Nouveaux Acteurs”

While the vast majority of West African agriculture and land remain in the hands of smallholders, there has been a significant interest in farming from the industrial sector, though this has ebbed and flowed depending on circumstances. Thus, in Nigeria in the 1970s and 1980s government aimed to encourage large-scale, private investment in agriculture, and backed up such an approach by changes to land tenure laws. In more
recent times, a number of West African governments have opted for policies in favour of the “modernisation of agriculture”. One central element has been to promote more secure forms of land tenure to allow for privately owned land as a means to encourage long-term investment in land improvement. Another element has comprised positive measures to encourage the establishment of agricultural entrepreneurs in rural areas, by ensuring access to land and preferential access to key inputs. Thus, for example, Senegal has just approved a project “Sénégal Agricole” which plans to put in place 25 large-scale agricultural schemes and half a dozen agropoles. Together these are hoped to provide an additional 30,000 ha of irrigated land over the next five years (Walf Fajiri, 2002).

Amanor (1999) and Guyer (1997) describe how during the 1970s, the governments of Ghana and Nigeria tried to encourage foreign firms to invest in agriculture.
Box 3. Private sector investment in large farms – a dismal story.

Many transnational companies with operations in Ghana had accumulated profits from their activities but were unable to transfer them abroad due to shortages of foreign exchange. It was hoped that their investment in joint private-state farming enterprises would increase agro-industrial activity. The government guaranteed access to land, social infrastructure and tax exemptions for equipment and other inputs. However, only 12 companies were in fact willing to take up these schemes, with 4 of these still in business in the late 1980s, failures having been due to litigation relating to land, and poor access to foreign exchange for imports of inputs. Nevertheless, the scale of land appropriation for some of these schemes was very considerable, with the Benso Oil Palm Plantation taking 27 square miles of land, displacing 3,000 peasant farmers. The expansion of oil palm production and expropriation of land for the Ghana Oil Palm Development Corporation (GOPDC) has resulted in a scarcity of land for many farmers and for food production. With few opportunities in agriculture, many youths are moving into informal sectors that are being criminalised by the state, such as chainsaw timber production and small-scale mining, and engaging in activities which involve pilfering, such as night-time harvesting from the GOPDC oil palm plantations. These activities reflect the recognition amongst rural dwellers that state policies are not in their interests or administered on their behalf.

The Nigeria indigenisation decrees passed in the 1970s obliged foreign firms to re-invest profits in the Nigerian economy. The Land Use Act of 1978 was also designed as a means to free up land from customary claims for allocation to modern agri-business. Land was nationalised and long-term leases put into place, with customary owners ceding rights for up to 99 years. Numerous interests started looking for land: the boy scouts of Nigeria, General Obasanjo, the United Africa Company (UAC), civil servants, various churches, etc. Structural adjustment in 1985 brought a ban on imports of wheat, barley and other ingredients for brewing and animal feed, so companies sought regular sources of supply through developing their own farms. For example, UAC and Leventis set up their own farming ventures for sourcing needed inputs. The Texaco farm in Ogun State covered a total of 3,886 acres, having been set up in 1975 as a means of using oil profits. However, it closed in 1987, due to economic difficulties and financial irregularities. It focused on cassava production and also provided a site for experimentation with new varieties generated by the neighbouring IITA research centre. A factory was built on-site to process cassava into flour, using mainly women workers. But it was very difficult to run the business at a profit, due to strong competition for wage labour from local farmers, and volatile prices for the processed gari. The devaluation of the currency took a further turn in 1986, making imported inputs prohibitively expensive. Vertical integration of these farms means they operate as enclaves within rural areas and have few linkages to the local economy, apart from employing a certain number of workers, and land acquisition.

Such examples tend to confirm the evidence presented by Belières et al. (2002) regarding the difficulties faced by large commercial farm enterprises in Senegal. Here, considerable areas of land were allocated to applicants seeking big holdings, who relied on access to cheap credit to develop and work the land. The devaluation of 1994 combined with market liberalisation and restrictions on credit led to the collapse of many commercial farms, unable to compete with smallholders and imports of cheap rice. By contrast,
family farms have been able to adapt and intensify, using cheap labour in preference to costly credit and machinery.

2.5. Agricultural Policy and Modernisation of Agriculture

Agricultural policy aims to address a broad range of objectives, such as increasing agricultural productivity and contributing to food security, reducing poverty and improving the livelihoods of rural producers, increasing capacity to compete with imported agricultural products, diversifying agricultural exports, managing the sustainable use of natural resources – soils, water, forests, grazing – on which agriculture relies, as well as ensuring a balanced pattern of development within the overall territory of the country (Government of Senegal, 2003). Much recent debate on agricultural strategy within a number of West African countries has emphasised the need for “modernisation”, a term which has been interpreted in diverse ways, depending on context, but which tends to translate into:

- **Establishment of land tenure legislation to support private property, through titling of land, and associated measures to increase the volume and security of transactions in land;**
- **Increase in the size of agricultural land holdings through the allocation of concessions to large-scale commercial farmers, and associated preferential access to inputs, credit, equipment, etc.**
- **Decrease in the number of very small farm holdings and associated population, as the modernisation process develops.**

Some governments espouse policies aimed at “agricultural modernisation” which assert the need to do away with many small-scale peasant farms, on the grounds that they can no longer cope with competition and technological change (Observatoire Paalga, 2001). Others, such as Senegal, explicitly commit themselves to support for family farms, while seeking to complement their presence with large-scale agro-industrial developments (Government of Senegal, 2003). However, in the West African context, there is no evidence for the superiority of large-scale commercial agriculture, which has performed very poorly over recent decades (Belières et al., 2002). The global evidence on farm size and productivity also shows small farms generate higher yields than large-scale enterprises.
### Box 4. Farm size and productivity – evidence from research

Are small farms more or less productive than large farms? A substantial body of research shows that productivity, taken as output per hectare, is higher on small than large farms (Deininger and Squire, 1998; Netting, 1993). The data stem mainly from Asia and Latin America, with little work done on farm size issues in sub-Saharan Africa. This inverse relationship between farm size and productivity is the result of several factors. Small farms rely much more on family labour that tends to require much less supervision than hired workers. Given differences in land area available, it is rational for small farmers to maximise returns to their scare factor, land.

A recent survey of “new agriculturalists” in Burkina Faso suggests that the large farms being established have low yields and poor performance in comparison with neighbouring peasant farms. However, many of these new farms are very recent in their setting up and may improve productivity over the longer term (Ouedraogo, 2002).

Work amongst West African farmers suggests that there may be some economies of scale in farming such that farm households with 10-20 people and one or two plough teams available do better than a nuclear family, containing a single couple and young children, reliant on hand tools (Belières et al., 2002; Toulmin, 1992). However, moving beyond this size does not appear to bring additional benefits but rather is associated with lower returns and greater vulnerability to market price variability, access to cheap credit etc.

Current debate regarding the future of agriculture in West Africa has focussed on the choice between family farming and agri-business. The first is often presented as backward, inefficient and subsistence-oriented, while the second is attributed the virtues of being modern and forward-looking, efficient and market-oriented. Yet, in practice, such distinctions are false, with levels of performance largely the product of external conditions and incentives. Large-scale commercial farming is itself highly differentiated, with a range of strategies being pursued. Some large farmers are seriously engaged in running a profitable business, while for others, the receipt of preferential inputs and access to credit may be a prime motive. Equally, some “large farmers” are more interested in acquiring claims over land for speculative, rather than productive purposes. Many examples show that these farms have suffered damaging reversals when government preferences are withdrawn, and access to inputs and foreign exchange becomes harder. By contrast, small-scale family farms maintain a degree of autonomy, which allows them to cope with adverse circumstances, while family labour enables a rapid and flexible response to emerging economic opportunities. There are also distinct differences within the family farm sector between large, adaptable farm households, and small, highly vulnerable groups with few assets or capacities to cope with change.

Questions of agricultural policy and strategy are currently being debated at different levels: definition of agricultural strategies and the place of agriculture within the context of national Poverty Reduction Strategy Processes (PRSPs); the common agricultural policy being developed for the Union Économique et Monétaire OuestAfricaine (UEMOA) sub-region; and the African Union (AU) and the New Partnership for Africa's Development (NEPAD) framework for promoting agricultural growth. Together these
different levels of strategic thinking should lead to a clearer focus on the choices faced at national and global levels, and the extent to which there are major trade-offs between:

- Reducing poverty and improving economic opportunities for African farmers versus continuing the funding of enormous farm subsidies in OECD member states (currently at USD 350 billion/year);
- Securing a future for small-scale family farms, and promoting complementary relations with large-scale commercial agriculture;
- Securing the rights of customary land users and providing private title to land for large-scale investors.

In some cases, these trade-offs may be less clear-cut, with possibilities of ‘win-win’ situations, and complementarities between say, promotion of agri-business and creation of widespread benefits to local communities. In other cases, these trade-offs involve clear political choices regarding the distribution of benefits to different groups, both at national and global levels.

2.6. Prospects for West Africa’s Family Farms: the Next 10-20 Years

Looking forward, can family farms “feed the nation” and compete on global markets? Based on past experience, the answer is a qualified “yes”, but it all depends. The future structure and performance of West Africa’s farming sector will be the result of a number of factors, some of which are not in the hands of national decision-makers.

- Demand for staple food commodities is unlikely to decline, given current rates of population growth and food preferences determined by both culture and poverty. Rising incomes will provide a more diversified market for a broader range of grains, fruit and vegetables, livestock produce and other higher value products. The strongest evidence that family farms will continue to satisfy these markets is the strength of recovery from stagnating food production in the 1980s. Economic incentives rather than capacity are the chief constraint, hence the importance of increasing the competitiveness of West African agriculture within the sub-region and ensuring protection from cheap imports.

- National agricultural policy and strategy are important factors affecting the direction and form taken by the farming sector. Governments face choices between the kinds of agriculture they wish to promote. Design of agricultural strategy does not take place in a vacuum, but is subject to lobbying and pressures from a range of internal and external actors. If the family farm is to continue as a central component of the agricultural sector, national farmer federations and Producer Organisations will need to argue the case in their favour and challenge alternative visions which see “modernisation” as needing to follow a route favouring large commercial farms. With
the growing importance of sub-regional policy debate and decision-making, such lobbying also needs a sub-regional dimension.

- **Other national policy measures have important linkages to the future performance of the farm sector, most particularly reforms to land tenure legislation and administration.** Tenure reform is under discussion in many West African countries, with a focus on ways to increase levels of agricultural productivity, reduce conflicts, ensure equitable access, and promote sustainable land use. Changes in the law and administration of land tenure inevitably have distributional consequences. Many governments have sought to assert their underlying rights to manage land and allocate it to those they choose, by wresting control from customary structures. In some cases, this can open up opportunities to acquire land for groups with weak rights under customary systems but, most often, this assertion of control by government becomes a means to disempower ordinary farmers in favour of the elite. If smallholder agriculture is to have a secure future, it needs an appropriate system of tenure legislation and administration, which firmly supports the rights of the small farmer against land grabbing.

- **Environmental challenges constitute a potential threat to continued growth in agricultural output.** Future trends in rainfall are unknown, and global climate models are not able to predict with any confidence the likely change to weather patterns in the West African region. However, rising global temperatures seem certain, and these will bring increasing levels of evaporation. This means that the value of any given level of rainfall will lessen in terms of its contribution to primary production. For this reason, all farmers will need to pay greater attention to more intensive and careful management of water and soils.

- **Rising levels of demographic pressure, especially around major towns, will increase the scarcity and value of land.** In many peri-urban areas, these processes are leading to high levels of insecurity for rural dwellers, whose rights as long-term occupants of the land are ignored, by the powerful in the rush to grab a precious asset. Governments must find ways to provide greater security over land, to encourage investment, ensure equitable access and reduce risks of conflict, especially in these high risk zones. Farmers have shown themselves ready to invest substantial amounts of effort in land improvement where they face promising markets for their crops, and are confident of their land rights. Security does not necessarily stem from issue of paper land titles, but is the consequence of the state recognising the legality of local processes for managing land.

- **The composition of West African farm production must continue to evolve in response to emerging markets for some products, and falling returns for others.** For example, there are serious questions about the viability of rice farming in the Senegal River Valley, given the availability of cheap rice from SE Asia. A better strategy
might be for Senegal’s irrigated agriculture to focus on higher value commodities, which can better offset the costs of pump irrigation. Crop diversification in this direction has been apparent for some years, such as into okra for Dakar’s markets. Rice growing in the Office du Niger, Mali faces a more promising option for the future in part due to some natural protection from imports as a result of the country being landlocked, as well as reliance on gravity irrigation rather than diesel-fuelled pumps. The future of the West African oil seed sector needs thought, given its need to compete in an over-supplied global market. Establishing a quality product for domestic and foreign markets will be important, as well as ensuring compliance with stringent new phyto-sanitary controls, especially for groundnuts, which face particular challenges to demonstrate no trace of aflatoxin.

- **New niche markets may offer promising alternatives, through fair trade, organic or ethical trade initiatives.** While currently only a tiny proportion of the market for most products (the exception being coffee), there is a rapid growth of interest amongst western consumers regarding where the food they eat comes from. However, such interest is a two-edged sword, with part of the environmental movement keen to promote local food systems above all else, a move which could shut off opportunities for many southern farmers. Niche markets need good transport and infrastructural connections if they are to offer a significant outlet for farmers. Currently, many fair trade and organic schemes present serious obstacles to smaller producers because of the transaction costs associated with being part of such a scheme. Evidence shows that if smallholders are to benefit as a group, the standards or certification scheme must have promotion of “small farmers” as an explicit objective. If this is not the case, then the tendency will be for them to be squeezed out by larger, better organised producers.

- **The future impact of global markets on economic incentives in West African agriculture will depend on successful negotiations at the WTO and attention to improving farm gate prices, including measures to protect the agricultural sector, where necessary.** The end of surplus dumping by the USA and the EU is a precondition for improved market incentives for family farms or large-scale commercial farms alike. If West African farmers continue to face falling world market prices for their principal exports abroad, and fierce competition from OECD farm surpluses in their home markets, the future of the rural population will be greatly damaged. The farming sector has managed remarkably well over the last 20-30 years in the face of serious difficulties, but there are limits below which rural life becomes insupportable.

- **Progress at the WTO will need complementary measures at national level to ensure small-holders benefit from new economic opportunities in the world economy.** It is widely hoped that cuts in farm support and export subsidies made by OECD nations
will generate substantial gains to farmers in the developing world. However, there is no guarantee that better market access will translate into improved incomes for smallholder farmers in Africa. Many supply constraints limit their means to gain effective access to these markets. Better-off countries like Brazil, India and China are more likely to benefit from such trade openings. At the same time, where newly profitable areas do open up, there are risks that these will be seized by more powerful groups, at the expense of the smallholder sector.

- **The restructuring of global food systems is shifting power from public to private sector standards.** The growing concentration of corporations in processing and retail systems is bringing a new set of standards for farmers to meet in order to sell into high value markets. These standards tend to be higher than those negotiated at international level, and to evolve rapidly depending on a mixture of demand and supply-side factors (Boselie and de Kop, 2004). These rising standards risk excluding small-holders from access to such supply chains.

- **There is a stark mismatch between commitment from OECD nations to meeting the MDGs, especially making a serious reduction in global poverty levels, and current policy towards their own farming sector, and trade measures.** This provides a valuable lobbying and advocacy opportunity for informing the OECD public and working with a range of groups able to exert pressure on current processes of negotiation. Such pressure will be more effective where backed by good material which underlines the links between OECD farm and trade measures and the prospects for a sustainable livelihood for farmers in West Africa.

- **Export agriculture has been promoted as the obvious escape route from economic stagnation in African countries. But does this strategy make sense in the context of a long-term decline in the terms of trade for tropical commodities? And is a downward pressure on world market prices not inevitable if all countries pursue the same policy of expanding agricultural exports?** Increased processing of primary commodities is a key means to add value to exports as well as feeding into sub-regional markets (such as instant coffee produced in Ivory Coast). Continued pressure is needed for change to tariffs imposed by OECD nations for processed commodities that would otherwise offer an important means of generating increased incomes and employment in poor countries.
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3. Small-Scale Farmers’ Role and Challenges in Developing Africa’s Agriculture Sector

Rosebud V. Kurwijila

3.1. Introduction

Agriculture in Africa is mainly a rural undertaking, embracing cultivation of food and cash crops as well as the keeping and herding of livestock, fishing and exploitation of forestry and wildlife natural resources. Hence in this paper, the term agriculture will be used in its widest sense as it concerns the livelihood of the majority of the people on the African continent. The African Union has similarly defined agriculture, giving the Department of Rural Economy and Agriculture a mandate for Plant and Animal Agriculture, Environment, Water, Fisheries and Forestry Resources.

More than 80 percent of the African population live in rural areas and depend on agriculture and available natural resources including water, wildlife, fisheries and forestry. In most sub-Saharan countries small-scale farmers account for more than 50 percent of food and cash crop production and more than 90 percent of livestock production. Threats to small-scale agriculture include land fragmentation and falling soil fertility exacerbated by ever-rising cost of farm inputs in the face of falling and unsteady commodity prices in the world market. For the most part of the 1950s, Africa was self-sufficient in staple food requirements. However, during the colonial and post independence era, the agriculture sector suffered many setbacks. With increasing population pressures, shifting cultivation could no longer sustain high crop yields due to land degradation and falling soil fertility. Falling agricultural productivity has exacerbated poverty in the rural areas where more than 50 percent live on less than one dollar a day in most of sub-Saharan countries (FAO, 2003).

The causes of these setbacks include extractive government policies that have neglected the development of the rural and agriculture sector (despite its huge (33 percent) contribution to Gross Domestic Product (GDP) and export earnings) resulting in limited public and private investment; land degradation, which has affected about 65 percent of the agricultural land since 1950s; frequent droughts and uneven distribution of water resources, a vital input for the improvement of the sector. Productivity and per capita production have been on the decline for the last 30 years while the production of food crops such as rice, wheat, maize, sorghum and cassava, which constitute the greater part of food consumed, has not kept pace with population growth and the associated demand for food. Consequently, it is estimated that almost 200 million Africans were undernourished at the dawn of the millennium, compared with 133 million 20 years


In spite of the many problems and the apparent decline of Africa’s agriculture, it remains the mainstay of economies of most countries in sub-Saharan Africa, accounting for 70 percent of fulltime employment, 33 percent of GDP and 40 percent of export earnings (IFPRI, 2004). Given the large size of the African population that depends on agriculture and the exploitation of fisheries and forestry resources, agriculture remains the most important economic sector for income generation, food security, employment and poverty reduction. If the millennium development goals of halving poverty and hunger by 2015 are to be achieved by African countries, it is imperative that poverty reduction strategies and employment creation embrace the development of agriculture. Yet we know that Africa’s agriculture is based on the smallholder farmer, the small-scale fishermen whose main technology remains the hand hoe and dug out canoes. Can they really provide the engine for growth? What are the challenges and opportunities?

This paper attempts to address these questions by highlighting the roles and challenges of the small-scale farmers to ensure that Africa will once more be able to feed itself and emancipate its huge rural population and urban slum dwellers from abject poverty and chronic food insecurity. It does this by reviewing some of the vast and expert literature that has been written on the subject recently. It goes on to relate what most experts agree to be the way forward for African agriculture, whilst also considering the new African Union Commission’s medium and long term perspectives on the subject. Some examples of successful interventions, which have demonstrated that small producers are capable of harnessing technologies and market opportunities to increase production beyond their subsistence needs, are cited as examples of what is achievable by small-scale farmers.

### 3.2. Role of Small-Scale Farmers in African Agriculture

#### 3.2.1. Food Supply

According to Devereux and Maxwell (2004), food production in Africa has increased by over a quarter in the last two decades. This observation is in agreement with FAO data shown in Figures 1a and 1b, which show an increase in per capita food production over the last three decades. This increase has not, however, been as fast as in other regions, and has not been fast enough to prevent food imports from rising and per capita food availability from falling. It is also noteworthy that much of this increase has come from the expansion of cultivated land rather than from improvements in production efficiency per unit of land farmed.
In most of sub-Saharan Africa, much of the food supply is produced by small-scale farmers owning less than 5 hectares and with 75 percent or more owning less than one hectare. Even in countries with substantial settler commercial farms (80 hectares or more and yielding 5-6 tons of maize per hectare), such as Kenya, Zimbabwe, and Zambia, total commercial production is less than 50 percent of national outputs (Spencer, 2001).
Therefore, Africa’s food supply is driven mostly by the performance of small-scale farmers as influenced by a number of factors which will be discussed in subsequent sections of this paper.

At the global level, Africa’s food supply situation has been lagging behind that of other regions of the developing world as indicated in Tables 1 and 2 below.

**Table 1.** Agricultural indicators by region (FAOSTAT, 2004).

<table>
<thead>
<tr>
<th></th>
<th>Africa</th>
<th>Sub-Saharan Africa</th>
<th>Near East and North Africa</th>
<th>South Asia</th>
<th>East Asia and Pacific</th>
<th>Latin America and Caribbean</th>
<th>Middle income countries</th>
<th>High income countries</th>
<th>World</th>
</tr>
</thead>
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<tr>
<td>Proportion of arable land irrigated (%)</td>
<td>7.0</td>
<td>3.8</td>
<td>28.7</td>
<td>39.3</td>
<td>31.9</td>
<td>11.6</td>
<td>19.9</td>
<td>11.9</td>
<td>20.0</td>
</tr>
<tr>
<td>Added value per worker in 1999 (USD/year)</td>
<td>416</td>
<td>285</td>
<td>1 859</td>
<td>412</td>
<td>461</td>
<td>3 028</td>
<td>335</td>
<td>17 956</td>
<td>645</td>
</tr>
<tr>
<td>Per capita cereal production 1997/99 (kg/year)</td>
<td>147</td>
<td>128</td>
<td>128</td>
<td>224</td>
<td>336</td>
<td>259</td>
<td>339</td>
<td>746</td>
<td>349</td>
</tr>
<tr>
<td>Cereal yield 1997/99 (kg/ha)</td>
<td>1 225</td>
<td>986</td>
<td>1 963</td>
<td>2 308</td>
<td>4 278</td>
<td>2 795</td>
<td>2 390</td>
<td>4 002</td>
<td>2 067</td>
</tr>
<tr>
<td>Livestock productivity 1997/99 (kg/ha)</td>
<td>164</td>
<td>128</td>
<td>147</td>
<td>121</td>
<td>150</td>
<td>198</td>
<td>191</td>
<td>248</td>
<td>193</td>
</tr>
<tr>
<td>Fertilizer use 1997/99 (kg/ha)</td>
<td>22</td>
<td>9</td>
<td>69</td>
<td>109</td>
<td>241</td>
<td>85</td>
<td>111</td>
<td>125</td>
<td>100</td>
</tr>
</tbody>
</table>
Table 2. Food and hunger indicators by region (FAOSTAT, 2004).

<table>
<thead>
<tr>
<th>Year</th>
<th>Sub-Saharan Africa</th>
<th>Near East and North Africa</th>
<th>South Asia</th>
<th>East Asia</th>
<th>Latin America and Caribbean</th>
<th>Developing Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>1964-66</td>
<td>2058</td>
<td>2290</td>
<td>2017</td>
<td>1957</td>
<td>2393</td>
<td>2054</td>
</tr>
<tr>
<td>1997-99</td>
<td>2195</td>
<td>3006</td>
<td>2403</td>
<td>2921</td>
<td>2824</td>
<td>2681</td>
</tr>
<tr>
<td>2015</td>
<td>2360</td>
<td>3090</td>
<td>2700</td>
<td>3060</td>
<td>2980</td>
<td>2850</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Millions of persons undernourished</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-92</td>
<td>168</td>
</tr>
<tr>
<td>1997-99</td>
<td>194</td>
</tr>
<tr>
<td>2015</td>
<td>205</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Millions of persons in poverty (&lt; USD 1/day)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>242</td>
</tr>
<tr>
<td>1999</td>
<td>300</td>
</tr>
<tr>
<td>2015</td>
<td>345</td>
</tr>
</tbody>
</table>

With respect to food security, the picture on Africa shows that there is a lot of variation from region to region. Table 3 shows that Central Africa is the worst-off region followed by southern Africa and eastern Africa. Generally, the proportion of people undernourished in sub-Saharan Africa has fallen slightly from 35 percent in the late 1960s to 33 percent by the turn of the century (Table 3). The only regions, where the trend has been an increase rather than a decrease in the proportion of people undernourished, are Central Africa and eastern Africa.

Table 3. Prevalence of undernourishment in Africa (FAOSTAT, 2004).

<table>
<thead>
<tr>
<th>Region</th>
<th>Number of people undernourished</th>
<th>Proportion of undernourished in total population</th>
</tr>
</thead>
<tbody>
<tr>
<td>North Africa</td>
<td>19.3</td>
<td>7.4</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>91.9</td>
<td>125.4</td>
</tr>
<tr>
<td>Central Africa</td>
<td>10.4</td>
<td>15.1</td>
</tr>
<tr>
<td>East Africa</td>
<td>39.7</td>
<td>42.5</td>
</tr>
<tr>
<td>Southern Africa</td>
<td>13.1</td>
<td>17.0</td>
</tr>
<tr>
<td>West Africa</td>
<td>28.7</td>
<td>50.7</td>
</tr>
</tbody>
</table>
The picture for specific key food crops and livestock is more revealing of Africa’s predicament. The huge difference in the rate of increase in maize production in Africa compared to world productivity trends is explained by the fact that productivity per unit of cultivated land has stagnated and lagged behind that of other areas of the world (Figure 2) largely because of low technological inputs such as the use of fertilizers (22 kg compared to world average of 100kg/ha), improved seeds, irrigation etc (see Table 1).


This example of low productivity per unit of land and per capita supply for maize shows that in order for Africa to meet its future food needs, problems that have contributed to this seemingly perpetual decline and stagnation must be well understood and appreciated by all policy makers in Africa. This is because the problem of food insecurity in Africa is more than a food security issue. In its broadest sense, and despite of the recent trends in globalisation of exchange of goods and services, it is a matter of access and poverty (Aileen, 2001), especially for those nations that cannot afford to import food because most of the time they do not possess sufficient foreign exchange reserves as the case of cash crops (which bring in as much as 40 percent of the foreign exchange in most African countries) below, will show.

### 3.2.2. Cash Crops Production

Coffee, cotton, cocoa, tea and sugar are among the top five foreign exchange earning commodities in at least 20 African countries out of 53, therefore providing a fairly
balanced barometer of performance and changing terms of trade between Africa and the rest of the world. Among these, coffee, cotton and cocoa farming are largely small-scale farmer undertakings in most African countries. A closer look at any one of these will shed some light on the role and plight of small-scale farmers. I will look at the case of coffee farmers.

According to FAO data, all the green coffee production takes place in Sub-Saharan Africa. Figure 3 shows African production and yield per hectare against the world total production and average yields per hectare. It is noteworthy that during the 1960s up to the mid-1970s production per hectare was very close to the world average but the gap has widened in the last two decades to the extent that by year 2000 Africa’s coffee yield/ha was about 58 percent of the world average compared to 98 percent in 1970. Consequently, Africa's share of world coffee production declined from 34 percent in 1970 to 13 percent in 2003 as new producers such as Vietnam have emerged to challenge Africa’s position (Figure 4).

The problems of decline in the production of traditional cash crops in Africa are exacerbated by the worsening terms of trade. Coffee prices have been falling on the world market since the mid-1980s mainly because of oversupply relative to demand (Figure 5). Vietnam has, for example, increased production by 1400 percent between 1990 and 2000 and Brazil has continued to expand production (Sorby, 2002). This period of enormous expansion in production has coincided with the escalation of prices of critical inputs such as fertilizers and pesticides due in part to adoption of the International Monetary Fund and the World Bank sponsored structural adjustment policies and programmes embracing the scrapping of government subsidies on these inputs thereby throwing out of thousands small-scale coffee farmers in countries such as Uganda and Kenya (Figure 4).

The competitiveness of African small-scale farmers is not helped by the trade distorting policies of the USA and European countries. A report by the United Nations Conference on Trade And Development (UNCTAD) shows that if the terms of trade for sub-Saharan
Africa remained at the 1980 level, the sub-continent’s share of global trade would have been double what it is today. One way in which Africa can free itself out of poverty is through value adding on its main agricultural commodities. A recent report by President Benjamin Mkapa of Tanzania (Mkapa, 2004) shows that unprocessed cocoa, for example, attracts only 0.5 percent tariff in the EU, and zero tariffs in both USA and Japan. However, semi-processed cocoa is charged at 9.7 percent in the EU, 2 percent in the USA and 7 percent in Japan. If Africans try to sell final cocoa products, they are charged a punitive 30.6 percent tariff in the EU, 15.3 percent in USA and 21.7 percent in Japan. These barriers do not allow farmers to get a fair share of the price of a cup of cocoa or coffee drunk in European, American or Japanese markets.

The scale and effects of agricultural subsidies are amazing. In 2002, the European Union (EU) spent over USD 100 billion, whereas US and Japan spent USD 90 billion and USD 56 billion respectively on agriculture subsidies in support of their farmers and exporters of agricultural products. These subsidies enable farmers in the developed world to sell their produce abroad at a lower rate, thereby suffocating markets of local producers.

The major problem for small-scale farmers in Africa is the ever-falling commodity prices. From 1980 to 2000, prices of 18 major world export commodities fell by 25 percent in real terms. This fall was particularly significant for cotton (47 percent), coffee (64 percent), rice (60.8 percent), cocoa (76.6 percent) and sugar (60.8 percent) (ILO-WCSDG, 2004). The implications for Africa are enormous. For example, cotton is a vital foreign income earner to a number of West and East African countries. It comprises 40 percent of foreign exchange earnings for Benin and Burkina Faso and 30 percent of those of Mali and Chad. However, due to heavy subsidies made available to farmers in the US, the resultant effect was a 25-30 percent decrease in the world cotton price due to overproduction. It has been observed that US cotton subsidies deprive Mali of USD 43 million per year in the form of lost export earnings. The World Bank estimates that the removal of protection and support in the cotton sector would increase prices by 13 percent and the volume of world trade in cotton by 6 percent over the next years. The stalled WTO negations on this mean that such a change is unlikely to happen soon (ILO-WCSDG, 2004).

Another barrier to access for African farmers to international trade is the application of stringent Sanitary and Phytosanitary (SPS) Standards. Vital as SPS are to protection of health of consumers, the imposition standards which go beyond international standards for the sake of safety margins and without objectively verifiable risk assessments, is detrimental to the cause of small-scale farmers. A case in point, cited by (ILO-WCSDG, 2004), is the recent decision by the EU to apply standards on the level of aflatoxins in imports of nuts, cereals and dried fruits, which are higher than world (Codex Alimentarius Commission) standards. The World Bank has estimated that this higher standard would result in a 64 percent decrease in the volume of these products compared to current aflatoxins standards, resulting in USD 670 million of lost revenue to Africa.
These are some of the global realities, which directly or indirectly affect the competitiveness of small-scale farmers. The result of all this is that small-scale farmers have to adjust. In the coffee growing highlands of Kilimanjaro in Tanzania, in central Kenya, and highlands of Ethiopia peasant coffee farms are giving way to more paying horticultural crops, flowers or dairy cattle.

3.2.3. Production of Non-Traditional High Value Crops

One of the small-scale farmers' coping strategies against the unpredictable and falling terms of Africa’s traditional export cash crops is a shift to more high value horticultural crops such as paprika, onions, tomatoes, vanilla and green beans for the local and export markets as well as dairy production. Among the recent success stories of African agriculture is the successful adoption of smallholder dairy farming in the highlands of Tanzania (Kilimanjaro), Kenya and Ethiopia (Ngigi, 2003). In Uganda, diversification of coffee/banana production system has seen the successful introduction of vanilla production. Another strategy that shows benefit to smallholder farmers is a switch from production of traditional crops to sustainable products such as organic coffee, which attracts up to 140 percent - 400 percent overprice (Sorby, 2002). Africa’s share of such niche market commodities is however still low compared to other parts of the world (Sorby, 2002: 4).

3.2.4. Livestock Production

Africa is home to 237 million cattle, 240 million sheep, 217 million goats, 1,500 million chickens, and 20 million pigs and camels (FAOSTAT, 2001). Livestock support the livelihoods of Africa’s rural poor, 70 percent of whom own livestock. It is estimated that livestock is a primary means of income for 70 percent of livestock owner (nomads, pastoralists and agropastoralists). About 200 million people in Africa, have livestock as one of their major source of income and livelihood. Livestock play multiple roles: they increase food and nutrition security, function as a store of wealth (also dubbed as “bank on the hoof”), provide draught power, transport, manure and provide for several social functions. Above all, the sale of eggs and milk on a regular basis and of live animals, when needed, provides the much-needed cash income. Livestock and their produce can also be traded for food during times of food insecurity. In sub-Saharan Africa, livestock account for about 25 percent of agricultural GDP (Winrock International, 1992).

The growth rates of cattle, sheep and goats have been estimated at 1.4, 2.5 and 4.3 percent respectively (Otte and Chillonde, 2002) against a population growth rate of 2.6 percent per annum. While Africa was self-sufficient in meat in the 1970s and 1980s, statistics for the year 2000 show that with the exception of mutton and goat, Africa has become a net importer of meat (80 thousand tonnes), pig meat (42 thousand tonnes),
poultry (149 thousand tonnes), eggs (17 thousand tonnes) and 1971 thousand tonnes of milk (FAOSTAT, 2002). The current deficits and expected growth in the gap between supply and demand for livestock and livestock products in the next ten to fifteen years (Delgado et al., 1999; Winrock International, 1992) provides both a challenge and opportunity for smallholder livestock farmers. The complementarities of crop cultivation and livestock keeping provide an opportunity for small-scale farmers to intensify their crop production in an environmentally friendly way, sustainable without recourse to expensive chemical fertilizers. Small farmers' livestock and combined crop and livestock systems render themselves highly conducive to the production of specialty farm produce for niche markets (e.g. organic food). Livestock can also contribute positively to management of communal grazing land when traditional methods are modified through appropriate community institutions to include controlled access to and use of pastures and water resources.

3.3. The Challenges and Opportunities for Small-Scale Agriculture in Africa

3.3.1. Irrigation

A demonstrative example that would have a big effect on the process of reversing the existing situation is the one of water use: 60 percent of African food production comes from non-irrigated agriculture while only 7 percent of the arable land (3.7 percent in sub-Saharan Africa and 40 percent in northern Africa) is cultivated by irrigation. Small-scale irrigation schemes and traditional irrigation schemes have been severely affected by the destruction of water shed areas in highlands, land degradation, soil erosion and desertification. Community based natural resource management will be key to reversing this negative trend in many areas. Examples, where land restoration and afforestation have made remarkable impact on local communities, abound. The activities of civil society organisations have been very instrumental to most of the success stories in this area around Africa (van Koppen, 2000). Table 4 shows that irrigation rates are still very low in African smallholder agriculture.
Table 4. Distribution of irrigated land according holding size in 1988 (van Koppen, 2000).

<table>
<thead>
<tr>
<th>Country</th>
<th>Smallholder farmer population (% of rural population)</th>
<th>Share of smallholders in total arable and permanent crop land (%)</th>
<th>Area irrigated by smallholders as % total area cultivated by smallholders</th>
<th>Area irrigated by smallholders as % of nations total cultivated land</th>
<th>Total irrigated area as % of nation’s total arable land</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Madagascar</td>
<td>70</td>
<td>62</td>
<td>2</td>
<td>1</td>
<td>14</td>
</tr>
<tr>
<td>Mauritania</td>
<td>?</td>
<td>41</td>
<td>12</td>
<td>5</td>
<td>25</td>
</tr>
<tr>
<td>Morocco</td>
<td>36</td>
<td>11</td>
<td>15</td>
<td>2</td>
<td>15</td>
</tr>
<tr>
<td>Niger</td>
<td>23</td>
<td>13</td>
<td>4</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Nigeria</td>
<td>83</td>
<td>71</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>30</td>
<td>11</td>
<td>25</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Somalia</td>
<td>21</td>
<td>11</td>
<td>8</td>
<td>1</td>
<td>18</td>
</tr>
<tr>
<td>Swaziland</td>
<td>77</td>
<td>60</td>
<td>2</td>
<td>1</td>
<td>33</td>
</tr>
<tr>
<td>Middle East</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jordan</td>
<td>16</td>
<td>7</td>
<td>20</td>
<td>1</td>
<td>20</td>
</tr>
<tr>
<td>Yemen AR</td>
<td>67</td>
<td>50</td>
<td>18</td>
<td>9</td>
<td>23</td>
</tr>
<tr>
<td>S.Asia</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pakistan</td>
<td>?</td>
<td>14</td>
<td>76</td>
<td>11</td>
<td>73</td>
</tr>
<tr>
<td>Nepal</td>
<td>66</td>
<td>55</td>
<td>25</td>
<td>14</td>
<td>39</td>
</tr>
<tr>
<td>Philippines</td>
<td>40</td>
<td>33</td>
<td>19</td>
<td>7</td>
<td>28</td>
</tr>
<tr>
<td>Thailand</td>
<td>41</td>
<td>21</td>
<td>16</td>
<td>3</td>
<td>23</td>
</tr>
</tbody>
</table>

3.3.2 Access to Markets

The unpredictability of markets, prices and lack of market access is one of the major constraints to small-scale farmers’ performance. The withdrawal of government institutions in crop and livestock produce marketing as a result of structural adjustment and trade liberation programmes has exacerbated this problem. The advent of supermarkets in most urban centres across the continent provides both a challenge and an opportunity. It may be impossible to meet their demand for uniform quality, grades and huge volumes of farm produce. However, being able to exploit the opportunities offered by supermarkets’ and agro-processing industries’ supply contracts may be vital.

3.3.3. Access to Extension Services

Most countries in Africa are at some stage of privatisation of crop and livestock extension services. This has in many cases left farmers, especially those in rural areas, without a reliable extension system. Some out-grower schemes such as in the sugar and tobacco industries offer input credits and extension services. Contract farming, therefore, offers an opportunity to access both input credits and extension services. Again, this will
require that farmers are organised so as to enhance their bargaining power in contract negotiations which may include agreements on the season’s price for their produce.

3.3.4. Land Tenure and Fragmentation

Customary land tenure is the characteristic ‘land ownership’ pattern in the predominantly smallholder agriculture sector. From the traditional production point, the customary tenure arrangement is sufficient for the need of the large majority of small producers. The tenure arrangement, however, manifests considerable limitations when family sizes increase, resulting in the further fragmentation of the smallholdings. The system also negatively impacts the prospects of large-scale commercial investment for technologically grounded increased production of key strategic commodities that can significantly contribute to food self-sufficiency and food security.

3.4. AU Commission Mission and Vision and the Small-Scale Farmer

Since its inception, the AU has put agriculture at the top of its agenda. The seriousness and commitment of the AU to agriculture is reflected in its decision to urge members to increase their annual allocations to agriculture to at least 10 percent of their national budgets. The AU’s commitment is also visible from the approval of the Comprehensive Africa Agriculture Development Programme (CAADP) under the New Partnership for Africa’s Development (NEPAD) programme and the holding of an extra-ordinary session on agriculture and water in Sirte, Libya. The session resulted in the Sirte Declaration, making groundbreaking decisions on agriculture, which the AU member states and the Commission are challenged to implement. The following decisions in the declaration are of major significance to the plight of the small-scale farmer:

- Emphasis on science and technology utilisation in agriculture production through the strengthening and establishment of Centres of Excellence and research in biotechnology (including genetically modified organisms s), biosafety, food storage, water harvesting and application.
- Developing human resource potential in the continent through education, training, skills development and the exchange of expertise.
- Ensuring the co-ordination of African positions at WTO and other international trade negotiations in order to secure better terms of trade and to increase the share of the continent in the world trade.
- Developing a common and coherent policy framework for public-private cooperation that will attract increased private capital into agriculture and water resources.
- The establishment of the African common market for agricultural products.
- Developing strategies in the field of export-oriented industries; promoting regional co-operation and integration based on comparative advantage in establishing industries, in particular those required by agricultural development programmes. Also, looking into the feasibility of establishing an African Agricultural Investment Bank and an African Agricultural Development Fund.

The Department of Rural Economy at the AU, working with member states, civil society and African institutions, is mandated and challenged to:

- Spearhead the reversal of the poor state of Africa’s rural economy and agriculture
- Improve the livelihoods of African people through the improvement of agriculture and the enhancing of environmental sustainability by:
  - Promoting policy and strategy harmonisation and coherence
  - Co-ordination of joint efforts
  - Advocacy and information dissemination
  - Resource mobilisation, capacity building and drumming up action and political will.

The department has five specialised institutions, including the Interafrican Bureau of Animal Resources (IBAR), Semi-Arid Food Grain Research and Development (SAFGRAD) and continent-wide programmes such as the Pan-African Tsetse and Trypanosomiasis Eradication Campaign (PATTEC), which work with member states to address regional and transboundary issues affecting livestock / crop productivity and cross-border trade. Central among these are IBAR's (Nairobi –Kenya) work on the control of trans-boundary animal diseases, Pan African Veterinary Vaccine Centre (PANVAC) (Debre Zeit, Ethiopia) for the development of vaccines against endemic animal diseases, the Interafrican Phytosanitary Council (IAPSC) based in Yaounde, Cameroon, and the Fouta Djallon Highland Integrated Regional Programme (Guinea). The co-ordination of sanitary and phytosanitary policies and standards related activities under IAPSC and IBAR are particularly important in promoting inter-regional trade as well as Africa’s potential in export markets.

3.5. Conclusions

Agriculture supports the livelihoods of more than 70 percent of the continents population. Small-scale farmers and smallholder livestock keepers account for the bulk of Africa’s food, cash crop and livestock production including fisheries. Productivity per hectare or animal units remains lowest in sub-Saharan Africa due low technological inputs, deteriorating terms of trade and lack of support services and infrastructure.

The AU Commission, working with the member states, private sector, and civil society and with support from our development partners is challenged to reverse the dismal performance of Africa’s agriculture through various strategies and programmes. These
include the implementation of NEPAD's CAADP programmes and the Decisions of the Sirte Declaration on Agriculture and Water.
References


PART TWO

Country Reports and Case Studies
4. Small Farmers in Economies in Transition: The Case of Vietnam and Its Entry into the Global Economy

Chu Thi Hao and Gladys Savolainen, Ph.D.\textsuperscript{18}

4.1. Introduction

Vietnam’s transition towards a market economy has brought dramatic changes in the agricultural sector. Its overall performance in this area could probably be considered as one of the country’s significant success stories with major implications on the economic and social development of small-scale farmers. This paper aims to describe the situation of the agricultural sector of Vietnam and analyses its implications on small-scale farmers. The paper is organised as follows. Section 2 describes the economic, social and political context of Vietnam. Section 3 provides a brief overview of the agricultural sector and describes the reforms introduced by the government and their related impacts. Section 4 identifies the challenges facing the agricultural sector. Section 5 analyses the implications of modernised agricultural sector on small-scale farmers. The conclusion offers some recommendations to safeguard small-scale farmers as the country moves towards a market-oriented economy.

4.2. Vietnam: An Economy in Transition

Located in Southeast Asia, Vietnam stretches along the South China Sea. It borders on China in the north, the Gulf of Thailand in the south, and the Peoples Democratic Republic of Laos and Cambodia in the west. Its total land area is approximately 331,000 sq. km. In 2001, Vietnam registered a population of 80 million inhabitants and a population growth rate of 1.9 percent per year from 1980 to 2001 (World Bank, 2003). Presently, Vietnam enjoys a vibrant economy in comparison to its neighbours in the Southeast Asian region. This is largely attributed to the reform era of the \textit{doi moi} implemented by the government in the mid-1980s to facilitate the country's transition from a centrally planned economy to a market economy.

Since its implementation, the \textit{doi moi} has enabled Vietnam to achieve economic growth and social and political stability. Between 1991 and 2000, the country's gross domestic product grew by about 7.5 percent annually and roughly maintained this level between 2001 and 2004. The country's economic success has had some significant impact especially in reducing the number of people living under the poverty line. As recently as 1993, 58 percent of Vietnam's population lived under the poverty line. In 1998, the

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percentage of the population living under the poverty line was reduced to 37 percent and by 2002, to 28.9 percent. These figures show that Vietnam has successfully halved its share of poverty in less than ten years.

4.3. Modernising Vietnam’s Agricultural Sector: An Overview of Reforms and Achievements

One of the key areas where major reforms were introduced under *doi moi* was in agriculture. Towards the end of the 1980s, the government applied a set of policy reforms to invigorate the agricultural sector. The most salient of these is the land distribution policy to rural households. The promulgation of the Land Law of 1988 (also known as Resolution No. 10 and later as the Land Law of 1993) provided the legal framework for the radical shift from a collective mode of agricultural production to one that gave long-term management responsibility to private small-scale farm households. Initially implemented in the lowland areas, the land reform process was carried out in a decentralised fashion with commune level officials being given the authority to adapt the law to local conditions, customs and priorities. This ambitious initiative drew scepticism within the development community, who were thinking that such a policy would be captured mainly by local elites. On the contrary, Vietnam's land allocation policy was lauded for the egalitarian process by which land was distributed especially to rural farm households (Ravallion and van de Walle, 2003).

Between 1992 and 1998, the government gradually began liberalising key agricultural markets, notably rice exports (Benjamin and Brandt, 2002). As reported by Benjamin and Brandt (2002), the relaxation of restrictions on rice exports was undertaken by increasing the export quota from less than a million metric tons in 1992 to 4.5 million tons by 1998. The government also introduced measures to ease internal barriers to rice trade, facilitating its marketing and distribution from the predominantly rice growing region in the south to the northern provinces. Restriction in the importation of agricultural inputs, such as fertilizer, was also relaxed thereby solving earlier fertilizer supply constraints as well as making cheap fertilizer available in the market, and thus reducing production costs.

Furthermore, to pave the way for its integration into the world economy, the Government of Vietnam signed bilateral trade agreements with some 90 nations. In 1995, Vietnam joined the Association of Southeast Asian Nations (ASEAN) and in 1998 the Asia-Pacific Economic Cooperation (APEC). Presently, it actively participates in negotiations to join the World Trade Organization. It is a signatory to the ASEAN Free Trade Area (AFTA), the ASEAN-China Free Trade Area (AC-AFTA), and the Bilateral Trading Agreement (BTA). Vietnam's accession to AFTA is expected to benefit the country's agricultural sector by giving it better access to the ASEAN region market (Fukase and Martin, 1999).
The government also passed the Enterprise Law to attract foreign direct investments into the country as well as to allow joint venture enterprises. Multi-sectoral approaches were introduced to facilitate agro-industrialisation as well as increase private sector participation in all aspects of agricultural development. Vast improvements in rural infrastructure were also implemented in the 1990s although as will be discussed in the later section of this paper, much is yet to be desired to improve the efficiency of rural infrastructure to meet the demands of a growing economy.

The impact of these reforms has been notably significant. They provided well-sought incentives for farmers to increase productivity. During the last ten years, the value of agricultural production has grown steadily at an average annual rate of 4.3 percent. The gross output of food crops in paddy equivalent posted an average growth rate of 5.3 percent per year; production of industrial crops grew at around 10 percent; and the livestock sub-sector recorded an annual average growth rate of 5.8 percent. Specific crop niches were established in some regions, for example rice in the Mekong River Delta, coffee in the Central Highlands, and rubber in the southeast.

Increased agricultural productivity enabled the country to meet domestic as well as export demand. Food output in 2002 accounted for 34 million tons, of which rice output was recorded at 32 million tons, nearly double its output in 1990. A vast majority of rural farmers are engaged in small-scale fruit and vegetable production for home consumption as well as for the market. The area planted with fruits and vegetables grew rapidly in the 1990s with 6.5 percent growth per year for fruits and 5 percent for vegetables (Minot, 2002). Using the available household labour, poor farmers were more likely to grow vegetables than the richer ones. During the same period, it was also observed that both the fruit and vegetable sector underwent a major transformation, exhibiting emphasis towards market and export orientation. The fruit sector showed a higher market share at 74 percent than the vegetables sector (63 percent). Over half of the fruit and vegetable produce were sold by the poorest category of households.

In terms of the consumption pattern, the study conducted by Minot (2002) revealed that urban households consumed relatively diverse varieties of fruits and vegetables compared to the rural households. Using data from the Vietnam Living Standards Survey (VLSS), the same study revealed changes in the consumption patterns of fruits and vegetables between 1993 and 1998, showing an overall increase of about 8 percent among the Vietnamese population. In particular, fruit consumption increased by about 31 percent per person per year. An increase in household income was shown to have a positive relationship with fruit and vegetable consumption. The results of this study suggested that the growth in the fruit and vegetable sector could be attributed in part to increased household incomes resulting in demand for greater diversity in the diet as well as the opening of export opportunities and trade liberalisation.

In the export industry, export turnover accounted for over 35 percent of the total production value of the whole sector. The value of agricultural exports, including
fisheries, reached USD 4.53 billion, accounting for 30.3 percent of Vietnam’s total export earnings in 2003. Surplus in rice production has enabled Vietnam to export rice particularly to its ASEAN neighbours. Vietnam now ranks as the world's second leading rice exporter after Thailand.

Export markets have been developed for coffee, cashew, pepper, rubber, sugarcane and aquaculture products. Coffee output was up by 20 times, rubber 3.5 times, tea 1.8 times and cashew 4 times compared to production levels in 1990. Minot (2002) reported that in 1998, Vietnam exported about USD 52.6 million worth of fruits and vegetables. In 2001, the value of exports for the same products was posted at USD 330 million.

Vietnam's agricultural products are present in more than 100 countries in the world. In terms of market destination: nearly 70 percent of total agricultural products are exported to Asian markets, such as China (fruits, pepper, cashew nut, and rubber), Taiwan (fruits and vegetable, forestry products, and tea), the Philippines, Indonesia, Malaysia (rice), Japan (forest products, processed fruits and vegetables, and tea) and Iraq (rice and tea). Agricultural products exported to the EU markets are coffee, honey, tropical processed fruits and vegetables, and forestry products. Agricultural products exported to the US market include coffee, cashew, pepper, pineapple juice, and forest products. Other markets, such as the African continent, are being sought by domestic enterprises for tea and rice exports.

Vietnam's impressive economic performance, especially the diversification of on-farm activities, brought about improvements in rural living standards, where average household incomes grew by 60 percent from 1993 to 1998. A study conducted by Benjamin and Brandt (2002) comparing agriculture and income distribution between the northern and southern regions of Vietnam, revealed no evidence of rural income disparities between these regions as a result of market liberalisation, particularly in the rice industry. In both regions, increased producer prices for rice benefited primarily poorer and middle-income farmers. A similar question was posed in a study conducted by International Food Policy Research Institute (Minot, 2002) as to whether the benefits of the expansion of fruit and vegetable cultivation are distributed widely in rural areas or whether these benefits are captured mainly by larger farmers who are able to take advantage of market opportunities. The analysis of the VLSS data showed that poor households have participated fully in the expansion and commercialisation of fruit and vegetable production. As already stated, poor households are more likely to cultivate vegetable crops compared to the richer ones.

Interestingly, while Vietnam experienced unprecedented agricultural productivity in recent years, agriculture's share in the GDP has gradually fallen from 38.7 percent in 1990 to 23 percent in 2002. The industrial and construction sector's share of the GDP has increased from 22.67 percent to 38.5 percent over the same period (Table 1). This decline in agriculture's share of the GDP could be attributed to the shift to other sectors as part of the process of industrialisation and modernisation.
Table 1. Proportion of Economic Sector Contribution in GDP (percent) (Government of Vietnam's statistics, 2004).

<table>
<thead>
<tr>
<th>Year</th>
<th>Agro-forestry and aquatic products</th>
<th>Industry and construction</th>
<th>Services</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>38.7</td>
<td>22.7</td>
<td>38.6</td>
<td>100</td>
</tr>
<tr>
<td>1995</td>
<td>27.2</td>
<td>28.8</td>
<td>44.0</td>
<td>100</td>
</tr>
<tr>
<td>2000</td>
<td>24.5</td>
<td>36.7</td>
<td>38.8</td>
<td>100</td>
</tr>
<tr>
<td>2002</td>
<td>23.0</td>
<td>38.5</td>
<td>38.5</td>
<td>100</td>
</tr>
</tbody>
</table>

4.4. Challenges in the Agricultural Sector

In addition to the above-mentioned achievements, the agricultural sector still faces many shortcomings and challenges. These are as follows:

Firstly, the nationwide average size of cultivated land per household is only about 0.86 hectares - perhaps the smallest landholding size in comparison to the other countries in the region. Land fragmentation and small-scale production hamper possibilities for mechanisation. Agricultural production must be carried out in geographically distant plots. The small farm size limits most farmers to engage only semi-subsistence type of production rather than invest in new technologies such as in industrialised farming activities. Therefore, productivity and quality of many farm products remain low.

Secondly, the structure of agriculture and rural economy in Vietnam shifts rather at a slow pace. The links between agricultural production and the processing industry as well as markets could be described as weak. The rural economy is still prone to developing agricultural production rather than being demand-driven. Much is yet to be desired towards the development and accessibility of support services, such as financing institutions, especially in remote rural areas.

Thirdly, the competitive capacity of Vietnamese agricultural processing and trading enterprises needs to be developed. Most of Vietnam's factories use small-scale backward technology. Nearly 70 percent of the enterprises managed by the Ministry of Agriculture and Rural Development, for example, have capital of less than 10 billion VnD (roughly less than USD 700,000). Their capacity to meet the demands of new opportunities is weak. This reality has a major implication on the Vietnamese government's plan to export USD 1 billion worth of fruits and vegetables. Such a plan has drawn some uneasiness in the research and development community because it could potentially lead to the expansion of the role of state-owned enterprises in fruit and vegetable exports and a likely return towards the centralised management of the agricultural sector (Minot, 2002).

Fourthly, rural infrastructure and institutions are unable to meet the demands placed upon them. The service and legal systems face numerous challenges. Infrastructure serving

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19 The average landholding size per household in Thailand is 3 hectares and for Malaysia, 5 hectares.
trade in agricultural products is poor. The system of wholesale markets is not yet fully developed. At present, the popular form of trade in domestic markets is the traditional wholesale market characterised by small-scale and poor infrastructure, weak management, lack of specific ports, and high service costs. Likewise, exports to higher-income markets such as in Europe, the United States, and Australia have to meet certain standards with regard to quality, packaging, and sanitary control of products.

It could be said that the above-mentioned challenges confronting Vietnam stem from the government’s earlier bias towards increased agricultural productivity and output, and less emphasis on ensuring product quality and efficient distribution systems. To succeed in a competitive global market, it is important for the government to enhance product quality through improvements in agricultural post-harvest and processing technologies, distribution systems (markets, transportation, physical infrastructure such as roads and bridges), and local producers’ access to information. Legal instruments such as trading contracts and other anti-monopoly mechanisms are needed to give Vietnamese producers an equal playing field in the global economy. Vietnam has to strengthen its human resource development agenda in key areas of specialisation, such as in business and biophysical sciences, and foreign languages. Extensive knowledge on the legal aspects of patenting is also vital. This requires the government to create and enforce legislation protecting intellectual property rights to provide incentives to public and private companies to develop new varieties.

Finally, the research and development as well as extension capacity of national institutions such as the Ministry of Agriculture and Rural Development needs to be enhanced so that the staff could offer competent technical advice and support to domestic producers and other entrepreneurs. Insufficiency of funds to support research as well as lack of coordination among research institutes are among the factors cited, which limit the effectiveness and efficiency of these institutions in meeting their goals. To support the country's goal towards full integration into the global economy, the extension services will have to target their activities not only to large-scale farmers, but also small-scale ones who live in remote rural areas. Partnerships with governmental and non-governmental organisations which have the capacity to conduct extension activities may need to be established to meet the growing demand for an effective and efficient extension service.

4.5. Implications on Small-Scale Farmers

At the centre of this rapid transition in the agrarian economy are the small-scale farmers, who comprise the majority of Vietnam’s population. The dismantling of the collective system and the consequent distribution of land to peasant households had given farmers the security of tenure to manage allocated land as individual production units with a duration of 20 years for planted annual crops and 50 years for perennial crops. Farm households essentially own what they produce and are free to bring their products to
market. As described in the earlier section of this paper, the security of tenure accompanied by other market incentives stimulated agricultural productivity even among small-scale farmers as well as gradually enabled them to move beyond a subsistence means of production.

However, this is only part of the story. With the new status enjoyed by farmers come new challenges for them to participate actively in a market economy. This entails acquiring entrepreneurial skills, ensuring competitive products in both domestic and international markets, obtaining specialised production knowledge and skills, having the ability to capture public investments supporting agricultural production etc. These new sets of requirements could easily marginalise farmers, such as ethnic minorities, who generally make up the upland poor. To cite an example, the bias towards large-scale infrastructure projects such as irrigation facilities to support lowland rice production at the expense of small-scale on farm facilities could possibly hinder small farmers from diversifying into high value crops. Small farmers would need so much support, including access to information and reliable public services such as agricultural extension, that they could avail of not only to survive a competitive market economy but also fully realise its benefits.

Moreover, as pointed out earlier, land accumulation is vital towards agricultural modernisation. Although land accumulation is taking place at a rather slow pace, land sale, purchase, leasing, borrowing and lending is operating in almost every region of Vietnam. According to Marsh and MacAulay (2002), land markets are present in areas with a smaller population density, or where there are more off-farm job opportunities. A survey conducted by Chung (1994) found that of the farmers who leased out their land, about half are from low-income households. Among the reasons cited for leasing includes the lack of capital for investment, fragmented land, insufficient labour, and moving on to other businesses.

Unless accompanied by off-farm opportunities, land accumulation could lead to problems related to rural landlessness, which is commonly associated with vulnerability. A participatory poverty assessment conducted in the Mekong Delta found that almost half of the poor households had no or little access to farmland. The same assessment also revealed a cycle of poverty involving distress sales or mortgaging of land in response to episodes of illness, business failure and indebtedness (Vietnam Development Report, 2004).

Furthermore, there is growing concern that commercialisation could lead to dependence on a single crop for export, for example coffee. Adverse movements in market prices, crop failure due to natural disasters and poor infrastructure could have a heavy impact especially on small-scale farmers who do not have diversified sources of income. A study conducted by Ha and Shively (forthcoming) on smallholders response to declining economic returns of coffee production in the Central Highlands revealed specific farm and farmer-specific constraints, which influence smallholders’ ability to respond to
declining agricultural prices. They pointed out, for example, that ethnicity played a key role in determining small-scale farmers’ response to declining coffee prices. Lowland Kinh migrants were more likely to change crops, access credit, and find off-farm employment than their ethnic minority counterparts. This finding suggests that a single, blanket policy to assist small-scale farmers may rather be shortsighted. What is needed is a broad range of policies designed to provide safety nets to small-scale farmers, who are differentiated by relations of gender, ethnicity, status and other social characteristics. Similarly, a study by van de Walle and Cratty (2003) showed that small-scale farmers’ ability to undertake non-farm employment opportunities and escape out of poverty is determined among others by age, education, access to remittances and land, geographic location, large household size, and ethnicity. Households, for example, that have members with higher levels of education and belong to a majority ethnic group, have better chances to engage in market activities and raise their living standards at given locations.

4.6. Conclusion

Vietnam’s global economic integration is indispensable. Its economic achievements, resulting from reforms aimed at integrating the country into the market economy, were largely enjoyed by all sectors of the population, especially the small farm households. However, as mentioned in this paper, there are still many challenges (as there are opportunities), which confront the Vietnamese state and society. It is said that the gains of earlier reforms have already been reaped. In the coming years, the driving forces behind sustained economic growth are expected to result from the increased integration of agriculture into the market economy. The challenges present in a globalised economy cannot be met solely by technological fixes. In fact, they may require not only a synergy among various sectors but also the creation of sound economic and social policies. Of particular interest here are the policies that would offer options to as well as improved capacities to small-scale farmers, who make up the majority of the Vietnamese households engaged in agriculture. Likewise, as the country moves towards a decentralised system of governance through the promulgation of the Grassroots Democracy Law, it is vital that capacity building activities for district, commune and village level leaders as well as mass organisations are implemented to enable them to manage transitions in development. Tapping on local community social and political structures, such as mass organisations and traditional village organisations, is important because they are more likely to have a good understanding of the complex social networks present in many communities. These social networks often offer valuable information on patterns of knowledge exchange and crisis support at the local level.

Indeed the main issue that consistently comes up in various globalisation fora is the plight of small-scale farmers, particularly those in many developing countries like Vietnam. In this paper, we described briefly the policy reforms introduced by the
government of Vietnam to open up and revitalise its economy. These reforms benefited a broad spectrum of Vietnamese households, including smallholders, as evidenced by improvements in living standards. However, as past experience shows, development follows an uneven path. The process by which Vietnam pursues its development goals must take into consideration the welfare of millions of rural small-scale farmers.
References


5. Small-Scale Farmers in Agricultural Growth in Mozambique

Cynthia Donovan and Higino Marrule

5.1. Introduction

Broad-based economic growth with poverty reduction in Mozambique depends on generating productivity growth in smallholder agriculture, as was recognised in the World Bank Country Assistance Strategy for 2001-2003 (World Bank, 2000). Only then will there be the surpluses in the agricultural sector that can spark employment and productivity growth in other sectors. Mozambique’s Poverty Reduction Strategy Paper (PARPA, 2001) stresses agriculture, for more than 90 percent of the population depends on this sector, and the sector is dominated by smallholders, measured in numbers, area, and value of total production. Poverty is widespread, and is found both in high potential agricultural zones in the north and south, and in the lower potential zones of the south. Based on the background and issues discussed, the paper concludes with recommendations on short and longer-term investment opportunities that would increase productivity in smallholder agriculture.

5.2. Current Context: Institutional and Physical Environment

Mozambique is a large and highly diverse country, with a long coastline and multiple agro-ecological zones. There are very productive agricultural areas in the centre and north, while in the south, agriculture is limited by rainfall, and fishing is important along the coast and rivers. Large livestock are confined to the south due to tsetse fly problems. The climate poses challenges, particularly in the south and parts of the centre, where the threats of droughts or floods (or both) increase the risks in agriculture. Rainfed agriculture is the norm with some floodwater irrigation and very few full water-control irrigation schemes. The largest city, Maputo, is in the south, and major agricultural production zones are far away in the centre and north of the country. With high transportation costs and poor communication, trade is very costly and often unprofitable between the north, centre and south. Transportation has improved and the

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20 The authors are, respectively, an Assistant Professor of International Development in the Department of Agricultural Economics at Michigan State University (MSU) and Director of the Policy Analysis Department of the Directorate of Economics in the Ministry of Agriculture and Rural Development, Government of Mozambique. The paper has been prepared for the Seminar on Small-Scale Farmers in Liberalised Trade Environment (held on 18-19 October, 2004 in Haikko, Finland). This work benefited from the collaboration of David Tschirley, Professor of International Development at MSU and co-principal investigator of the Policy Analysis and Research Support Project in Mozambique, funded by USAID. Ideas expressed and any errors in this document remain the responsibility of the authors.

21 This paper will not address the livestock sector due to lack of space. The livestock sector is worthy of further investigation, for small animal numbers, particularly chickens and goats, are increasing rapidly, in spite of pests and diseases.
agricultural market information system SIMA regularly reports on such commodities as beans from Niassa and groundnuts from Nampula that are in Maputo markets, but quantities quickly diminish when the rains come in rural areas or the floods block bridges (SIMA team, 2004). Port rehabilitation in Nacala and Beira is improving the possibilities of naval transport links with world markets, although domestic shipping costs can be extremely high. There have been improvements in communication technology and cell phone usage can be seen in many of the provincial capitals, but in rural areas, means of communication are very limited. For information dissemination, FM and AM radio stations are able to reach many rural areas, but local content in broadcasts is limited.

With strong donor pressure and support, Ministry of Agriculture and Rural Development (MADER) staff has been developing an institutional reform program. To support the reform, a substantial part of the donor funding to agriculture, including the World Bank’s funding, is channelled through the common fund mechanism PROAGRI, with an agreed set of priorities and allocation of resources, including steps to decentralise MADER. During the initial period, 1999-2004, PROAGRI programming has been important in a) bringing greater cohesiveness to donor activities and to donor-MADER relationships, and in b) beginning the development of capacity for financial management and planning within MADER. Decentralisation has increased the resources available for provincial and district level activities, giving local authorities more control over funding allocation. However, institutional reform still needs investments. Financial management capacity, as well as other management responsibilities, must be consolidated. Decentralisation gets more funds out to the provinces, but there are programs that need national leadership or guidance, which may be undermined if funding, is allocated arbitrarily by a certain fixed percentage rate assigned to the provinces. Not all programs equally lend themselves to decentralised design, development and delivery of services. Also, it is evident that the financial controls and program design capacity vary greatly between provinces and districts. MADER has finalised the design of a new phase of PROAGRI, also known as PROAGRI II (MADER, 2004), that will provide a policy framework for agricultural development over the next five years, beginning in January 2005 through December 2009.
5.3. Agricultural Sector and Basic Structure

The agricultural sector is currently based on the production of about three million smallholder households (Table 1). Large-scale farms (considered to be farms larger than 50 hectares) account for only 3 percent of the land area and number about 440 farm holdings according to the 2000 Agricultural Census, so the dual farm economy evidenced in Zambia and in Zimbabwe (at least until recent years) is not present. While Mozambique is not densely populated overall, there are constraints on access to good agricultural land (Jayne et al., 2003). The Land Law of 1997 is being gradually implemented, but does not fully resolve tenure issues and rights of use. The result is thin land rental markets, with less than 1 percent of smallholder households indicating that they rented land in 2002 rural household survey (Trabalho de Inquérito Agrícola, known as TIA 2002), although 11.5 percent indicated borrowing land without payment, suggesting that informal rental markets exist.

Formal rural financial institutions are generally absent, with a few exceptions. Many farmers rely on contract farming arrangements to obtain access to credit for inputs. Recent efforts have focused on short-term marketing credit, although still on a relatively small-scale. Similarly, legal institutions in rural areas are insufficient to lower risks in credit and rental markets. Input and output markets are often weak, with high transport costs and high transactions costs in general as transactions are based on visual inspection, personal contact, and small quantities. Markets for credit, outputs, and inputs have all been liberalised in recent years and the limited private sector involvement can be understood in light of the high transaction costs and weak institutions and infrastructure.

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22 There are more details to the classification which involve irrigated land and livestock holdings. See Bias and Donovan (2003: 18).
### Table 1. Summary of key characteristics of the agricultural sector, 1999/2000 (MADER, 2001).

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Small</th>
<th>Medium</th>
<th>Large</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of farm households</td>
<td>3,054,106</td>
<td>10,180</td>
<td>429</td>
<td>3,064,715</td>
</tr>
<tr>
<td>Total cultivated area (ha)</td>
<td>3,736,619</td>
<td>67,727</td>
<td>120,977</td>
<td>3,925,324</td>
</tr>
<tr>
<td>Average cultivated area (ha)</td>
<td>1.22</td>
<td>6.65</td>
<td>282</td>
<td>1.28</td>
</tr>
<tr>
<td>Most common range of cultivated area (ha)</td>
<td>0.5-1.0</td>
<td>5-10</td>
<td>20-50</td>
<td></td>
</tr>
<tr>
<td>Percentage of cultivated area in basic food crops</td>
<td>84.4</td>
<td>74.2</td>
<td>7.6</td>
<td>81.8</td>
</tr>
<tr>
<td>Percentage of cultivated area in horticultural crops</td>
<td>4.8</td>
<td>8.3</td>
<td>1.2</td>
<td>4.5</td>
</tr>
<tr>
<td>Percentage of cultivated area in &quot;cash crops&quot;</td>
<td>4.7</td>
<td>5.1</td>
<td>30.2</td>
<td>4.5</td>
</tr>
</tbody>
</table>

#### Percentage of farm households with trees:

- Have cashew trees: 41.6, 26.6, 20.7, 41.6
- Have mango trees: 49.3, 50, 9.1, 49.2
- Have papaya trees: 36.3, 36.6, 3.7, 36.2
- Have banana trees: 30.2, 33.4, 13.5, 30.2
- Have orange trees: 19.7, 14.6, 12.8, 19.6

#### Percentage of farm households:

- With chicken: 69.8, 84.6, 50.1, 69.8
- With goats: 27.6, 81.3, 69.5, 27.8
- With pigs: 19.6, 31.8, 26.1, 19.7
- With cattle/oxen: 4.1, 83.2, 79, 4.4

**Notes:** Classifications: Small-scale are those farms with less than 10 hectares of cultivated area, less than 10 heads of cattle, less than 50 goats/sheep/pigs, and/or less than 5000 poultry. Medium-scale farms are those with 10-50 hectares of cultivated area, between 10 and 100 heads of cattle, between 50 and 500 goats/sheep/pigs, and/or between 5000 and 20000 poultry. Large-scale are any farms that have one or more component higher than the medium scale limit. For irrigated land, horticultural crops, and plantations, small-scale is less that 5 hectares; medium is 5 to 10 hectares; and large-scale is over 10 hectares.

There are signs of growth, however, that are promising. Keeping the borders open, particularly in the north, has enabled farmers to take advantage of markets in other countries, both for outputs and inputs. For 2004, there is a projected surplus of maize production, as well as of cassava (MIC/DNCI, 2004). In a good marketing year, substantial quantities of maize move from northern Mozambique into Malawi, for example. In the south, liberal trade policy enables consumers to choose between domestic products and imported goods from South Africa and the rest of the world, thus keeping prices relatively low, although with some problems. Since the signing of the Peace Accords in 1992 and the investments in road infrastructure, domestic maize, beans and groundnuts arrive from the centre and north to the southern markets. There is an
increase in the presence of traders in many rural areas, looking for a variety of products. While the disastrous floods of 2000 cut off the transport links, rehabilitated roads and bridges are once again lowering the costs of bringing goods from the production zones. More investment in transport is needed, but there are signs that traders are getting out more and producers respond to the incentives of greater market access.

5.4. Patterns and Distribution of Rural Economic Growth from 1996 to 2002, and Implications for Poverty Alleviation

Household surveys from 1996 and 2002 can help in understanding the current dynamics in the rural economy. In both 1996 and 2002, large sample rural household surveys, called the Trabalho de Inquerito Agricola (TIA), were conducted in Mozambique. These surveys provide a repeated cross-section look at two periods to evaluate the changes that have occurred, although by choosing different households each year, we do not have a dynamic view of individual households. TIA 2002 included various modifications, improving on some measurements, particularly on income, and new sections on adult illness and death, building on the experience of TIA 1996, so not all aspects can be compared from year to year.

As can be seen in Table 2, there has been overall rural income growth during the 1996 to 2002 period, but there is great regional variability in that growth. While Cabo Delgado showed a decline in both mean and median incomes, Niassa and Tete both saw substantial increases in per capita incomes. The southern provinces showed strong growth in incomes overall. Large growth in median incomes in Tete and Maputo Provinces suggests growth in incomes of the poor in particular. While the overall average of income growth indicates that much of the growth occurred in the higher income quintiles (Table 2), the medians indicate that growth did occur for the lower quintiles, so there are indications of poverty reduction with current growth. Most of this income growth occurred off the farm, especially in the salaried wage labour sector (Table 3) and more detailed analysis indicates that the opportunities were available mostly to better off rural households. Mean and median agricultural income shares fell, and per capita income in agriculture rose very little for most households.

23 For further information on these surveys, see the Michigan State University website at http://www.aec.msu.edu/agecon/fs2/mozambique/survey/index.htm.
Table 2. Percentage change in mean and median per capita income levels by province, 1996-2002 (1996 MZM x 1000) (TIA, 1996, 2002)\(^a\).

<table>
<thead>
<tr>
<th>Province</th>
<th>Mean Income % change, 1996-2002</th>
<th>Median Income % change, 1996-2002</th>
<th>2002 Mean per capita Income (MZM x 1000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>North</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Niassa</td>
<td>128%</td>
<td>35%</td>
<td>750</td>
</tr>
<tr>
<td>Cabo Delgado</td>
<td>-3%</td>
<td>-20%</td>
<td>573</td>
</tr>
<tr>
<td>Nampula</td>
<td>10%</td>
<td>-10%</td>
<td>643</td>
</tr>
<tr>
<td>Zambêzia</td>
<td>82%</td>
<td>61%</td>
<td>852</td>
</tr>
<tr>
<td>Centre</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tete</td>
<td>235%</td>
<td>95%</td>
<td>1,072</td>
</tr>
<tr>
<td>Manica</td>
<td>18%</td>
<td>2%</td>
<td>704</td>
</tr>
<tr>
<td>Sofala</td>
<td>73%</td>
<td>33%</td>
<td>937</td>
</tr>
<tr>
<td>South</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inhambane</td>
<td>133%</td>
<td>75%</td>
<td>1,813</td>
</tr>
<tr>
<td>Gaza</td>
<td>105%</td>
<td>16%</td>
<td>1,338</td>
</tr>
<tr>
<td>Maputo</td>
<td>169%</td>
<td>133%</td>
<td>1,241</td>
</tr>
<tr>
<td>National</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All Households</td>
<td>68%</td>
<td>25%</td>
<td>906</td>
</tr>
</tbody>
</table>

\(^a\)2002 metical (MZM) values are adjusted down to 1996 levels using IAF regional food poverty lines for each year.


<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>85</td>
<td>83</td>
<td>-2%</td>
</tr>
<tr>
<td>2</td>
<td>218</td>
<td>252</td>
<td>16%</td>
</tr>
<tr>
<td>3</td>
<td>360</td>
<td>449</td>
<td>25%</td>
</tr>
<tr>
<td>4</td>
<td>581</td>
<td>828</td>
<td>43%</td>
</tr>
<tr>
<td>5</td>
<td>1,454</td>
<td>2,901</td>
<td>100%</td>
</tr>
<tr>
<td>All Households</td>
<td>540</td>
<td>907</td>
<td>68%</td>
</tr>
</tbody>
</table>

\(^b\)2002 metical (MZM) values are adjusted down to 1996 levels using IAF regional food poverty lines for each year.

Some of the agriculturally best endowed and most densely populated areas showed the least growth. However, there are pockets of real progress in agriculture, in which agricultural growth linked with poverty reduction. Tete and Niassa demonstrate a growth dynamic with higher input use, productivity, and agricultural incomes. This dynamic is related to cash crops (including tobacco and cotton, with maize) in economies that are participating in regional markets (Malawi, primarily) (Walker et al., 2004). Increasing the direct agricultural income of these small-scale producers with tradables leads to
increased opportunities, through labour markets or demand for non-tradables (Haggblade et al., 2002).

There are four basic groups of provinces (Table 4). The southern provinces of Gaza, Inhambane, and Maputo show relatively high rural income growth, which is associated with off-farm income increases, rather than agricultural income growth. Wage income from the public sector was a major source of growth, with other wage income, remittances, and microenterprise income also important.

Table 4. Sources of growth in per capita rural incomes in Mozambique, 1996-2002 (TIA, 1996, 2002)\textsuperscript{d}.

<table>
<thead>
<tr>
<th></th>
<th>Change in Total Income</th>
<th>% Change in Total Income Coming from Each Source</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cropping</td>
<td>Livestock</td>
</tr>
<tr>
<td>North</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Niassa</td>
<td>128%</td>
<td>44%</td>
</tr>
<tr>
<td>Cabo Delgado</td>
<td>-3%</td>
<td>-112%</td>
</tr>
<tr>
<td>Nampula</td>
<td>10%</td>
<td>-105%</td>
</tr>
<tr>
<td>Zambezi\textsuperscript{c}</td>
<td>84%</td>
<td>17%</td>
</tr>
<tr>
<td>Centre</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tete</td>
<td>235%</td>
<td>37%</td>
</tr>
<tr>
<td>Manica</td>
<td>18%</td>
<td>-114%</td>
</tr>
<tr>
<td>Sofala</td>
<td>73%</td>
<td>8%</td>
</tr>
<tr>
<td>South</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inhambane</td>
<td>133%</td>
<td>-2%</td>
</tr>
<tr>
<td>Gaza</td>
<td>105%</td>
<td>-29%</td>
</tr>
<tr>
<td>Maputo</td>
<td>169%</td>
<td>17%</td>
</tr>
<tr>
<td>National</td>
<td>68%</td>
<td>3%</td>
</tr>
</tbody>
</table>

\textsuperscript{d}Due to market linkages, Zambezia is grouped with the north in this work, although administratively it is considered to be in the Centre.

\textsuperscript{c}2002 metical (MZM) values are adjusted down to 1996 levels using IAF regional food poverty lines for each year. These are preliminary results and may be revised.

Group 2 comprises Niassa and Tete, two provinces in which agricultural income was relatively high. Group 3 has the middle performers, Zambezia and Sofala, with good overall income growth over the seven years, of which only a small part is attributable to agricultural income growth.\textsuperscript{24} Finally, the fourth group of Cabo Delgado, Nampula, and Manica are the poor performers. Cabo Delgado stands out for negative income growth in the period. Wage and remittance income grew in all three but not sufficiently to cover other declines. None of the provinces showed much change in livestock income, in spite of significant changes in numbers of animals, particularly chickens and goats.

\textsuperscript{24}The analysis of income is still preliminary and work continues. For example, Zambezia Province, with its high rural population, bears further research, since 17 percent of income growth did come directly from agriculture.
5.5. Productivity Growth among Smallholders

5.5.1. Technology for Productivity Growth

Experience in a range of countries and in recent history in Mozambique suggests that agricultural productivity growth among smallholders can be achieved (Reardon et al., 1996). In Tete and Niassa, this growth has occurred with farmers growing tobacco under contract farming, based on market linkages for inputs and outputs in Malawi. Diversification into the higher value crop was key for some farmers, but other farmers took advantage of the maize market, and Malawian agricultural policies may have created temporary incentives with inputs. Cotton might provide such a base for growth if world cotton prices were not maintained artificially low. Private sector investments in Mozambique can provide world market links on specific commodities, such as cotton and tobacco, while the public sector invests in the high potential crops that provide overall growth and reduce food costs, in addition to investments in institutional and physical infrastructure.

Broader-based growth occurs when farmers enhance their ability to grow more high potential traditional crops, as with maize in Niassa, when both consumption and sales can be enhanced. Farmers in Mozambique generally have access to limited capital, have little schooling, and are subject to weather-related risk and price risks, especially for outputs. Technological innovation beginning with crops that are already known and cultivated may provide a better platform for improvements in productivity under these conditions. Producing a better quality pigeon pea with higher yields based on stepwise adoption of technology has proven to be more accessible to small-scale, limited-resource farmers than a complete technology shift to a new crop.

Research indicates that with new crops, the better off households tend to be the first adopters and can show high income growth, but maize, cassava and cashew are the type of high potential traditional crops grown by so many households that more than just the wealthiest will be able to benefit. Therefore, agricultural transformation occurs without leaving the smaller producers completely behind. As productivity grows in basic food commodities, the cost of food will decline for deficit households in rural areas and more households will be able to produce a surplus while eating better. There will be income growth and off-farm labour opportunities will grow. In this way, the traditional crops become high potential crops for agricultural transformation and for poverty reduction.

There are technologies on the shelf, including relatively easy technological improvements with varieties and simple crop management practices such as timing and density of planting. Maize, cassava, groundnuts, and cashew are grown by large numbers of farmers, and yields are well below neighbouring countries (Tickner et al., 2001). There are also opportunities for improving the nutritional content of food: yellow-fleshed sweet potatoes and quality protein maize. One major constraint identified with SG2000
analysis is that without the markets, technology adoption may be highly constrained
(Howard et al., 1998).
Input market improvements mean better seeds and genetic material available, while
fertilizer and other inorganic inputs are made available in local markets at accessible
prices and quantities, generating greater demand. Output markets will have reduced
transaction costs and lowered barriers to entry, so farmers have more choices and a more
reliable market outlet for products. Extension work is needed to use external inputs
effectively with knowledge on management options that improve soil fertility, conserve
water, or improve other aspects. Production potential will then be realised by farmers
who have the resources to invest in their soil and other natural resources.

5.5.2. Strategic Crops

Maize

With about 80 percent of Mozambican small- and medium-scale farmers growing maize,
it is the main crop nationally. In spite of that, the markets remain relatively undeveloped,
with no quality standards and few rewards for higher quality maize. Current yields range
from 0.4 to 1.3 tons per hectare, well below potential yields of 5 to 6.5 tons per hectare
(Howard et al., 1998). Local millers indicate unwillingness to purchase local maize due
due to lack of consistent quality. There are existing varieties that can provide higher nutrition,
the quality protein maize, but the market does not pay a price premium, although farmers
must purchase the seed. The fractured nature of the seed industry is a major constraint to
using improved varieties that are available, and continued efforts to improve availability
of seed are necessary. Even so, about 34 percent of maize growers purchased maize seed
(of varying quality) for the 2000/2001 season (TIA, 2002). Given the number of farmers
across all income ranges, improvements in maize productivity would have both food
security and market development benefits.

Markets for maize demonstrate high price variability and in the north reliance on
Malawian markets can be a double-edged sword. It can be an excellent market outlet
when Malawi needs maize, but the outlook turns dim when Malawian maize production
is highly subsidised and there is a good crop on both sides of the border. Mozambican
maize prices in the north were highly depressed after the Starter Pack program in Malawi
subsidised maize inputs to farmers in 1999/2000. Investments in market infrastructure for
greater access to a range of markets will enable maize to provide a more reliable income
so that farmers will invest in the available technology and in their soils.

Cassava

There are two clear areas for further investments. One is in developing and diffusing new
varieties. Those varieties may fight pests and diseases, such as brown streak. The
varieties may also be nutritionally more valuable. Current yields of 4-5 tons are clearly
below the potential yields of 5 to 10 tons per hectare (Howard et al., 1998), and do not take major investments to realise. Regardless, a major effort should be made to select the varieties and get them to producers through association seed beds or other means. Already research indicates that harvesting early is recommended if brown streak is present, and there are other management aspects that need extension efforts on radio and directly with farmers.

The other area for cassava investments is in storage and processing. Right now, cassava is essentially harvested and eaten soon after harvest or dried and either sold as chips or ground into flour. There is an increase in cassava flour consumption in recent years and it could become more important if small-scale and medium-scale processing facilities with proper drying and storage were available.

**Cashew**

While cashew has been a controversial crop, it plays a major role for smallholders when the markets function. It also provides fats in local diets. About 37 percent of households have cashew trees, although it varies from only 1 percent of households in Niassa and Tete to almost 80 percent in Inhambane (TIA, 2002). Yields of the trees are low, about 2.9 kilograms of raw nuts per tree, compared to the pre-war average of 8.5 kilograms (Sequeira Wandschneider and Garrido-Mirapeix, 1999). At the present, the yield per hectare is 22 kg, while the potential is over 220 kg per hectare (Mole, 2000). As Benfica et al. (2002) detail, the large-scale capital intensive processing that was built in the early post-war period was not successful, but new small- and medium-scale technology has the potential to use the smallholder production and develop a quality for export that could once again have Mozambique active in world markets for cashews. This would all be based on smallholder production, provided the research and extension work on pests and diseases can meet the challenge, and new planting material made more available.

**Beans, Groundnuts, and Other Crops**

As urban and rural incomes rise, the demand for higher value consumption commodities, including groundnuts and beans, will rise. With reduced transaction costs, domestic production can meet more of these demands at competitive prices. The processing potential is being evaluated for export quality goods, but standards and grades will have to be established in concert with international demand to have success on the international markets. Productivity enhancements are available to improve local yields (Tickner et al., 2001). Beans, for example, have yields between 0.3 and 0.5 tons per hectare, whereas the potential goes up to 2.5 tons per hectare. Linking these commodities with the rapid growth of supermarkets may enable smallholders to participate in those markets with improved seeds and packaging.
Rice: High Potential Crop?

Zambezia province and a few more localised zones have some of the highest potential irrigated rice production environments in all of southern Africa. Current rice productivity is very low given the soils and climatic conditions with average yields between 0.5 and 1.8 tons per hectare, compared to potential yields of 5 to 6 tons per hectare. There are technology options already available for productivity increases, including water control and improved varieties. There is a potentially very large market, for all the countries in the region, to import rice. There is a potential in local markets as well. However, as SG2000 found with other technologies, the market must be there for surplus production (Howard et al., 1998). Making major investments for productivity gains, especially productivity investments that require purchased inputs or major infrastructure investments, could be a disaster for small farmers if the costs of production are too high and there is no market for the rice.

Small- and medium-scale irrigation, particularly floodwater based, has high production potential, for it has low water provision costs, compared to pump irrigation. “Chupa” and other domestic aromatic varieties may have excellent market potential or varieties currently developed by WARDA or IRRI may have possibilities, but domestic production competes in these markets with low cost, low quality Asian rice. High domestic transport costs or high per unit processing costs could easily undermine the comparative advantage of Mozambican rice production in many markets. A value chain approach would be able to evaluate all the potential coordination problems as well as the private and public sector investments needed. More so than the other crops mentioned above, productivity enhancements should be sought only after such a study has been completed.

5.5.3. Commercial Farming

There has been support for the establishment and growth of large-scale commercial farming, including the sugar sector, and the World Bank strategy includes investments to revive of these commercial farms. These large farms may have some positive effects on the balance of trade through exports or through import substitution. The large farms may help to attain economies of scale in input provision, seed production, and other aspects related to agricultural transformation and the shift to more productive technologies. There are labour opportunities for local households that arise with commercial agriculture. Large commercial farms may bring in new technologies from elsewhere and demonstrate the potential for changes. In Manica, for example, a few large farms are selling improved varieties of corn, of a quality demanded by large millers.

However, as Tschirley and Benfica (2001) show, there are limitations on the impact of commercial farm development, particularly with respect to poverty reduction and income
growth among the majority of rural households. Among other aspects noted, the large commercial farms tend to develop their own systems for input and output marketing that have few benefits for smallholders in the same areas, other than labour opportunities. They tend to have limited growth linkages because their consumption linkages are less likely to be for local non-tradable goods. Women often have problems of access to wage or cropping opportunities with commercial agriculture, so gender equity may be undercut.

Overall, it is the small proportion of better off households that are able to take advantage of new opportunities that arise through commercial farm development. As indicated by Tschirley and Benfica (2001: 333):

“The issue is what mix of approaches is needed to develop a diversified rural economy with growing total incomes, improving food security and rapid reductions in poverty. We suggest that commercial agriculture and increased rural wage labour are important components in any such strategy, but that this strategy will fail without substantial and sustained increases in the productivity and profitability of smallholder agriculture.”

5.5.4. Value Added for Agricultural Commodities

Increasing value added in agriculture is part of the agricultural transformation, and a value chain approach can help identify the public and private sector investments needed to achieve that. With the Office for the Promotion of the Commercial Agricultural Sector (Gabinete de Promoção do Sector Comercial Agrário, known as GAPSCA), Benfica et al. (2002) evaluate different types of agro-industry to understand which commodities or industries might have the best chance of contributing to poverty reduction. In that work, the degree to which the industry works with smallholder production based on the institutional arrangements is considered key to generating rural income growth. The commercial farms mentioned above may help to provide the initial incentive and lowered risk needed for agro-industrial processing investors, but if the industry remains dependent on only those large farms, it is likely to have limited connections to the majority of rural households.

Sugar is an example of a crop that is increasing in Mozambique, with an export market as well as protected domestic market, but it relies primarily on large plantation production systems, providing wage employment to a limited number of workers. If sugar cropping is also encouraged among smallholders, as is the case in Kenya and elsewhere, through contractual arrangements, the potential poverty-reducing effects of the sugar industry are increased. Pigeon pea is a crop with processing that is produced by smallholders for agro-industry (as well as domestic consumption) and so may have greater growth linkages for local economies.
5.5.5. Markets

Sustained agricultural growth in Mozambique requires world and regional market orientations. Maize export to Malawi is the classic case of a potential regional market for the surplus production that would otherwise remain trapped in the north. There may also be regional opportunities for beans, groundnuts, soybeans, and other products. For this, the physical access through improved infrastructure is a necessity. Preparing Mozambican farmers and traders for the demands of world markets in terms of quality and quantity is critical. For example, there is currently no aflatoxin testing capacity in Mozambique, a key factor in the export of groundnuts and other commodities. There have been strong efforts by the government to reduce the transaction costs of regional trade by simplifying regulations and banning local level interference in markets.

One of the dangers in product development based on a single market destination is the risk of that market disappearing, leaving few options for sales. In Nampula, farmers grew paprika for a particular exporting firm. When the firm lacked the capital to purchase the crop, the farmers were left holding the stocks, discouraged about their investment. With the high potential traditional crops, the domestic market may be able to absorb supplies if the regional markets are not available, particularly if investments are made in reduced transport and transaction costs in domestic trading. Improved post-harvest storage practices would enable farmers to engage in arbitrage, storing and selling when the prices are favourable.

Credit markets for agriculture in Mozambique are highly dependent on traders and processors providing credit bundled with extension and input-output marketing services directly to farmers and farmer associations. Farmers may participate in associations related to contract farming to assist in lowering risk and reducing costs, although the input-output bundling and participation of farmers’ associations may result in systems that are not transparent. Ask a farmer how much she paid for fertilizer under contracting and often she will not know. Financial institutions can develop relations with farmers, traders and processors through third parties (farmer organisations, trade associations, non-governmental organisations, etc.) such that the financial function is separate, thus can be more transparent and efficient, building on the relationships between market agents.

Markets for outputs are a key component for growth through the high potential crops. One recent small initiative is that of GAPI (Sociedade de Promogação de Pequenos Investimentos), lending to forums of farmer associations for the marketing season. These are short-term loans that enable economies of scale in marketing, as Forums can sell higher total volumes to traders, attracting more competition and a better price. There is much more to be done to provide the enabling environment (regulatory, legal, etc.) for market development, but steps like these demonstrate that the markets can function for basic commodities, including maize. For more specialised commodities, a recent report
of Technoserve, ICC, and Rutec (2001) looks at the problems and potential of a range of commodity groups and possible processing and marketing options in Manica. It is clear that many options are limited due to the coordination problems, which public investments can help resolve.

5.5.6. Critical Investments

Regardless of whether agricultural policy focuses on commercial farms, export marketing with non-traditional cash crops, productivity and marketing gains with traditional but high potential crops, there are investments that will be needed. As Benfica et al. (2002) note, that includes roads, rural education, producer associations, research on technology development and diffusion, and other actions to reduce transaction costs and barriers to trade. They are key areas for public sector investments. These investments will promote private sector investments in specialty crops, while enabling markets for a whole range of commodities to grow.

Analysis of the most recent national agricultural household survey shows that market information and access to prices have a strong relationship with incomes and production in rural areas, and local systems need development, along with the guidance and analysis of a national system (Mabota et al., 2003). Enhancement of communication systems, both two way and broadcast radio, will increase the value of information and facilitate private sector participation. Recent studies in Zambezia indicate the broad range of households that listen to radio.

These investments are recognised and the PARPA details budgetary resources for transport infrastructure. Beyond this, however, there are other investments needed that would improve the environment for domestic and foreign private investment while also encouraging farmers to move out to the production frontier.

The colonial legacy as well as the destruction of the war has left Mozambique with limited educational infrastructure. Building the human capital base as well as the knowledge base in agriculture and related social and physical sciences requires both short-term and long-term commitments. Some investments can best be done on the regional level in southern Africa while others need to be developed on the national or local level to be effective.

The agricultural sector and MADER in particular have a range of human capital needs. Short-term in-service training may be appropriate for specific subject areas where personnel already have a base of knowledge. Two- and four-year technical and university training can bring newly trained personnel into agriculture if the curriculum is well designed. Nevertheless, long-term training for advanced degrees at the M.Sc. and doctoral level are needed for leadership and expansion of the knowledge base in
Mozambique. With Michigan State University, the Department of Policy Analysis (DAP) at MADER has successfully used a combined approach of in-service training with long-term training in the past 10 years to build analytical capacity.

In some cases, the human capital exists to conduct necessary studies in the short term; in other areas, for example biotechnology, a more long-term commitment to training is needed. There are complementarities between the short- and long-term training efforts. As agricultural sector specialists are trained up, the short in-service training courses can build on the skills and knowledge. There are currently extremely few social scientists in the agricultural research system. Since there are immediate needs, short-term, intensive efforts are critical to help design participatory research, and evaluate production and processing technologies and commodities.

Coupling the short-term training of recent graduates and capable staff with longer-term education of specialists will sustain this work over time. While M.Sc. programs are being developed at the national level, it is unlikely that a doctoral level study program can be enabled at a national level in the short to medium term. Regional programs may be able to attract the staff and students to have the synergies necessary for quality education. Regardless of whether training is regional or local, Mozambican scientists and other agriculturalists must have English language capability take advantage of other research, technology, and trade in the region and in the world.

To have agricultural transformation, farmers and processors must have access to technology and information, and that is the role of extension services, linked with research. Current extension efforts range from direct public extension agents to outsourced private sector extension agents and independent NGO extension agents. Each is acting in accordance with the objectives of the agency that pays the bill, resulting in dispersed and fractured efforts. The public sector role wavers, leaving the coordination function unfulfilled. To connect technology and farmers, a more coordinated extension effort is needed. Strong zonal centres, in which researchers work with extension agents and farmers, would ensure that technologies are appropriate while the extension agents knew and had a stake in the technologies. Participatory research, not only on crop breeding but also on product transformation and post-harvest technology, would enhance technology transfer when conducted in association with private sector agents in local areas, as occurred with small-scale oilseed presses.

Allocation of scarce resource for these critical investments is not simple. Investments in rural infrastructure in higher potential areas can give immediate benefits for a large number of farmers, including poor farmers (Tarp et al., 2002). High potential areas of Zambezia and Nampula also have high rural populations, which include large numbers of the poor (Bias and Donovan, 2003). A focus on these areas is most likely to give high returns due to environmental aspects; poor as well as better off farmers will be able to benefit from increased access to services and markets. As growth occurs, investments can
link those high potential areas to low potential areas in the country by improving trunk roads (*estradas*).

### 5.6. HIV/AIDS

HIV/AIDS is affecting rural communities and MADER has acknowledged the need to address this epidemic in its programs and activities. Recent research shows that both the poor and the rich in rural areas are dealing with the illness and deaths of prime age adults (Mather *et al.*, 2004), but only limited information is available on how these households and their communities may be affected. Given the lack of information on the effects of HIV/AIDS in rural households, the Ministry chose to emphasise training their staff members on the disease, the vectors of transmission, and living with the disease. Now the next steps are not as clear.

Diverting agricultural research to labour saving agricultural activities simply because HIV/AIDS means less labour available, does not necessarily respond to the crisis in a constructive way for families. Rural households may seek such technologies, but it is necessary to have greater information before major policy shifts in agricultural technology investments are made. Initial research suggests that households are not shifting to existing labour-saving technologies (such as cassava cropping) and some households are able to bring in new labour to partially replace lost labour (Mather *et al.*, 2004). Clearly MADER must have more information on the strategies of households and how they are dealing with the stress of illness and death, and the demands that they have for options. It may be that the most important investments are in technologies that lessen demand for labour in other activities, such as seeking water and fuel. Alternatively, they may be looking for the income-earning options that other households are seeking, including small livestock and marketing of crops. Investing research and extension in those helps all rural households and thus improves living conditions for those affected by HIV/AIDS and their neighbours. Development of trade infrastructure poses the need for special actions to prevent increased prevalence rates, as roads and rails increase potential exposure of population to HIV/AIDS.

### 5.7. Conclusions

Overall, there has been rural economic growth in Mozambique but the transformation of traditional agricultural and rural poverty reduction is limited in the period from 1996 to 2002. Where the transformation has begun, infrastructure and markets were functioning. Regardless of the main focus of agricultural investments, public investments in transport and communications infrastructure, rural and agricultural education, institutional changes to lower transaction costs, and the other actions mentioned previously will both create a better environment for private investment and economic growth, but will also enable
more people to participate in economic growth. If investments in agriculture, however, are limited to the commercial sector farms and non-traditional, high value exports, there are limits to the poverty reduction that occur.

The additional investments in traditional but high potential crops help ensure participation by a broad range of farmers. Increasing productivity for traditional crops, especially maize and cassava, could have very large effects on household income and welfare, and there are technology options on the shelf. Even basic crop management practices on timing of planting or weeding could shift the production outward and greatly increase home consumption, as well as surpluses.

Investments in productivity must be accompanied by investments to reduce marketing costs and gain access to markets, such that surpluses can generate income as well as increased consumption. Greater access to improved genetic material (e.g. seeds for maize; cuttings for cassava) could provide that immediate boost in production on land dedicated to these crops. Additional soil fertility inputs would build on the potential of the genetic material to get even higher yields to land and labour. These crops are grown by both poor and non-poor, providing income sources that may boost rural economies. Maize is already a major cash crop in rural Mozambique. With additional processing and marketing options for cassava and rice, they too could become more important sources of cash income and employment.

Non-food cash crops for export, especially cotton and tobacco, are often organised through contract farming mechanisms that provide a range of production services. In Mozambique, most rural production credit is through these arrangements, with farmers’ output serving as the guarantee for credit in the form of production inputs. The literature has shown that these arrangements break down when there are many buyers and sellers of a product. In addition, these arrangements may be exploitative when farmers have little negotiating power. However, in Mozambique, there are few other alternatives for production credit, so seeking to enhance these crops and participation by farmers should have growth effects in the rural economies.

Large-scale commercial agriculture in Mozambique may provide some growth linkages in rural areas, such as where Zimbabwean farmers have begun farming. However, those growth linkages depend on how the commercial farmers obtain their inputs and market the outputs. If they access services directly through large urban banks (credit), importers (inputs), and exporters and processors (output), they may not help to reinforce the local services sector. Thus, potential economies of scale in input delivery and output marketing may remain unlinked to smallholder production. Similar analysis of processors shows that the institutional arrangements make all the difference between income growth for a few or for many smallholders. Without the production linkages, employment opportunities with the large commercial farms and processors can be an important source of rural income for some rural households with labour and skills to sell. Unfortunately,
those opportunities are limited to a small number of rural households, and often the households are already in the upper income quintiles.

Research and extension in Mozambique are still highly dependent on donor funding and public sector activities. The multiplicity of agencies involved in extension (public and private) as well as the variety of methods in use is to the advantage of a changing environment in Mozambique, but the lack of coordination can result in fragmented and ineffective efforts. MADER has appropriately taken a conservative approach to outsourcing of activities and other innovations (Eicher, 2002), but must use this time to develop the internal capacity to guide extension, through public and/or private provision.

Finally, HIV/AIDS changes the needs and options of affected households in ways that are not yet fully understood. Further research is needed before identifying specific implications for agricultural research and extension. Clearly protecting Ministry personnel is a need and this is being addressed with workshops and training. Going beyond that to change agricultural technology development and extension strategies to meet hypothesised impacts may be inefficient at best.
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6. Trade, Trade Liberalisation and Small-Scale Farmers in Developing Countries: Beyond the Doha Round

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6.1. Introduction

The general relation between international trade and economic growth has been understood for centuries. Very recently, however, not only has international trade been confirmed as one of the essential foundations of global economic growth, it has also been established as one of the pillars of global poverty reduction. The Millennium Development Goals identified four sets of economic factors through which the global partnership could and should contribute to accelerated poverty reduction: increasing official development aid; foreign direct investment; achieving debt sustainability; and, providing market access.

The objective of this paper is two-fold. On the one hand, it is to argue that reform of the international trade regime in agricultural products is not only a developing country problem; it is very specifically a problem of the rural poor - concretely and directly. Trade reform is necessary for accelerated poverty reduction – and for reaching the Millennium Development Goals. On the other hand, it is to argue that addressing trade reform and North-South relations is not sufficient to establish trade as a basis for poverty reduction. There is a much larger question involving what constitutes the basis for a vibrant and expanding smallholder economy within a liberalised trade regime – and how to create it. That is what IFAD’s Strategic Framework reaches out to address. Necessarily, this involves aid as well as trade – but aid specifically directed to enabling poor producers themselves to forge new capacities and relations to deal with very new sets of economic relations. Addressing these issues effectively is very much a priority concern of IFAD, and the only way for IFAD to be effective is as a part of a very broad set of partnerships in which farmers, the private sector and national governments play the key roles. A basic pre-condition for effective partnership is a common and correct understanding of the issues involved – from the point of view of the smallholder condition.

This strong linkage of trade – and trade system reform – to development and poverty reduction (not only theoretically, but as a practical instrument) inevitably has raised the question of the extent to which the global trade regime, and proposed reform of that regime, does or can contribute to poverty reduction. The debate over the effects of the existing trade regime on global poverty inevitably has come to revolve around issues of agricultural trade and prices. For the very poorest countries, the reason for this is

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obvious: agriculture represents a major part of national income, and agricultural exports typically represent a very large proportion of their total exports. For them agricultural production is the key to income, and agricultural exports are the key to imports. From the perspective of these countries, the current situation is doubly hard to accept: on the one hand, there is a (correct) perception that the existing trade regime in agricultural products is extremely biased against them; on the other hand, they perceive that these adverse effects arise from practices in the developed world (agricultural subsidies, protective tariffs and trade barriers) that they (the poor countries) have been constrained to abandon, not infrequently at the urging of the developed countries themselves.

For IFAD the issue of distortions in world trade of agricultural products is of great concern. In many of the poorest countries “agriculture” is largely comprised of small-scale production: it is at the heart of the livelihood of the rural poor. It is not true to say that the entire burden of depressed agricultural prices (in the international market and the farm-gate in developing countries) is born directly by the rural poor. But it is true that a large part of the cost is born by the poor, particularly in the poorest countries. The implications of this for sustainable poverty reduction are clear: to the extent that the trade regime actually lowers returns to poor farmers, it is an obstacle to development, and rather than trade obviating the need for aid, it actually generates greater demands for both development and emergency aid. If trade is to stand by aid as a pillar of development, it will have to be a different sort of trade.

In IFAD’s Strategic Framework 2002-2006, the objective of improving access by the rural poor to markets is identified as a key element of IFAD’s engagement in creating the conditions for poor people to overcome their poverty. This engagement is not principally about advocating the interests of the rural poor in trade regime reform. Such reform is necessary, but the challenge of trade for the rural poor is not at all limited to establishing more equitable rules – and the comparative advantage of IFAD itself does not lie in the realm of global trade negotiations. It lies in addressing the policy, institutional and material issues in the environment of the rural poor that directly bear upon their ability to respond to the critical challenges of improving their livelihoods.

The fact is that when (if) liberalisation of global trade in agricultural products is achieved, there is no guarantee that the income of the rural poor will rise – or will rise sustainably. For that to happen, small producers in the developing countries will have to be equipped with the resources and partnerships necessary to access those markets and profit from them. The point about the global agricultural economy is not only that the trade regime is somehow “unfair”, but that it is changing qualitatively as part of the much larger transformation of global and local economic relations. Trade will be essential to the well being of the small rural producer in the developing countries. There is no doubt whatsoever about this. But this trade will take place within new sets of relations in which the rural poor by no means will have a strong position of influence or bargaining. This is not about North-South relations, for these challenges can and will emerge in trade among
and even within developing countries. Neither is it about a particular set of global regulatory institutions. It is about empowering the rural poor to establish a new and better position and set of relations in a changing economic system marked by strong asymmetries of assets among participants – with small farmers in developing countries being at the lowest end of the scale.

### 6.2. Markets and the Rural Poor

For many in developed countries, linking the condition and fate of the rural poor to trade and markets is counter-intuitive. There has long been a conceptual association between poor rural households in the developing world and “subsistence” agriculture – where subsistence agriculture has come to mean a system of household independence from others for its survival. Thus the idea that poor households are somehow isolated from trading systems, and that the major challenge is not the rules of the international economy, but getting the rural poor integrated into the modern/global economy in the first place.

The reality of the rural poor is very different. Leaving aside the fact that a very large number of the world’s rural poor have very little land, and are dependent upon labour and food markets for their very existence, not only have all agricultural economies always been characterised by complex sets of exchanges ensuring their existence, but very many of the “local” economies of the poor for centuries have been shaped and re-shaped by various more-or-less imposed forms of relations with external, international and even “global” economies and markets. Huge parts of the agrarian societies of what has become the “developing world” have been integrated into larger economies and market systems for a very long time – and almost invariably on the most disadvantageous terms. The isolated, self-contained rural community is more often a condition of flight to the margins from those invasive larger systems than a state of “original autarchy”.

In concrete historical terms, then, relations with markets and far-flung trade regimes is nothing new for small farmers in the developing world. What has changed is the nature of those relations. On the one hand, cash exchange has become central to the survival of the rural household. Most poor rural households participate in, and depend upon, markets. In essence, “big system” trade is no longer marginal to the poor household. On the other hand, market prices – for both export crops and goods for local consumption are increasingly determined more or less immediately by international price conditions – as a result of the liberalisation measures adopted in many areas as part of the structural adjustment process. The days in which prices and market relations for small rural producers were organised by the state are largely over in the developing world.

Virtually the entire access of the rural poor to modern goods and services, but also increasingly for basic requirements of existence, is dependent upon what they can sell
and the price they receive in the local markets that are increasingly linked to international market conditions. Put in another way, at the micro-level among the rural poor access to nearly all goods and services that contribute to a significant expansion of productive, human and social capacities are accessible only through the market – with the exception of some countries which have been successful in improving the effective access of the rural poor to social services. It is certainly imperative to help the rural poor and their communities capitalise more upon natural resources and their traditional knowledge, but the role of goods purchased from other production systems is already vital and will increase.

Many of the rural economies of the developing world – particularly in the poorest countries – are extremely undifferentiated. Fifty-four developing countries depend on three or fewer commodities for 20 percent of their export earnings (FAO, 2002). Over 40 countries depend on a single agricultural commodity for more than 20 percent of total export incomes. Of these, 12 countries gain more than 40 percent of total export incomes from one commodity. Food crops are the main products of the poor, principally involving staples and involving relatively low levels of commercialisation. In addition, production of a very narrow range of exported raw materials serves major cash generation requirements. Very little income and employment is derived from local agro-processing. The economy – including food security and development of productive assets – of the poor rests on this narrow commodity basis. When international agricultural prices for just a few commonly traded commodities are good, the incomes of the poor rise significantly and they invest. When they are bad, incomes fall and productive disinvestment breaks out. This is very clear for producers of “traditional” export crops. It is also true for producers of food crops – particularly those selling on national and regional urban markets.

The proportion of output commercialised by poor farmers in developing countries is, of course, considerably lower than is the case among producers in the developed world. However, the value of the part that is commercialised is vital to the micro-development prospects of the rural poor, and that value is definitely affected by the nature of the international trade regime. One of the big questions of 2003 was how much the poor are affected by trade regime distortions.

6.3. The Impact of the International Trade Regime

Some 75 percent of the world’s poor live in rural areas and base much of their survival on agriculture. The agricultural products market is also the most distorted market in the entire international trade system. Reforms have the potential for considerable poverty alleviation. Yet, they are being dealt with only on commodity-by-commodity basis, instead of focusing on the impact of present anti-development distortions and prospective liberalisation on the most vulnerable segments of the world population.
Protection faced by developing country exporters of agriculture products in industrialised countries’ markets is four to seven times higher than that faced by manufactured products. Commodity-specific tariff, quotas and safeguards, as well as market-aggregate subsidies in industrialised countries’ markets, represent major effective barriers to access by developing countries agriculture. The impact of the current trade regime is not, of course, restricted to access to the domestic markets of developed countries, but necessarily embraces the depressing effect of developed country agricultural production and export subsidies on global prices and farmer returns and opportunities in developing countries – particularly prices for sugar, cotton, rice, wheat, maize, meat and dairy products. Examples are in order. In 2001, sugar farmers in Mozambique were efficient, innovative and potentially competitive: they had the lowest production cost in the world. Nonetheless, their returns and world market share shrunk. EU sugar was exported at 75 percent of its production cost and drove down the sugar world price by some 17 percent (OXFAM, 2002a). Cotton is one of the agricultural products for which Africa could effectively compete in world markets if a level playing field existed. In 2001, US and Chinese subsidies for their cotton producers amounted to USD 6 billions, encouraging over-production and driving world prices to a 30-year low. Notwithstanding the fact that farmers in these countries produce cotton at about one-quarter of US production costs, for the region as a whole losses amounted to USD 301 million, with small farmers being hardest hit (OXFAM, 2002b). An estimated 10 to 11 million households in the region depend on cotton for their livelihoods. An increase in cotton prices of 25 percent (which corresponds roughly to the effect of elimination of American cotton subsidies) would lift 250,000 people out of poverty in Benin alone (Walkins and von Braun, 2003).

In developing countries’ own domestic markets, industrialised countries’ agricultural subsidies create distortions and misery for local producers. Jamaica once had a viable and rapidly growing processed milk sector. In 1990, imports of powdered milk soared owing to artificially low world prices, driving out domestic producers. In Mexico, it was estimated that with the North American Free Trade Agreement (NAFTA) it would take 15 years for domestic maize price to fall into line with international prices. In fact, it took just 30 months. Between 1993 and 2000, Mexican maize imports increased eighteen fold and one-quarter of corn consumed now comes from the US. An estimated 700,000 to 800,000 rural livelihoods have been lost due to the flooding in of subsidised maize. This is equivalent to 15 percent of the economically active population employed in agriculture (UNDP, 1997).

The general consequences of developed countries’ agricultural protection for developing countries are now broadly recognised. The question is how important they are in terms of impact on incomes and poverty. Static gains for developing countries from the

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26 The problem of falling and highly volatile raw material prices for tropical crops such as coffee, tea and cocoa is not directly linked to developing country practices – except to the extent that developing country “blockages” in the export of other agricultural commodities contributes to an extraordinarily high dependence in some developing countries upon the export of a narrow range of tropical products.
elimination of distortions have been estimated in the order of USD 150 billion. Under optimistic growth, income distribution and poverty reduction assumptions, full worldwide trade liberalisation might generate a 2 percent yearly reduction in extreme poverty – somewhat less than half the pace required to halve extreme poverty by 2015 (Bussalo et al., 2003). Dynamic gains from full trade liberalisation for developing countries could be even more impressive. Assuming that openness affects productivity and factor endowment, gains might be in the order of USD 500 billion, roughly 4.5 percent of GDP, for the developing countries.

These figures, and similar, suggest that decisive action to reduce trade distortions arising from protection, subsidies, etc. would make a significant contribution to income increases in developing countries – at no overall cost to the developed countries (rather, to their overall benefit). Prima facie, the numbers are impressive – gains to the developing world would be three times the value of total ODA, the rate of poverty reduction would increase, and the like. They are sufficiently impressive to underline the urgency of the need for reform in the international trade regime for agricultural products. At the same time, it is evident that such reform is not a panacea for rural poverty in the developing world – and would not justify relaxation in other areas, such as the commitment to increase ODA (the Monterrey commitment among developed countries was to dedicate 0.7 percent of national income to ODA; the current figure is closer to 0.24 percent) and to pursue a pro-poor economic reform process within developing countries themselves.

Using ODA as a yardstick, the flow of benefits to developing countries would be very significant (on a par with ODA flows with attainment of Monterrey targets). However, from the perspective of comparability to total national incomes, the immediate gains from trade reform would be relatively modest (recall the estimate of static gains equivalent to a 1.5 percent boost in income). The direct impact on the rural poor would be far less than the total benefit. On the one hand, it is probable that a major share of total benefits would accrue to middle-income developing countries, a number of which are very important agricultural exporters. On the other hand, a significant share of benefits would accrue to larger scale (non-poor) producers in developing countries, the commercialisation of the production of which is necessarily at a higher level than among the rural poor. The conclusion must be that while agricultural trade reform would benefit developing countries, and should be pursued, it may not have the sort of impact on rural poverty that many seek from it. The immediate benefits are far from astronomical, and there are important questions about the distribution of those benefits.

With regard to the issue of distribution, agricultural growth has almost always helped to reduce poverty where concentrations of land ownership were low and labour-intensive

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27 Bussolo et al., 2003, also estimates that dynamic gains for high-income countries are in the order of USD 300 billion or 1 percent of their yearly income.
technologies were used. This was the case in Indonesia, where the development strategy simultaneously addressed and interlinked trade, growth and poverty reforms to promote investment that linked the agriculture and industrial sectors. As a result, every 1 percent of growth in agriculture corresponded to a 1.9 percent reduction in poverty – 1.1 percent urban and 2.9 percent rural (Pritchett et al., 2003). This was also the case in Vietnam where trade reform was part of a larger agenda of reform in public institutions and to property rights that sought to close the distributional divide between urban and rural areas and, to a lesser extent, between skilled and unskilled workers. Here, agricultural production grew by 4.6 percent per year from 1990 to 1998, partly due to a boom in coffee exports, and poverty declined from 66 to 45 percent of the rural population (Doan, 2003). In Uganda, non-food crop production surged after market liberalisation in the early 1990s, and rural poverty fell from 60 percent in 1992 to 39 percent in 2000, while agricultural production grew by more than 4.4 percent per year. In contrast, unfettered trade liberalisation accentuated income disparities in countries such as Argentina, Ghana and the Philippines, where initial income distribution was already highly skewed.

6.4. Trade Issues in a Broader Perspective

For the huge number of the rural poor in the developing world, trade and market access are essential to any meaningful and sustained process of poverty reduction. However, even under benign distribution conditions, trade reforms alone will not make a large difference to their income and market prospects. For most poor rural people, the issue is not only that international prices are distorted, but that they are unable to bring together the local conditions to establish a position in a “globalising economy” where many agricultural prices are declining and where demand is shifting in technically inaccessible directions. This inability is exacerbated by the trade regime. However, it does not originate in the international trade regime, and will not be solved by changes in it. Indeed, it is not necessarily the case that access to international markets is always and everywhere the major problem and opportunity for the rural poor.

As indicated above, studies on the impact of trade liberalisation suggest that production, income and distributional effects are heavily influenced by the institutional, policy and social organisation of the countries concerned. This insight can be broadened and re-cast: the ability of the rural poor to establish a profitable and stable position in the system of trade depends upon institutional, policy and social factors inside their local and national environment – and the way in which these relate to the characteristics of the external environment. Trade in itself is unlikely to “automatically” generate a positive local environment for the economic and social development of the rural poor. However, a “good” local environment for smallholder production is also likely to be a good (if not sufficient) foundation for establishing a viable market position for the rural poor. This “environment” of the poor includes their access to land and water, to capital, to relevant technology and information, as well as to the opportunity to organise and associate to
address common concerns. These are among the conditions necessary for the
development of any sort of enterprise, and the enterprises of the poor are no different –
except, perhaps, with regard to the (greater) need for opportunity to associate.

But who are the rural poor, and how supportive are their policy, institutional and material
environment and assets for developing global competitiveness? The rural poor are those
with the least land and water, and the least secure control over what they do have. They
typically have no or very little access to formal financial institutions for capital of any
sort. They often have very little access to modern technology relevant to their
requirements, and they have the least preparation for the development and management
of modern forms of association. More often than not, they are women – with special
obstacles (e.g., low levels of property rights, and low access to and participation in
decision-making processes) to accessing key development resources and opportunities.
Often they are socially marginal groups – including indigenous and tribal peoples – upon
whom those responsible for the development of modern institutions and services have
turned their backs. It is upon these people that agricultural development and exploitation
of vital trade opportunities rest in many of the poorest countries, and it is upon the efforts
of these people themselves that the reduction of rural poverty hinges.

Box 1. Assisting remote and marginal communities

IFAD-funded projects are trying to enhance the capacity and skills of the rural poor in
mountain areas and improve rural infrastructure so that they can benefit from new market
opportunities. For example, the Western Uplands Poverty Alleviation Project in Nepal is
working with an NGO and an international research centre in assisting the mountain
farmers in growing high-value medicinal plants, which will be bought by a private sector
Ayurvedic drug manufacturer under contract farming arrangements. This will avoid the
exploitation of poor producers by middlemen. In Bhutan, extension workers on the
IFAD-supported Tashigang and Mongar Area Development Project said that farmers
were prompted to take up extension opportunities and increase their use of inputs, credit
and improved agricultural practices now that new roads gave them access to markets to
sell their crops. In addition, the roads provided the only means by which farm families
could reach health and education services, and better access to consumer goods.

Liberalisation in the developing world might have reduced some of the constraints on the
livelihoods of the rural poor represented by public rural institutions that were, sometimes
by design, not very supportive of rural income growth. Liberalisation in the developed
world may open greater opportunities for trade (and more profitable engagement by the
small-scale producers of developing countries). However, neither sort of liberalisation
has addressed or will address the structural problems faced by the rural poor as they seek
to make a (better) living in the marketplace. The task of reducing rural poverty (and
stimulating national growth) through greater and more profitable engagement of
smallholders in trade involves not only the construction of a material, organisational and
policy framework – but a material, organisational and policy framework that directly
addresses the specific issues and constraints faced by small-scale producers in their social and gender specificity, and one that reverses the processes of exclusion of the poor that have been so characteristic of principal institutions and policies for so long.

While liberalisation means that all these issues have to be addressed in ways that respect market principles and the reduced modern role of the state, there is ample evidence that comprehensive and sustainable answers for the rural poor do not spring into being of their own accord. It is true that in the wake of liberalisation there has tended to be an increase in private sector activity in key areas (trading, finance, technology), but by and large this has affected the smallholder sector only marginally. Relations and institutions critical to smallholders have to be constructed in close collaboration among the rural poor, the private sector, government and donors. It is a field in which government commitment and donor support are critical – and one in which engagement has fallen to perilously low levels as both governments and donors have focused rural efforts on classic public social sector enclaves at the expense of building up the new institutional framework and relations that are essential to the effective functioning of a market economy among the rural poor.

**Box 2. Going up-market**

The beneficiaries of the IFAD-supported Smallholder Cash and Export Crops Development Project in Rwanda are some 28,000 rural families. Virtually all live below the poverty line, and many of them are female-headed. The project aims to maximise and diversify their incomes through a particular focus on coffee, tea, and new cash and export crops. The project, which will involve the Fair Trade organisation Twin Trading Ltd (TWIN) as a technical partner, will assist smallholder coffee growers to establish primary cooperative societies and produce high-quality coffee; and will support the development of modern coffee processing facilities that, over time, will be taken over by primary cooperative societies of the growers. For tea, the project will help to privatise a large government industrial estate by parcelling it out among 4,000 poor smallholders; it will establish and train primary cooperative societies formed by the participants in the land redistribution; and it will finance the construction of a factory to process their tea, which will also gradually be taken over by the cooperatives. The project will also seek to develop new cash and export crop opportunities for smallholder producers, supporting research on new market outlets; assisting in the formation and training of farmers’ groups looking to develop new cash and export crops, providing them with credit financing, and assisting them to develop commercial relations with market intermediaries.

This is precisely the focus of IFAD’s Strategic Framework. The development of a framework in which the rural poor are enabled to build a new and better base for livelihoods in a globalising economy is a huge area with huge questions. If public sector “solutions” of the past are no longer “thinkable”, and many of the classic private sector solutions not directly applicable (because they were built upon an entirely different sort of private sector than a mass of poor and very small-scale producers), then how are smallholder requirements going to be satisfied? None of these questions have really been
answered in a comprehensive fashion at scale. But one thing is sure; if they are not answered, the smallholder economy will not grow, the agricultural exports of many developing countries will not expand, and poverty will not be reduced. For many of the poorest countries, trade will only grow significantly as a result of aid directed at creating sustainable local responses to the key issues of smallholder competitiveness and investment.

6.5. Some Key Challenges of Economic Transformation for Smallholder Livelihoods

Successfully addressing the generic issues of the “commercialisation” of smallholder production in developing countries is essential if smallholders are to gain access to the goods and services essential for their development. However, it is not true that generic responses on their own will solve the problems increasingly encountered by smallholders in international trade. International trade is an abstraction. Smallholders do not engage in abstract economics, they engage in concrete exchanges under concrete conditions. What they engage with is an international economy at a specific and special stage of development – an international economy in the process of globalisation. Globalisation has many dimensions. For the purposes of this discussion key elements of globalisation as it affects the rural situation in the developing countries include the following:

- Economic organisation is rapidly moving across the globe towards a situation in which market relations are the key to the organisation of economic and social life, and penetrate into every aspect of the constitution and reproduction of the production unit and the household;
- There is a high level of concentration of demand for traded products in the developed countries, where final consumption is highly diversified beyond basic commodities, and where final consumption goods have a very high level of value added beyond the raw material value;
- Concentration of demand for fresh products in a limited number of market channels in the developed world involves an extraordinary asymmetry between producer and trader/purchaser; and,
- The increasing diversification and sophistication of demand in the developing countries involves both an increasing separation between the consumption profile of the small producer and his/her production mix (i.e., the difference between what the rural poor produce for themselves, as opposed to what they produce for the market, becomes ever larger), as well as direct engagement of trade intermediaries in the organisation of the production process itself. However, the process of growth in developing countries is creating local, national and regional markets with different characteristics, but some of the same tendencies at an earlier stage of evolution.
The implications of the above for the smallholder’s position in the international trade system may well be dramatic with regard to both the future composition of production and the economic relations necessary for profitable operations. The first issue involves the possibility that the “traditional” agricultural exports from developing to developed economies may be subject to continuing declines in real prices, and a very high degree of price volatility. Prices for most of the high trade-volume agricultural commodities have been subject to a secular decline. They are likely to decline further as the imperative to increase production for the market in relatively unsophisticated contexts leads to a relative concentration of expansion in crops that have been proven to be susceptible to rapid increases in production under relatively weak institutional and service conditions (i.e., the conditions characteristic of rural areas in developing countries). This process is likely to both accelerate the long-term decline in real prices (and smallholder returns in the absence of consistent increases in productivity) and lead to increased price volatility as falling prices lead to major and rapid shifts in production from crop to crop within a narrow range of effective choice. This phenomenon has been recently experienced in the coffee market with the rapid and large-scale production of Robusta coffee in Vietnam, leading to serious downward pressure on international prices – and to lagged, but important diversification of coffee producers (worldwide, 70 percent of coffee production is accounted for by smallholders) into other, relatively unsophisticated commodities.


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<tbody>
<tr>
<td>Cotton. Cents/kg</td>
<td>241.1</td>
<td>261.7</td>
<td>181.9</td>
<td>133.7</td>
</tr>
<tr>
<td>Coffee Arabica. Cents/kg</td>
<td>408.8</td>
<td>490.0</td>
<td>197.2</td>
<td>197.1</td>
</tr>
<tr>
<td>Coffee Robusta. Cents/kg</td>
<td>325.7</td>
<td>411.7</td>
<td>118.2</td>
<td>93.7</td>
</tr>
<tr>
<td>Cocoa. cents/kg</td>
<td>240.6</td>
<td>330.5</td>
<td>126.7</td>
<td>93.0</td>
</tr>
<tr>
<td>Sugar (world) Cent/kg</td>
<td>29.32</td>
<td>80.17</td>
<td>27.67</td>
<td>18.5</td>
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In effect, this suggests that smallholder incomes from agricultural trade will only be maintained and expanded if there is constant and successful pursuit of diversification into less “populated” (because of harder access – for economic, technical or ecological reasons) commodities. The task is not only to discover new niche markets for the rural poor (e.g. organic production, fair trade products, non-timber forest products, etc.), but also to keep innovating in a process of permanent revolution in production and trade. This is a dramatic challenge given that many public agricultural support services in the developing world have not been very successful in assisting smallholders in the production and sale of even staple commodities. Given the depletion of public services associated with the new role of the state, it is difficult to envisage how this critical problem could be confronted within traditional service models. Ultimately, however, the issue may not be of how the public sector gears up to this challenge, but of how private sector participation can be ensured.
This participation is critical given the increasingly narrow and demanding specifications of products required by developed country processors and distributors. A likely “winning” configuration may be even tighter relations between producer and up-stream operator, with the latter exercising tight control over the former – a relation that might provide smallholders with access to markets, but brings with it a whole host of questions about the bargaining power of the small producer. A recent IFAD review of contract farming operations in eastern and southern Africa (Ruotsi, 2004) has highlighted both the benefits of close private sector linkages in accessing market and finance and the internal tensions in the relationship that lead so many to break down.

**Box 3. Marching into the higher-value zone in trade-liberalised China**

To assist farmers in remote mountainous areas of China in switching to the production of high-value and labour intensive products such as fruits, vegetables, and livestock products, IFAD-funded projects are trying to enhance the capacity and skills of the rural poor in mountain areas and improve rural infrastructure. These farmers face greater difficulty in making such a switch due to inadequate knowledge, technology and infrastructure. Thus, these farmers would be enabled to share in the gains of trade liberalisation by engaging in primary and value-adding activities presented by new markets. China’s commitments to the WTO require it to lower the average agricultural tariff from 22 percent to 17.5 percent. The abolition of China’s protection of maize may turn the country into a major importer and reduce the incomes of the millions of people dependent on agriculture and related activities, unless they can switch to more lucrative production of high value crops which are also labour intensive.

There are many of examples of organised linkages between upstream (larger-scale) processors and traders and downstream small-scale producers, but they give no grounds for complacency. In the case of the China-Japan horticultural trade, the need to satisfy stringent Japanese phytosanitary standards (which cannot be reduced simply to tools to block imports, but must also be seen as elements of sophisticated consumer demand) has led to a trend towards concentrating trade in the hands of larger scale Chinese producers.
or to the establishment of joint ventures directly involving the Japanese distributor in the organisation of larger-scale and tightly controlled production. In Kenya, the percentage of production attributed to smallholders in the country’s successful horticultural export business has declined significantly because of the difficulties of maintaining and documenting quality and phytosanitary standards in smallholder products.

Smallholders can be very effectively involved in higher-value commodity production in association with the private sector; the issue is to identify what makes them attractive (or unattractive) partners in these systems – and to make sure that they receive active support in developing their advantage. The private sector will certainly exploit that advantage – and, indeed, its participation is essential. What is less clear is its participation in developing and maintaining that advantage.

Box 4. Organising for the natural products niche in southern Africa

PhytoTrade Africa is a membership-based trade association that seeks to stimulate the development of a natural products industry in which poor rural communities living in dryland areas in southern Africa can actively participate. Established in 2001 with support from IFAD, the Association currently has 45 members, encompassing private sector players, NGOs and research institutions. Given its development goal, PhytoTrade Africa focuses on products derived from species that require wild-harvesting – a labour-intensive task that favours low-income rural producers; additionally, it accepts as members only those who are willing to commit themselves to principles of Fair Trade and of environmental sustainability. Its activities comprise: investing in new product research and development (R&D); identifying market opportunities and assisting Association members to establish business linkages with export buyers; and providing technical and business advisory services to its members. Its recent achievements have included: signing collaborative R&D agreements with three major international players in the natural products industry and leveraging USD 600,000 in complementary R&D investments; securing orders of baobab fruit pulp and marula oil worth USD 4.0 million for its members; and developing agreements with two prominent global bio-prospecting facilities, to screen high value pharmaceutical products. In January 2004, it will launch its Phase II Strategic Plan: projections suggest that its implementation could generate an annual trade of USD 16-24 million, involving 80,000 producers.

Opportunities for smallholder diversification into higher-value (and higher-return) crops do exist – and in many of these areas smallholders possess a comparative advantage (for example, because of the labour intensity of production). However, all these producers face a common dilemma: they seek to increase incomes by raising production, but the developing country market for agricultural products exhibits a much slower growth in demand for raw materials than in demand for processed final products. Put in a different way, the expansion of value production and retention seems to be much greater in the area of agro-processing (in the broadest sense) than in the production of raw materials. The gap between consumer and producer prices is widening – with growers receiving 4-8 percent of the final price for raw cotton and tobacco and 11-24 percent for jute and coffee. It is often observed that the lion’s share of rewards from diversified production
tends to be realised at the retailing end of the chain. A case study of the value-added chain of fresh vegetables produced in Africa for the European market found that approximately 27 percent of the final price accrued to the retailer; the share of consumer prices to producers was 12 percent for mangetout in Zimbabwe and 14 percent for fresh vegetables in Kenya (Kaplinsky, 2000).

The low percentage of the producer price in the final consumer price of agricultural products is frequently cited as the result of monopolistic and exploitative relations. There are often elements of these sorts of phenomena in trade relations involving smallholders and the rural poor, but the lesson is not (only) that trader and processor organisation should be changed to ensure greater equity in exchange. The important dimensions of the situation are: that very significant value is added between the raw material producer and consumer (in developed country markets); that consumers in the developed countries seem more willing to pay for that added value (or what it physically represents) than for an increased volume of “raw” goods; and that developing countries in general, and the rural poor in particular, have very little presence in these value-adding activities. The challenge, therefore, is not “breaking monopolies”, but in creating the conditions for poor rural people in developing countries to enter the up-stream value-adding chain. If the future of the rural areas will remain tied closely to agriculture, a less poor future would necessarily involve the development of value adding activities in the rural areas – involving the rural poor either as direct producers/processors/handlers or as employees of larger scale local operations. This would necessitate real change in the environment for industrial investment and development in many developing countries, where effective transaction costs are very high. It would also necessitate important change in world trade regulations. The following table on tariff escalation illustrates an important underlying reality of the agricultural trade regime: not only is agricultural raw material production highly protected in the developed world – but so is agro-processing. Processed agricultural products are subject to higher tariffs than raw materials.

Box 5. Exploring organic agriculture

Farmers in developing countries are increasingly interested in taking advantage of the opportunities offered by the organic products market, a market with an annual growth rate of some 10-20 percent. To do so they must overcome lack of infrastructure and technical know-how, inadequate market information, complex certification processes, and insufficient financing. In 2003, IFAD contributed to starting a project on organic agriculture to benefit some 1800 small producers in Guatemala and Honduras – both of which face an acute problem of rural poverty. The objective of the project is to support the process of transition from traditional agriculture to organic agriculture of small farmers and to enhance networking activities between the organisations involved in the production, certification and marketing. The project gives strong emphasis to the process of innovation and learning about the best ways to support small farmers. If successful, it would be replicated, and scaled up, in a larger number of countries.
As tariffs for processed and semi-processed products are much higher than for raw products, tariff escalation creates disincentives for investment in local processing, and is a major factor in hindering diversification into processed products, which would create new employment opportunities. Given the higher income elasticity of the processing, as it were, it would pay those interested in the role of agriculture in poverty reduction to pay more attention to finished products, tariff escalation and rural employment. Production and trade of and in agricultural raw materials is important, but is likely to remain very much the “low end” of the agricultural chain in future. Exports of processed agricultural products grew at 6 percent per annum during 1981-2000; Export growth in primary agricultural products was much slower at 3.5 percent per annum in the same period. Developing countries’ share of processed agricultural exports is falling: from 53 percent of world exports of processed agricultural products in 1981-1990 to 48 percent in 1991-2000.

Table 2. Tariff escalation (FAO, 2003).

<table>
<thead>
<tr>
<th>Product</th>
<th>Processing level</th>
<th>Tariff&lt;sup&gt;a&lt;/sup&gt;</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>USA</td>
<td>EU</td>
<td>Japan</td>
</tr>
<tr>
<td>Cocoa</td>
<td>Beans</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Chocolate</td>
<td>6.9</td>
<td>21.1</td>
<td>21.3</td>
</tr>
<tr>
<td>Coffee</td>
<td>Green</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Roasted</td>
<td>9.0</td>
<td>12.0</td>
<td>12.0</td>
</tr>
<tr>
<td>Sugar</td>
<td>Raw</td>
<td>32.8</td>
<td>134.7</td>
<td>224.9</td>
</tr>
<tr>
<td></td>
<td>Refined</td>
<td>42.5</td>
<td>161.1</td>
<td>328.1</td>
</tr>
<tr>
<td>Oranges</td>
<td>Fresh</td>
<td>3.5</td>
<td>16.7</td>
<td>24.0</td>
</tr>
<tr>
<td></td>
<td>Juice</td>
<td>11.0</td>
<td>34.9</td>
<td>31.0</td>
</tr>
</tbody>
</table>

<sup>a</sup>Average final bound Most-Favoured-Nation tariffs (simple averages at the 6 digit of the harmonised system).

6.6. Reprise and Key Questions

The organisation of the international agricultural trade system is profoundly distorting, at the expense of agricultural producers in developing countries, among whom the rural poor figure prominently, particularly in the poorest countries. It is extremely important for the future of growth and poverty reduction in many parts of the developing world that these punitive distortions are removed. However, the future of the world’s 900 million rural people living in absolute poverty does not hinge only upon the redistribution of the benefits of the existing global agricultural system. It will hinge upon how well the rural poor are empowered to respond to a new global system in the making that poses major problems for them. This involves the development of completely new sets of capabilities, activities and relations.
Poverty reduction strategies rarely identify the crucial role of markets; do not identify the critical problems and constraints for the rural poor in relation to agricultural trade; and never map out the appropriate programme of policy reform, institutional development and farmer capacity expansion. There is, certainly, a growing emphasis in developing countries upon the need to “commercialise” the small farm sector – but extremely little analysis of what that will require in the current national and global context. The development “gaze” on trade and poverty questions rests almost exclusively – at the policy level, at least – on WTO and the Doha Round, notwithstanding that this represents a fraction of the trade and market problem of the poor that governments and their development partners should be responding to now.

In some senses, the enormity of the problem of inadequate attention to the concrete issues faced by poor rural producers in establishing a more remunerative position in the global market is equalled only by the very problematic character of many of the immediate answers. Somehow, acknowledgement of the facts of globalisation as a special and contemporary set of processes is kept separate from thinking about “answers” to smallholder market linkage issues. Old answers are being mobilised to respond to new issues.

The practical issues of smallholder trade development in a structural and medium-to-long term sense have hardly been broached in development thinking and action, at any level. There are no answers yet, but sufficient is known to suggest that the answers do not lie in simply more or better of the same. Sharp questions about conventional “answers” have already sprung from IFAD’s experience as it has moved to implement its Strategic Framework, particularly in the areas of market access and linkages. Among these are the following:

Is the “food first” policy that has typically been pursued in assistance to smallholder development a safety net or a noose?

Agricultural development assistance among the rural poor has strongly emphasised the priority of raising food production among them as an essential element of food security. In the context of the existing distortions of the international trade regime, this means that smallholders produce precisely those commodities (staples) that are subject to high levels of protection in developed country markets and that are dumped on international and developing country markets as a result of over-production (and production subsidies) in developed countries. Under these circumstances, while recognising the importance of staple production, it might be more beneficial to rural poverty reduction if development assistance were to have a much stronger focus on crop diversification into non-staple items – while addressing the market organisation and infrastructure issues that continue to force many of the rural poor to produce their own food irrespective of comparative disadvantage under conditions of well-functioning markets. While there is an area of legitimate debate about the wisdom of encouraging smallholders in many areas to leave
food production behind, there seems very little doubt that a focus on staple food production alone among smallholders is a development “dead end”.

*Are producer cooperatives the critical factor in increasing smallholder incomes in a globalised economy?*

Recognition of the diseconomies of trade involving a very large number of very small-scale producers, and the extraordinary asymmetry of economic power between individual small-scale producers and the national and international actors in international trade, have combined to generate a renewed interest in cooperatives and associations among the rural poor. In many developing countries, cooperatives and their equivalent were important players in the export systems for “tropical” crops, and cooperatives are important forms of organisation among small- and medium-scale farmers in many developed countries today. The assumption appears to be that cooperatives and similar will be a viable solution to the issues of developing country smallholders today.

These sorts of organisations among the rural poor can play an effective, indeed, vital, role in discharging some functions essential to improving the smallholder condition – particularly commodity bulking for trade, organising access to finance and basic technology, and moderating the asymmetry in relations between the individual small farmer and large up-stream market operators. However, it is not at all clear that cooperatives of poor farmers can, in fact, independently and completely manage the sophisticated technical, financial and trade issues that are increasingly the dominant elements of a globalised trade system. This suggests that the role of the organised and large-scale private sector is critical in the exploitation of many trade opportunities for the rural poor (including providing services to poor producers enabling them to participate in new opportunities), and there is no doubt that this is already the dominant model of articulation of small-scale producers into the global market for non-traditional products. The question is to what extent the importance of these private sector linkages are recognised, and what efforts are being made to create the conditions under which both the private sector and small farmers are able to develop them further in the “win-win” box of common interest.
Box 6. Those who help themselves

For more than 50 years groundnuts have been the major source of export earnings and a key contributor to the incomes of more than 300,000 households in central Senegal. In the last ten years, competition from imported vegetable oils has increased. For Senegalese producers to remain competitive in the face of an increasingly difficult international environment, marketing costs (much inflated in the past due to state intervention) need to come down, but in ways that ultimately benefit producers. IFAD has set up a pilot program to help grassroots producer organisations develop the capacity to perform key functions in groundnut marketing and input provision. Four cooperatives, set up in four rural districts, have been able to collect and deliver large quantities of groundnuts to oil processing plants. This responsibility previously rested with the processors, and was very costly and inefficient. A seed multiplication and distribution system has been organised by the same cooperatives and producers. Initiatives such as this are critically important accompanying measures when market reforms are necessary in order to boost competitiveness. As a result of this program, a number of farmers’ groups have been able to market their groundnuts at decent prices, get paid on time, and begin to multiply seed within a context where the public seed distribution has all but collapsed.

This issue will not be solved by the rather modest support extended to the development of the rural micro- and small-scale enterprise sector (which is not able to contribute significantly to effective market linkages in high value and processed crops except in a very subordinate way). Nor will it be solved by macro-level business stimulation measures alone. It requires major and specific assistance by governments and donors oriented to the specific questions of what brings the small farmer (sometimes organised; sometimes not) and the private sector together (and, indeed, what puts them apart). And it requires the solution to a very fundamental issue: how do governments and development assistance shift from a poverty reduction “model” that privileges public sector social services towards support for private relations between farmers and the larger scale private sector? Some of the public assistance given in this sector – as well as some of the assistance provided by NGOs – has tended to displace or undermine the direct relations between farmers and larger scale private market operators. The objective, however, should be to create the conditions in which these private relations are easier to develop and more mutually profitable, not to displace them with public or “social” models that appear to offer more immediate effectiveness and equity but in fact suffer from severe problems of sustainability.

Are agricultural production and the small-scale rural enterprises alone the key to rural development and rural poverty reduction?

If movement into more profitable segments of the developing global agricultural market is extremely difficult for smallholders, and if staple production holds no particular promise for expanding the incomes of the rural poor, then it should be seriously considered that direct agricultural production may not be the basis of reduction of...
poverty among a significant segment, or even the majority, of the rural poor. This suggests that the issue of up-stream value-added and employment in the agricultural value chain should be looked at much more carefully – and that the prospects for rural poverty reduction be seen from the perspective of rural employment and economic development rather than exclusively from the perspective of agricultural development. This also includes the necessity to consider that rural poverty reduction (where it does not have a viable solution in terms of migration to urban areas capable of absorbing labour in higher productivity employment) may require a major shift from independent small-scale production to an employment based model where the conditions for viable production and trade are provided not by the rural poor themselves but by larger scale private enterprises.

Does the future of smallholder agriculture in developing countries really lie in exporting to the developed countries?

The great debate around the relation between poverty and trade organisation has principally revolved around the relations between the developed and developing groups of countries. Clearly, protection and subsidies in the developed countries (and in some large developing countries) will affect poor smallholders under all circumstances. But this is not equivalent to the proposition that developed country markets are the “natural” markets for developing country producers, or that changes in the trade regime will provide relief for the poverty of all or most. Given the difficulties of entering and extracting value from developed country markets arising from the changing nature of those markets, it may be the case that the most appropriate “target markets” for many smallholders are the markets emerging in the developing world itself in response to urbanisation and an emerging division of labour among rural areas themselves. In Kenya, the expansion of horticultural exports has been dramatic. Nonetheless, local supermarkets buy three times the amount of vegetables exported. In effect, if high levels of income in developed country markets are impelling the appearance of patterns of consumption and value-added that involve major difficulties of direct access by large numbers of the rural poor, then it appears reasonable to attempt to exploit other large markets where income is lower, and where market change is less dramatic (but, nonetheless, present).
Box 7.  Getting smallholders onto the shelves

In many developing countries’ domestic markets, rural producers have recently started experiencing increasing difficulties in selling their products because access to local markets in their own country has increasingly been shaped by trade conditions similar to those faced in the international markets. The Latin American experience is long lived and well documented, in this regard. Supermarkets are increasingly dominant players in the region controlling some 50 percent of the agro-food industry. The boom of supermarkets is transforming the agro-food system in the region. This poses great challenges and opportunities to small farmers. Small producers often find it difficult to comply with some of the procurement practices of large supermarkets – in terms of quality and safety standards, packing, volume, consistency and payment practices. Supermarkets however also create opportunities: they are both a motor for broadening and deepening the consumer market, and the ‘toll booth’ on the way to selling to the growing markets, the urban areas and the middle classes. Supermarkets are networks that facilitate the distribution of food at national, regional, and global level. What is crucial here is to enhance good business practices that optimise retailer-supplier relations and to promote competition in the supermarket sector and in the retail sector in general. Also important is to promote the development of specialty shops and streets fairs both for their cultural and employment value to the local communities, and as alternatives for small suppliers. Overall, domestic market organisation and local industrial regulations should fit the growth of the local economic environment and not simply duplicate what is fashionable in more developed economic environments. The market is now global, whether you are a larger exporter or a small subsistence farmer selling occasional surplus, merely selling crops is unlikely to provide substantial rewards (Reardon and Berdegue, 2002).

This is not a laissez faire or easy option. Real barriers to internal agricultural trade in many developing countries are as high as barriers to entry into developed country markets – be it in terms of infrastructure (with transport for internal commodity movements to satisfy domestic markets being much worse than that for traditional export products), be it in terms of effective taxation (both de facto and de jure). Moreover, agricultural trade among developing countries is subject to significant tariff and non-tariff barriers. Finally, while standards tend to be less demanding in developing country markets, the requirements that have become dominant in developed country markets are themselves beginning to emerge in response to both income and re-organisation of distribution and retailing systems.

Paradoxically, while justly bemoaning the difficulty of exporting to developed countries, many developing countries (and their development partners) have done relatively little to overcome obstacles to internal, regional and South-South trade, notwithstanding the fact that for most smallholders this will always be the most “accessible” market segment. It may be true that the presence of developed country agricultural exports in developing country markets is facilitated by export subsidies and the like, but it is also true that the viability of this commercial penetration is vastly increased by the great obstacles to internal trade encountered by many small producers, problems to which the solution lies not in painful and asymmetrical multilateral negotiations, but in the individual and collective policy decisions and investment plans of developing countries themselves.
6.7. Reflections

Trade is extremely important for the rural poor and for poverty reduction. It is also a much broader question than the current discussion of reform in the international trade regime. In principle and practice, the reduction or elimination of agricultural protection and other production subsidies will provide opportunities for developing country producers. Reform might well provide a significant (but not necessarily decisive) income boost to many of the rural poor, with important spillover effects. But sustained trade-linked income growth (and there is very little prospect for significant income growth that is not trade-linked in some way) among the poor will require much more than reform in international trade regulations. It will require a major effort to empower smallholder and the poor to become more competitive and commercial actors – an effort embracing policy change, institutional development, human development and major material investments (in infrastructure, for example).

All of this is a great deal. Trade reform is not making much progress; and investment in the human, institutional and material capacity – as these relate to critical production and trade issues – of the rural poor is at an extremely low level among developing country governments and developed country donors. Progress in these areas will not be enough, for assistance and support needs to be directed at real problems and real solutions. In this regard, the thinking of many governments and donors must change if the rural poor are going to have some basis for confronting the challenges of global trade changes. So far, there is relatively little evidence of this: solutions put forward (but rarely decisively, and never on a large scale) seem relevant for the mid-20th century, but not for the beginning of the 21st.

There are no simple answers to the questions posed in the previous section, and undoubtedly different local, national and regional situations will frame the answers in very different ways. What is clear, however, is that smallholders and the rural poor in developing countries are facing huge new issues of articulation into the global economy, and that efforts at poverty reduction must confront them directly as they are today – rather than as they might have been in the past. Support for poverty reduction through trade (and trade capacity development) will not be effective if it focuses only on trade regulation reform – and if it focuses only on the public sector and civil society to the neglect of concrete engagement with the issue of the private sector role in rural areas. The danger is that the reform will be a long time coming, will provide only limited and temporary relief, will be only partial as the “emergency” requirements of developing countries justify the continuation of regimes of over-production in key areas of the developed world. The big answer lies in structural changes in the developing countries which will simultaneously create the foundations for significantly improved income from engagement in trade among the rural poor – and show emergencies for what they are: crises of the rural economies of the rural poor reflecting not so much nature as the progressive disengagement of governments and donors from the process of enabling the
rural poor to confront the challenges of a modern world over which they have no control. Many of the rural poor can make a better living from the global economy as small-scale producers. They will only be enabled to do so (or more will be enabled to do so) when their real issues are understood, and when the essential challenge of the public-private partnership are addressed through government and donor action to strengthen the opportunities of both small and larger scale private agricultural actors – particularly where the interests of both overlap.
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7. Policies and Strategies for Sustainable Agriculture and Forestry Development in Nicaragua

Jorge Rodríguez R.28

7.1. Introduction

The agricultural sector in Nicaragua is the most important economic sector of the country. Agriculture and agro-industries amount to approximately 40 percent of Nicaragua's Gross Domestic Product (GDP). Small farmers’ significance in agriculture is paramount since they support the production of most of the staple food crops.

The development activities of the Government of Nicaragua are currently based on the National Development Plan (Plan Nacional de Desarrollo - Operacional - PND-O)29 and the National Poverty Reduction Strategy (Estrategia Reforzada de Crecimiento Económico y Reducción de la Pobreza - ERCERP, 2001)30, which give a basis also for the Strategy for Rural Production (la Estrategia de Desarrollo Rural Productivo - EDRP). The Sector Policy for Agriculture in Nicaragua (Política Sectorial Agropecuaria de Nicaragua – PSAN)31, described in this paper, is built on these high-level policy papers. Furthermore, Nicaraguan government is in a process to elaborate a sector programme, PRORURAL, which would implement the policies already established. The programme aims at harmonising the efforts of the Government and donors in this sector.

PSAN's overall role is to establish criteria to guide actions to be taken to develop the agricultural sector of Nicaragua towards improved productivity, growth and employment generation. The vision of PSAN is to establish favourable conditions for efficiency and competitiveness within the sector to increase the added value for supply chains without creating risks to environment. In order to achieve the vision, the modernisation of public and private institutions is needed together with the promotion of producer associations and the building of entrepreneurial alliances. The biggest challenge for the sector is the successful integration to the world markets. The main objective of PSAN is to, in a sustainable manner, improve incomes and income distribution within the sector and the standard of living of rural households – by, at the same time, protecting the environment and natural resources.

The Policy has a territorial focus proposing different strategic options for the different geographical zones, which are defined according to their potential for development and increased production (both agricultural and non-agricultural). Short-, medium- and long-term goals help to prioritise the activities and, thus, reverse the decline of public

28 Director, Strategic Planning and Rural Development, Ministry of Agriculture, Nicaragua.
29 http://www.pnd.gob.ni/documentosPDF_English.shtm
30 http://www.cisas.org.ni/prsp/indexsfe.htm
31 http://www.magfor.gob.ni/ministerio/descargas/poliagro.pdf
expenditure to "rural productive sector". PSAN was updated after the finalisation of the PND-O, and a concrete plan for its realisation will be established in the PRORURAL.

This paper presents the objectives, vision and the structure of PSAN, which is proposed to be the guiding document for the development of the agricultural and forestry sectors in Nicaragua. The paper also describes the main ideas of PRORURAL sector programme.

7.2. Background

Nicaragua is an agrarian nation, with agricultural production amounting to 28 percent of the country’s GDP. Together with the other agro-industry, its share of the GDP amounts to 40 percent. Further, 41.7 percent of the population lives in rural areas, of whom 68 percent are below the poverty line (in 2003). Rural poverty has, however, diminished somewhat from 1973 when it was 76 percent (INEC, 2003).

In spite of the recent growth of the agricultural sector in the national economy, the contribution of the sector to the GDP is still below the level of the late 1970s. The sectoral growth is rather due to the increase of cultivated land areas than to increased productivity. In fact, for certain products, yields even lower than those from the past decades have been observed. In the last decade, an important amount of work, technological resources and other development actions have been directed towards improving the productivity and income of farmers (Nitlapan, 2004). However, results have not so far fulfilled the expectations.

Agriculture in Nicaragua has been characterised by low efficiency and impact of public investments to the sector; persisting rural poverty; low economic dynamism, competitiveness and productivity of inputs; and dispersed and disjointed rural investments. Nicaragua’s main agricultural products are coffee, sugar, staple grains (rice, corn, beans), tobacco, meat and milk. The production of staple grains is to a large extent carried out by small-scale farmers. Small-scale farmers, therefore, support the food security of the entire population, and thus, have a very important role in the country as they provide the basis for stability and peace for the country. The development of the agricultural sector requires well-targeted policies, which can be modified according to varied conditions in different production zones.

Up to now, agricultural policies have been ineffective due to being narrowly focused on products. Traditionally, these policies have been defined without considering the diversity and variety in the potential of different actors and areas of the country. The lack of an analytical framework that takes into account the social and regional diversity of agricultural production, and the lack of reliable statistical information have made it difficult to design and formulate agrarian policies and development programmes that effectively target the differentiated problems of the rural areas. The PSAN offers an
increasingly analysed approach to the country’s agricultural policies in order to correct these deficiencies.

Through PND-O, the Government of Nicaragua has opened up a consulting process with the public, private, and civil society organisations and institutions, both national and international, in order to build a shared vision of the economic, social and institutional development of Nicaragua. The same approach was adopted in the drafting of PSAN in order to strengthen the commitment of different stakeholders that are needed in the implementation of the Strategy. This is necessary, since the implementation requires substantial changes in the roles and responsibilities between the state, the private sector, and civil organisations. Institutions and legislation need to be modified, and the attitudes and behaviour of civil servants and technicians needs to be changed. Incentives should be directed to enhance the competitiveness of the entire agricultural chain, including (or especially) the producer association level. The attempt is to gain the advantages of economies of scale, which are attainable through larger production volumes. In addition, the Strategy aspires to improve the availability of public services for farmers to facilitate their possibilities to add value to Nicaraguan products and to reach international standards through encouraging public and private institutions co-ordination. Moreover, a reversal of the current inefficient resource allocation is needed: the system should move towards decentralising resources in order to increasingly reach the producers.

7.3. Revising the Economic Basis

Nicaragua's PND-O focuses on a qualitative jump that should allow a strengthened economic base, new opportunities, safety and security. This leap entails improving the country's current income sources, which at present repose heavily on international aid, remittances and the trade of primary export products.

The economy is currently heavily supported by external resources. Nicaragua is spending more wealth than it is generating, which is unsustainable in the long run. To reverse the situation, the Nicaraguan economy needs to strengthen its internal capital generation and private investments. Apart from the international aid and the remittances, the productive sector needs to be strengthened by altering the current income generation structure, and by establishing a favourable environment for entrepreneurial activities.

Nicaragua’s engines of development should be built on national and foreign private investments. Improving the profitability of the rural economy requires that its productive and commercial structure be transformed towards a diversified, industrialised and area-specific one. An area-specific strategy would be able to unchain a simultaneous double effect. Firstly, it takes benefits from the territorial comparative advantages: resources, location, and microenvironments through which it can create economies of scale by integrating and associating small and medium entrepreneurs. Secondly, it strengthens
regional growth dynamics by promoting the development of intermediate cities and productive infrastructure, by linking production centres to ports, and by developing both urban and rural social infrastructure. This would create opportunities for the people and maintain labour in these areas.

The path to achieve the development objectives should be based on an economic structure that is diversified, integrated and more equitable in distributing wealth. In this transformation, the rural areas play a fundamental role providing both labour and production possibilities. PSAN is one step for operationalising this transformation in the agricultural sector of Nicaragua.

7.4. Vision and Mission of Sectoral Strategy for Agriculture in Nicaragua

7.4.1. Vision

The vision of PSAN spans 20 years and pictures as the end result a productive and competitive rural economy producing quality services and products of international quality based on the preservation and protection of natural resources and health. The increased productivity of capital (land, physical, human, social and natural capital) and the improved potential of trade and access to markets are achieved by making productive activities and rural services profitable. Productivity can be measured by the amount of quality goods and services generated for the world market, with more profound agro-industrial processing and integration, for improved international trade balance. Finally, a new public and private institutional structure based on shared responsibility and well-defined functions is in order. The promotion of, for example, producers associations and entrepreneurs for establishing profitable units helps to achieve economies of scale and further the development of technical and managerial capacity.

7.4.2. Mission

The means to achieve this vision are varied. They include achieving a rural economy oriented to generate profitable and competitive goods and services through the development of human, social and physic capital, developing infrastructure (roads, energy, communications), and strengthening productive chains integrating primary producers (farmers) and agro-industry.

One of the necessary changes is to take a demand-based approach, which orients the production according to market opportunities. Production should focus both on export and on substituting the present import of products. This requires stronger linkages between small and medium sized producers. PSAN strives to break the isolation of small-
scale farmers by promoting linkages within the production chains including production, storing, processing and marketing, thereby improving their possibilities for development.

The strengthened production chains also improve the ability of agro-industry to add value to produce, which generates more foreign exchange and creates employment opportunities, thus reducing poverty. The boosted agricultural production chains can produce attractive and nutritious products, which comply with international quality standards. This requires that attention must be given to productivity and competitiveness aspects, which is the guiding principle for PSAN.

For the sector as whole, it is important to venture towards diversification and the use of the best possible technology. The Nicaraguan products are at the moment vulnerable to price fluctuations. The vulnerability can be fought by increasing the number of different produce and thereby increasing the number of market niches, and by raising the level of technology. Natural resources lay the foundation for agricultural production and their sustainable use must be ensured. PSAN has also diversified its approach depending on agro-ecological conditions, culture and professional capacities of different zones in order to facilitate the strengthening of area-specific production chains.

One of the main features of PSAN is the modern approach dividing the institutional responsibility between private and public institutions. The state is seen as a facilitator of activities, and its main function is to provide favourable conditions for business and to ensure the necessary welfare of the people. While encouraging the private sector to engage in productive activities, the state establishes clear rules for security, justice and democracy. The human capacity in technical and management issues is critical for the achievement of the above-mentioned developments in all levels of the production chains.

7.4.3. Objectives of the Strategy

The general objective is to generate wealth in the agricultural sector to increase income and its distribution and the welfare of the people in a sustainable manner. This will be based on a demand-based and market-oriented approach improving profitability, competitiveness, adding value and generating employment, promoting local and regional development and preserving the environment and natural resources.

The specific objectives are diverse:

1. To establish diversified productive structures using state-of-the-art technology
2. To promote agro-industry to add value to produce
3. To promote associations of different actors of the production chain
4. To promote basic infrastructure for production (roads, ports, storage facilities, electricity, cold chains)
5. To reduce vulnerability by strengthening the protection of environment and natural resources
6. To resolve the questions related to land tenure and to provide a favourable environment for business
7. To establish a sustainable and competitive financial and banking sector
8. To promote technical and managerial capacity to sustain the production chains
9. To build a new institutional structure to support the sector combining the forces of both private and public sectors as well as international aid agencies.

7.4.4. Challenges to the Strategy

It is important to identify the limitations for the implementation of PSAN. MAGFOR has identified ten different areas of hindering factors for agricultural sector development.

Most of the markets for agricultural produce are imperfect and undeveloped which favours oligopolies and oligopsonies. The customs system is heavy and bureaucratic. The systems to pass market and price information are weak and producers lack access to this information.

The present situation in the sector shows a low level of integration. Produce is not processed and services necessary for ensuring quality (packaging, labelling, quality control, phytosanitary measures, certification procedures) are insufficient.

Land tenure is one of the largest limiting factors for agricultural development. Unsure land tenure makes it difficult to use land as collateral, thereby stemming investment in rural areas. Nicaragua needs clear legislation and regulations, and reliable institutions to follow up these to boost the development in this sector.

Infrastructure and services form the backbone of any productive sector. However, in the agricultural sector these are even more challenging. Investing in basic infrastructure (i.e. roads, electricity, storage and refrigeration facilities, ports), as well as in communication services helps to improve competitiveness.

At the moment, agricultural producers in Nicaragua use backward technology compared to other countries in the region. This can be seen in the average production figure, which lags behind the regional averages (52 percent for maize, 37 for rice and 33 for beans). Also, the extension services cover only 15 percent of the producers. The extension
services are not sought after due to, among others, the low profitability of the activities, the low income of farmers, illiteracy and resistance to changes.

The financial services of Nicaragua are restrictive and expensive. The level of interest rates is high, as are the transaction costs. Borrowers also have a low capacity to provide collateral against their loans.

The institutions, including public and private institutions as well as international aid agencies, are dispersed and there is little concerted action in the sector. There are several issues required to strengthen coordination and collaboration of different institutions, one of them being the instability and insecurity of employment in the sector. The same lack of coordination can be seen among producers. There is a need to promote associations of small and medium sized producers to strengthen their capacity to attend to their interest and to reach economies of scale.

The agricultural sector in Nicaragua is pestered by traditional, non-innovative culture, which is probably linked to the low level of education of the producers. 62 percent of them have attended school for less than three years.

Nicaraguan agriculture confronts several risks related to frequent natural disasters and economic vulnerability. Within the last ten years, there have been volcanic eruptions, the hurricane Mitch, droughts and floods. In addition, the low world market price for coffee has hit the country's economy hard. There is no guarantee that these risks will not materialise also in the future.

7.4.5. Geographically Based Development Plans

Rural development is a social, productive and institutional transformation process with the overall objective to reduce poverty. The geographical basis for rural development makes it more equitable and sustainable, founding its activities on areas' and population's capacities. It rationalises production and the use of natural resources, and ties rural population to their home areas through the generation of employment and the provision of income opportunities.

The geographically based approach promotes the use of local productive resources and institutions. The result is a comprehensive development scheme, which improves the sustainable use of natural resources and derived environmental services. It also promotes improvements in human resources. The participation of local governments and institutions should facilitate the participation of the people and provide them with opportunities to benefit from progress.
Each territory should be able to profit from its specific comparative advantages and conditions for producing for both domestic and international markets. The zones have been divided according to their development potential both building on successful current development efforts as well as assessing new production alternatives according to market demands. MAGFOR has divided the country in six zones: The Reactivation Zone, The Diversification Zone, The Dry Zone, The Agricultural Frontier Zone, The Conservation and Forestry Development Zone, and The Frontier Zone.

7.4.6. The Reactivation Zone

Areas belonging to the agro-industrial development zone have fertile soils, good rain regime and both surface and underground water resources available for irrigation use. These areas could be developed for intensive agricultural and forestry production, and should be linked to appropriate agro-industrial enterprises. The Reactivation Zone is also characterised by good infrastructure and services to support production.

The promotion of diversified, profitable production allows boosting the production of oily plants, as well as building up of vegetable oil and animal feed industries, sugarcane-sugar-rum and alcohol production. The growing of shrimp and tilapia is a sector to be promoted in the short term because of its importance in the area. In the middle term, an industrial cluster could be created for shrimp and fish.

In the short term, the commercial production of fruits and supporting industries will be promoted, as well as the development of forest plantations and the intensive production of rice and beans. Cattle rearing, and poultry and pork production will be promoted in the middle term along with enhancing the supporting agro-industry.

7.4.7. The Diversification Zone

This zone has excellent soil and climate conditions for agricultural and forestry production and is currently supplying most of the national production of staple grains, vegetables, coffee, wood, milk and meat. However, the zone is less developed; it has poorer infrastructure, low road density and scattered settlements, which is a serious obstacle for the development of the areas.

The development objective is to create diversified and competitive agricultural production in this zone. In some areas, the development of cattle rearing and the centres for processing meat and dairy products should be promoted together with the adoption of combined forestry and cattle raising systems. In coffee production areas, a renewed focus on coffee cultivation is proposed to be developed into a “coffee cluster” promoting adding value to produce and to invest in quality improvement.
The development of products like cacao and spices will also be promoted, as well as the production of corn and red and black beans for export. Moreover, the promoted products include tuber crops, ferns, flowers and vegetables that have huge market potential, good prices and a high demand for labour.

Nevertheless, investments in road infrastructure, electricity and basic services should be prioritised. In addition, agricultural services such as quality control, animal health and disease control for vegetables together with credit institutions are other priorities.

7.4.8. The Dry Zone

The soils and production potential are limited to cattle rearing together with rice and sugarcane cultivation in this zone. Currently, extensive cattle production is the dominating trade and more favourable soils are dedicated to grains and fruits.

Some areas of this Zone have high agricultural potential, provided that shallow underground water aquifers are available for irrigation. This makes beef production and rice and large-scale sugarcane cultivation feasible. In the short term, the promotion and improvement of meat and dairy production as well as the development of fruits and canned goods are considered.

There are areas in the Dry Zone, which are fragile and have low agricultural potential. Fragile, very stony soils with irregular rains do not favour agricultural activities. Emergency and social assistance programmes have been the predominant intervention schemes when grain production has failed. At the local level, alternative non-agricultural livelihood strategies should be promoted.

In the short term, management systems related to the recovery of forest areas; the diversification of production systems including forestry development, fruit trees plantations, and agro-forestry for energy should be promoted together with the development of non-agricultural alternatives, such as handicrafts, tourism and small industries. In addition, development of the economic and social infrastructure (health, education and social assistance for vulnerable populations) is needed.

7.4.9. The Agricultural Frontier Zone

This Zone is characterised by the advancing agricultural and livestock activities along the Central Region’s eastern strip of Nicaragua. The advancement of agricultural production is threatening the forest areas still covering the majority of the Zone.
Agricultural activities in the Zone should be restricted to schemes of agro-forestry and schemes integrating forestry and cattle production systems. Programmes of reforestation, natural regeneration, and establishment of high commercial value plantations should be promoted. Likewise, a special attention should be paid to land title programmes and the promotion of partnership schemes among producers.

The diversification of production is especially important in this region for maintaining the environmental balance, securing protected areas and eco-tourism. Cultivation of perennial crops such as citrus fruits and cacao should be promoted. The middle-term efforts should be concentrated on the development of forest industries, cacao, fruits and the cultivation of tuber crops.

7.4.10. The Conservation and Forestry Development Zone

In this Zone, agriculture and livestock keeping are of minor importance. Forestry production is the main trade and should be developed concurrently with protecting the vulnerable natural resource base.

The productive profile is widely diversified, with forest management and preservation activities going together with fishing, shellfish cultivation and the cultivation of oil palm and coconut. Moreover, the production and commercialisation of tuber crops, agro-eco-tourism and beach tourism should be promoted. In the middle term, the enhancement of fishing, lobster and shrimp growing, the processing of African palm oil and the production of coconut are to be considered. The management of protected areas must be tightly related to agro-eco-tourism.

7.4.11. The Frontier Zones

These Zones are economically and socially vulnerable, but politically and economically strategic ones. In such sensitive areas as these, preventive measures and comprehensive social and productive programmes are highly recommended in order to commit and establish the population and develop the areas. Forest management and reforestation are primary activities towards developing sustainable forestry clusters. The forestry area can be used to develop agro-tourism. Fishing and fish cultivation should be developed in the middle term and industrialisation should be considered in the long-term.

7.4.12. Let's Make it a Reality – The PRORURAL Programme

MAGFOR has taken the PND-O seriously and in 2005 hopes to finalise the Sector-Wide Agro-Forestry Programme and a supporting Medium-Term Expenditure Framework,
PRORURAL. The government and the donors have actively planned the programme, which will implement the PND-O in the rural development sector. It is also promoting donor harmonisation and alignment in the sector. To strengthen the dialogue within the country and between the government and the donors, the government has established a system of sector roundtables (Mesas). The Ministry of Economy (MIFIC) presides over a Productivity and Competitiveness roundtable, which coordinates different discussions: for government institutions involved in the sector, and for dialogue between the government and the donors. In addition, the government recently established an Advisory Council for Production and Competitiveness to increase dialogue between public and private sectors.

PRORURAL aims to promote productivity, food security, and sustainable natural resource management in rural areas within a strengthened institutional framework. According to the present draft (January 2005), during the programme’s five-year implementation period, the strategic activities are grouped into four components:

1. Promotion of Agricultural Competitiveness
   a. Technological Innovation and Adoption
   b. Plant and Animal Sanitation
   c. Agro-based Exports
2. Agro-industrial Enterprises
3. Food Security, and
4. Community Management of Natural Resources.

The agencies responsible for the implementation consists of MAGFOR, INTA (Instituto Nicaragüense de Tecnología Agropecuaria), INAFOR (Instituto Nacional Forestal) and IDR (Instituto de Desarrollo Rural).

At the end of the programme, it is expected that increased productivity, food security and sustainable natural resource management have contributed to improved livelihoods of about 400,000 rural households (approximately 80 percent of all rural households).

The programme follows the geographical based plans already defined in PSAN. It also makes an effort to take the differentiated needs of households into account. PRORURAL classifies the rural households into four categories:

- Extremely poor,
- Poor with potential,
- Medium-size producers, and
- Large-scale producers.
The three first categories of producers are targeted by PRORURAL. The geographical areas receive projects focusing on productive activities, social interest and environmental focus depending on their population, poverty and opportunities.

7.5. Conclusions

Nicaragua is determined to improve its productivity and one of the target sectors is rural development. Being predominantly an agrarian country, the primary actors in this effort are small-scale producers. Poverty is most severe in rural areas and thus improvements in income-generation and productivity should directly reduce poverty in the whole country and in particular, in the rural areas.

The government has elaborated the National Development Plan (PND-O), which has served as a basis for the sector policy and the sector-wide programme, PRORURAL. Differentiation on a geographical basis and on a household level should ensure that different layers of society, including small-scale producers, benefit from the development activities in the sector.

A challenge for the government is to harmonise different actors supporting this sector. PRORURAL established a frame for coordinating and aligning both of the government's and the donors’ programmes thereby striving towards a more efficient use of resources. There is a need to involve both the private and public sectors, and civil society to this effort. Different views from different stakeholders are heard through a system of dialogue fora (mesas). The dynamics in the sector should boost the public expenditure directed to it. It remains to be seen how well the programme reaches the rural poor and what its impact to poverty reduction will be.
References


8. Political Power of Small-Scale Farmers and the Role of Farmer Organisations

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8.1. Introduction

This paper discusses the role of farmer organisations and the political power of small-scale farmers in terms of influencing policy change in liberalised trade environment. To address the inherent apolitical power of the small-scale farmers and the role of the farmer organisations, the paper will provide (1) an overview of the operational environment of farmer organisations in southern Africa, (2) the role of farmer organisations under the current operational framework, and policy and trade environment; and (3) political power and influence of small-scale farmers in the farmer organisations, as in the case of the Zambia National Farmers’ Union (ZNFU) and few other farmer organisations in the region. Further, the paper will conclude by highlighting the challenges and constraints faced by the farmer organisations and their membership particularly that of the small-scale farmers which hinders the emancipation of the political power necessary to influence policy direction and influence.

8.2. Background

Agriculture remains the mainstay among the majority of Southern African Development Community (SADC) member states’ economies. As of 2003, it was estimated that up to 80 percent of the SADC population is dependent on agriculture for subsistence, employment and income (SADC, 2003). In addition, agricultural exports are a major foreign exchange earner in most of the SADC states. Irrespective of its dominant economic role in the regional economy, agricultural growth has continued to decline. The regional agricultural sector growth (currently estimated at 1.5 percent annually) is being constrained by a myriad of problems. Broadly, factors hampering agricultural development in the region include: (i) varying and poor micro- and macro-economic environments obtaining in some SADC states; (ii) unfavourable climatic conditions (floods and/or drought); (iii) political instabilities and civil strife in some SADC states; (iv) impacts of the HIV/AIDS pandemic; and (v) effects of globalisation and trade liberalisation.

Out of the above factors constraining agricultural development in the region, of much interest are the attendant effects of globalisation and trade liberalisation, which could be argued to be the most vexing at the moment.

32 Zambia National Farmers’ Union (ZNFU).
Issues of prominent concern in so far as the effects of globalisation and liberalisation on the sector are concerned include:

i) Distortions on the international markets brought about by measures such as high tariffs, non-tariff barriers, and domestic and export subsidies by developed countries. The net effect of this has been extremely limited (lack of) access to the markets of the developed countries by SADC member states;

ii) Varying approaches to trade liberalisation process by SADC member countries. For instance, SADC states are bound by World Trade Organisation (WTO) commitments to phase out their tariffs faster than developed countries phase out their subsidies;

iii) Lack of anti-dumping legislation of agricultural products especially from developed countries at regional level;

iv) Lack of intra-SADC trade and/or underdeveloped domestic agricultural markets. Resultant of this has been the non-existence of a shared regional agricultural marketing information system and intra SADC trade imbalances.

In order to address the current challenges and constraints affecting agricultural development in SADC, both increased government support and private sector participation is needed. SADC member governments should provide support through strong and mutually consensual actions against unfair trading practices. On the other hand, there should also be deliberate national and regional efforts aimed at promoting private sector commitment for increased investments in primary agricultural production, agro-processing and trade.

Furthermore, for any national and regional agricultural development initiative to succeed, especially under the current globalisation and trade liberalisation challenges and constraints, and given government reduction in agricultural support among many SADC states, there is a need for organised and focused farmer organisations\(^\text{33}\) to indispensably play a more central role in fostering agricultural development and protecting the farmers’ interests. In order to safeguard the important role of the agricultural sector in the region, farmers (both small- and large-scale) and agricultural business houses need strong farmer organisations to stimulate, harmonise and rationalise public and private sector agricultural development efforts aimed at empowering the farming fraternity both at national and regional level.

The need for critical participation of farmer organisations in stimulating, harmonising and rationalising national and agricultural development invariably brings into question issues pertaining to legitimacy, credibility and sustainability over time of such farmer organisations.

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\(^{33}\) “Farmers’ organisations are organisations owned and governed by farmers, which work for farmers’ interests. They are organisations by farmers for farmers. These include farmers’ associations, farmers’ unions, agricultural cooperatives and chambers of agriculture” (IFAP, 1995).
Despite repeated pronouncements by governments and donor agencies about the importance of popular participation, Africa's rural producers still generally have little voice in shaping official agricultural and rural development policies. It is sad to note, however, that in other countries where farmer organisations are relatively stronger, indications are that they have been viewed as opposition to government as opposed to partners and conduits for agricultural development.

8.3. Fundamentals and the Role of Farmer Organisations

The International Federation of Agricultural Producers (IFAP) lists the following as the main roles of farmer organisations:

a) Communicating farmers’ needs, problems and recommendations to decision makers.
b) Ensuring participation of farmers in programmes that are intended for their benefit.
c) Providing the essential link between farmers and the research and extension services.
d) Joint marketing and input supply for enhanced bargaining power and economies of scale.
e) Processing agricultural raw materials to ensure that farmers receive their fair share of value added.
f) Farmers’ organisations ensuring effective social and economic development of the agricultural sector on a sustainable basis.
g) Facilitating positive development initiatives at grassroots by working with government on the elaboration of agricultural and rural policy.
h) Providing information and services to farmers in a cost-effective way through their collaboration with national and regional organisations, and with world institutions such as IFAP.

Apart from (d) and (e) which have to do with economic activities, the rest of the farmer organisations' roles can essentially be grouped into two major categories: being that of Policy Influence, and Communication and Information provision to members.

8.3.1. Policy Influence

Policy influence is the function of the political power inherent in a farmer organisation and is measured in following ways:

a) Capacity of a farmer organisation to effectively carry out lobby and advocacy activities.
b) Ability of a farmer organisation to develop well researched position papers to buttress lobbying positions.

c) Ability to mobilise a substantive constituency of farmers to provide the mass or numbers to influence policy change.

d) The farmer organisation should have popularly agreed legal and structural operational framework that allows equal participation of all members in decision-making process of the organisation.

8.3.2. Communication and Information

To be able to maintain a substantive constituency of the membership of a farmer organisation, information and communication to members is critical. It is apparent that information provision is one such member service indispensable to the strength and stability of the farmer organisation. Therefore, an elaborate network of communication and information delivery channel should be designed to effectively reach out to the membership. It is true that member mobilisation is an ongoing process and costly in a farmer organisation but with a workable network of information and communication system, it becomes much easier.

It will be in the attainment of the above broader functions that the political power of farmers, particularly the small-scale farmers, that can be realised. However, there are a number of constraints that affect the functionalities of farmer organisations particularly the small-scale farmers to exert policy direction and influence for the betterment of the membership.

8.3.3. Constraints Affecting Small-Scale Farmers in Farmer Organisations

Like any other institutions operating under the current political and socio-economic environment, farmer organisations in the region face a number of constraining factors that hinder their institutional competence in stimulating, harmonising and rationalising agricultural and trade developments. Mostly, farmer organisations are constrained by their unsound institutional financial resource base, diminishing influence on policy advocacy and lobbying, lack of skilled and competent personnel, poor governance structures and leadership codes.

Unsound financial base

Most farmer organisations lack adequate financial resources to sustain their critical roles to safeguard agricultural production and trade development interests in the region. Since by their very nature, farmer organisations are voluntary and not-for-profit organisations, they tend for this reason, to lack ventures to allow them mobilise by themselves adequate financial resources to undertake and sustain most of their prescribed traditional and
additional roles and functions in the agricultural development arena. As such, the majority of existing farmer organisations depend on membership subscriptions (which are normally inadequate due to the general reluctance by members to pay membership dues timely) for their economical survival. This, in turn, has resulted in many farmer organisations basing their existence on an unsound financial base and certainly without means to perform most key traditional roles and functions, much to the detriment of their members and the agricultural sector at large.

Lack of adequate self-mobilised resources has also resulted in many farmer organisations seeking external financial assistance. This kind of economic survival measure brings with it the potential risks of diluting recipient farmer organisations’ legitimacy, credibility, influence and sustainability. It has been observed in many instances that external funding has associated with it some concealed motives and dictates. In many instances, this has resulted in external influence on institutional policy and programming, redirecting attention away from the affected organisations’ principal goals and objectives. However, withdrawal of such funding can negatively affect the continued existence of such farmer organisations.

*Diminishing influence on policy advocacy and lobbying*

Besides lobbying and advocacy, and information and communication being the principal traditional functions of all the existing farmer organisations, these organisations’ capacity to influence national and regional trade policies and practices has remained undesirably weak. This is a result of the farmer organisations’ inability in most cases to conduct relevant research needed to generate solid data and information needed for effective lobbying and advocacy. It seems for many farmer organisations that they lack scientific evidence on the apparent opportunities, challenges and conflicts between regional integration and uneven levels of agricultural production and trade efficiency with which they can make informed decisions and lobby and/or advocate for better agricultural production and trade policies and practices. The underlying constraining factor again has been the lack of financial resources to undertake such indispensable core ventures effectively.

Farmer organisations have also been unable to create strategic alliances for effective lobbying and advocacy at both national and regional levels. In most SADC states, it has remained commonplace to find not less than two national farmer organisations, operating in competition with one another, but all purporting to be representing/protecting the same farmers’ interests. The net effect of this has been their inherent diminishing of authority and influence at national level. To the contrary, in Zambia, the Zambia National Farmers’ Union (ZNFU) has dominated the status of the main farmer organisation, which represents farmers (both large and small), agribusinesses and corporate entities. Given
the social, political and colonial background of most southern African countries, the Zambian situation is rather unique.

*Lack of skilled and competent personnel*

The majority of farmer organisations in SADC generally have been unable to attract and retain higher calibre personnel again due to limited financial resources. Besides the farmer organisations’ requirements for highly specialised personnel, majority of these organisations fail to create and sustain such personnel structures. Conflicts of interests between the paid leadership (secretariat professional staff) and voluntary leadership (elected farmer representatives) of any given farmer organisation, has been another factor behind high staff turnover in many farmer organisations. For instance, the influence of the voluntary leadership on programming, resource allocation, and representation on certain platform has been a source of such conflicts, which has led in some instances to high staff turnover.

*Poor leadership and membership drive*

Farmer organisations in SADC are also faced with leadership constraints especially with regards to leadership and management skills. Farmer organisations, especially general interest organisations and cooperatives, lack visionary leadership with adequate conceptual and analytical capacities, as well as skills, knowledge and experience needed for strategic institutional management and programming. Lack of such leadership skills is manifest in inadequate capacities by many organisations, especially general interest groups and cooperatives to generate adequate resources to sustain the operations of their organisations. The poor calibre of leaders is sometimes a result of the fact that partisan politics influences the selection of farmer organisation leaders.

On the other hand, lack of adequate appreciation of the importance and benefits of having strong and focused farmer organisations for lobbying and advocacy at national and regional levels by majority of the farmers, especially small-scale farmers (the majority), is another factor threatening the continued survival of farmer organisations in many SADC states. For many small-scale farmers, addressing more general policy issues whose impact is not felt directly and immediately on their day-to-day production activities is obscure and not a compelling enough reason for them to organise and participate in a farmer organisation, let alone pay a meaningful membership fee. The majority of small-scale farmers prefer to only remain reactive to issues affecting their household food security and incomes instead of joining a farmer organisation for that matter. This state of affair seriously undermines and affects the inherent power of the small-scale farmers.
It has also been observed that allocation of membership fees between the various structures of the farmer organisation has often been a bone of contention within farmer organisations. Furthermore, the determination of appropriate fee levels, the absence of updated databases of members and the inability to demonstrate value for money has continued to negatively affect the farmer organisation membership mobilisation. Ultimately, poor membership robs farmer organisations of their much needed membership subscriptions and to some extent of a potential diversified membership pool from which a farmer organisation could elect and form a credible and skilled leadership.

In light of the foregoing, it is clear that the farmer organisations are faced with enormous challenges which need careful planning and strategising for the farmers, particularly the small-scale farmers, to have substantive political power capable of influencing policy change. The challenge is made worse by the fact that governments have taken advantage of small-scale farmers' limited understanding of long term benefits of better policies to weaken them by offering short term incentives such as government input distribution schemes.

8.4. Zambian Perspective

8.4.1. Agricultural Performance

The Zambian situation is not much different from the regional perspective. The agriculture sector has been identified by the government as the key growth sector to achieve sustainable economic growth and generate employment. The sector occupies a critical position in the economy largely due to its capacity to create linkages with other sectors. Good performance of the sector translates into overall improvement in the country’s GDP, creates jobs and expands the tax base. In view of the potential multiplier effects that the sector has on the economy, restoring high and sustained agricultural growth is key to reducing poverty. Over 80 percent of the rural population directly depend on agriculture for food and income. However, most rural agricultural productivity is very low as most farmers, particularly the small-scale farmers, are still using subsistence methods of agricultural production. Behind this is the low level of management skills among small-scale farmers to mobilise and marshal resources in a way that optimises production at the least possible cost. The near absence of regular, predictable and consistent extension services further adds to the low productivity. It has been recognised that the lack of access to stable markets is an important limitation to the growth of small-scale agriculture, especially in food crops. Therefore, finding additional cash crops such as cotton and export vegetables with robust markets can be a means to increasing income substantially and reducing poverty. Poor performance of the agriculture sector has negatively affected food security in the country, requiring imports in many years and foregoing the benefits that come along with good agricultural performance. Although the country has been a net surplus producer and exporter of
maize in the past two years, a fundamental problem still faced by the sector is the lack of adequate investment and of organised workable marketing system.

Given the current operational environment, competitiveness has become central to the sustained growth of agriculture under the new regimes of liberalisation of trade and markets taking place in Zambia and the region. In such a situation, the small-scale farmers are the most hit, thereby they have to be oriented in such a way as to be able to rise to the challenges of the time.

ZNFU, as other farmer organisations in the region, is particularly concerned that trade liberalisation has increased the exposure of farm products to imports entering the country under preferential terms or to actual export subsidies and other unfair trade practices, such as dumping. In other cases, local processors and large-scale consumers prefer imported products. It is also argued that this is compounded by domestic resource and factor costs of production in Zambia. These are considered to be higher than those of regional competitors and are further compounded by the absence of pro-active incentives and purposely established financial outfits that can make available cheap finance to the farming community. Certainly there is a financial gap that needs to be filled. The due diligence process in the pre-allocation credit facilities further disadvantages the small-scale farmers who fall far short of the set criteria set by the few lending financial institutions. These factors are considered to be inhibiting the growth of agriculture and to be driving farmers, particularly small-scale farmers, out of business.

To rise to the challenges, all partners agree that farmers (large and small) as well as processors and merchandisers need to rapidly reposition themselves in the face of increasing competition and changing markets. Both farming and agribusiness sub-sectors must be able to produce competitively and reach out to emerging markets more pro-actively. The alliance should be concerned with both the response of the sector to the liberalised environment and the effectiveness of government policies and the facilitation of support that it is providing. Furthermore, the alliance should seek to develop viable strategies for improving the competitiveness of the sector. Behind everything, is the development of formidable political power to direct and influence government policies to ensure that they remain facilitatory and non-detrimental to the farming community.

Having analysed the challenges, it is therefore important to identify the critical factors that would enhance the competitiveness of the agriculture sector and agro-processing industries in the face of trade liberalisation that is gaining momentum. Such measures include:

- Improving commercial integration among farmers, merchandisers and processors within agricultural value chains, including improvement in risk transfer, technology transfer, product development, logistics and market information transfer.
• Improving farm level competitiveness through better cropping systems, seed selection, cultivation processes, sourcing and application of inputs, grading, sorting, etc. as well as through the volume leveraging of procurement, packaging, storage and transport.

• Defining and characterising new commercial opportunities for third parties in interlinking farm level producers with processors, buyers/resellers, merchandisers and retailers.

• Developing formidable capacity of farmer organisations to mobilise themselves in order to create a substantive constituency operating within an agreed legal and operational framework (upholding constitutionalism and democratic principles) with a sharpened capacity in developing well researched position papers for policy influence to assert a conducive farming business environment. A key aspect in addressing the above proposals is the promotion of farmer-based approaches aimed at enhancing the capacity of farmer organisations in all spheres of their existence.

8.4.2. The Position of Small-Scale Farmers in ZNFU

Zambian small-scale farmers are responsible for the bulk of production for a number of important agricultural commodities such as maize, cotton, oil seeds, cattle, and so forth. Despite Zambia’s colonial historical and legal barriers, which inhibited the effective integration of small and large-scale farmers, ZNFU has managed to effectively create a structure capable of representing the interests of both types of farmers.

In the ZNFU, the small-scale farmers’ District Farmers’ Associations (DFAs) form the basis of farmer self-organisation, and are organised along democratic principles with elected committees. Small-scale farmer DFAs are situated throughout Zambia. The political power of small-scale farmers in the Union surpasses any other membership category of the Union. This is because they represent nearly 67% of the ZNFU council. The Council is the supreme body of the Union with original jurisdiction and control of all policy matters of the Union. The ZNFU constitution promotes equality and universal suffrage when it comes to voting on important decisions in the Union and the constitution provides for simple majority vote decision on most issues.

Furthermore, despite their minimal contribution in terms of income to the Union (under 1 percent), the inherent political power of the small-scale farmers is enormous, propelling the Union’s influence on government. However, the small-scale farmers take cognisance of the fact that for the political power to be evidenced there is a need for a strategic alliance between the large-scale farmers and other players if they are to effectively

34 Under the Farmers Licensing Ordinance Number 30 of 1946 and as amended in 1953, a farmer in Northern Rhodesia (now Zambia) was defined as any person other than “An African or any Company or body of persons, Corporate or incorporated where the controlling interest was held by Africans”. With this definition the Commercial Farmers Bureau (CFB) was up to 1964 essentially a Union for the settler white commercial farmers.
perform the lobby and advocacy activities. Put simply, it would be correct to state the small-scale farmers provide the substantive constituency needed to generate political power and the large-scale farmers provide the financial resources needed for continued member mobilisation and the delivery of member services on day-to-day basis in the ZNFU. The two, i.e., political power and capacity to mobilise oneself, are indispensable. This mutual dependence between large- and small-scale farmers is also very unique and reflects the ZNFU’s leadership and management’s commendable foresight and capacity for strategising. One of the major concerns caused by the small-scale farmer DFAs is that they are characterised by low level of service delivery to members and consequently by a rather low membership.

8.4.3. Farmer Organisations’ General Development Needs

Having identified and analysed some of the challenges and constraints affecting farmer organisations’ operations and existence, the sections below look at the organisational development needs of existing farmer organisations needed to enable such organisations to operate sustainably and in a way responsive to needs of the current members (both small-scale and commercial farmers) and the general agricultural sector. Furthermore, the farmer organisations must improve their institutional strategic planning and operations, promote effective and quality service delivery, conduct relevant research and information dissemination, and command effective lobbying and advocacy.

The identifying of organisational development needs is also meant to assist any future efforts aimed at enhancing political power by orienting existing farmer organisations developmental issues which include the strengthening of the understanding of regional and international trade, supporting the formation of trade fora at regional level, building a shared market information system, promoting regional and international agricultural trade and developing a common approach towards trade liberalisation.

The identified organisational development needs are intertwined and could broadly be referred to as institutional capacity building needs. These needs fall within the general categories of skills training and development, and technical assistance.

8.4.4. Farmer Organisations’ Technical Assistance Needs

One of the keys to a successful agricultural and rural development strategy is having well-organised partners to work with. But effective partnerships are partnerships among equals. Without strong, representative farmer organisations, small-scale farmers are unequal players. Strengthening institutional capacity of farmer organisations is therefore the cornerstone of enhancing partnerships for reaching the rural poor and developing small-scale agriculture and inherent political power. Such can be achieved through targeted technical assistance.
Currently, farmer organisations require technical assistance in the areas of: (i) institutional governance structures establishment and operationalisation; (ii) membership mobilisation (awareness creation); (iii) the establishment of inter-organisational collaboration (regional and international alliances); and (iv) financial resource mobilisation.

8.4.5. Organisational Structure Establishment and Governance

Farmer organisations’ administrative and operational structures need to be strengthened so that they can be an effective force for self-help development. For farmer organisations to be in a position to influence agricultural and rural development policies in their respective countries, there is a need for farmer organisations to be structured aptly in an effective and efficient administrative and operational manner from grassroots to the national, regional and even international levels.

Technical support required in this area should include among other things the reassessment of existing farmer organisation administrative and operational structures to enable the establishment of more appropriate, effective and efficient farmer organisation administrative and operational structures. Steps towards achieving such an organisational establishment should include the development of appropriate constitutions for farmer organisations in the region as a basis for their corporate governance and institutional sustenance.

To allow for the establishment of legitimate, responsive and sustainable national farmer organisations, there is need for technical assistance to facilitate the development of constitutions among farmer organisations, which will embody and strive to institutionalise core issues relating to:

i) Democratic corporate governance, with such attributes like broader member participation, frequently and democratically elected leadership, defined governance and administrative powers, institutional transparency, accountability and discipline amongst others;

ii) Institutional key areas of business, functions and activities, services menu and channels of efficient service delivery for the various organisational members and its affiliates, and means of institutional survival; and

iii) Effective and efficient administrative structures, aptly elaborating affiliates’ relationships (at national, regional and international levels) interse, and the farmer organisations’ relationships with its general membership.

Although the current constitutions of existing different farmer organisations in the region, ZNFU inclusive, contain provisions, which incorporate a part of or most of the governance and organisational structure issues to varying levels of detail, there is a need for a review of such constitutions to make them more attuned to the current dictates.
8.4.6. Membership Mobilisation

There is also a need to provide farmer organisations with technical assistance aimed at membership mobilisation and awareness creation. As mentioned earlier on, the lack of adequate appreciation of the importance and benefits of having strong and focused farmer organisations for lobbying and advocacy on behalf of the majority of farmers is threatening the continued existence of many small-scale farmers based organisations in the region. There is, therefore, a need for technical assistance and awareness creation efforts aimed at:

i) Demonstrating membership benefits and value associated with vibrant and sustainable farmer organisations especially among small-scale farmers in the region;

ii) Designing and establishing easy up-to-date data bases for members; and

iii) Designing and establishing appropriate and acceptable membership fee packages/allocation, and workable collection mechanisms.

The support areas proposed above could also help in establishing elaborated and qualified membership structures, which in many farmer organisations have remained with undistinguished membership structures. Currently, many farmer organisations in the region are facing problems in apportioning membership status to various categories of their eligible members. This in itself poses challenges when prioritising, programming, packaging and delivering services to different mixes of members.

8.4.7. Establishment of Regional and International Farmer Organisations Collaboration

In an increasingly global economy, and amidst the evolving regional integration efforts, there are many international and regional factors that affect the sustainability of the development process in agriculture, especially among small-scale farmers. Issues about access to regional and international markets, safeguard measures against uncompetitive regional and international market behaviour (i.e. a more levelled playing field in international trade) and remunerative agricultural prices need to, amongst others, be taken into account if regional agriculture, especially among small-scale farmers, is to develop.

With such agricultural development needs in the region currently, there is a founded need for institutional capacity building assistance to enable farmer organisations in SADC to reinforce their understanding of regional and international agricultural trade dynamics, to support the formation of regional agricultural trade fora and to build a shared agricultural marketing information system. This will be achieved by providing technical assistance
and investment to enable existing farmer organisations foster strategic inter-organisational cooperation at both regional and international levels. However, for any regional alliance to succeed, there is a need for strong national organisations. Thus, any institutional capacity building aimed at achieving the above regional needs has to begin with national farmers organisations.

Intra-regional farmer organisations' cooperation measures by the existing farmer organisations will greatly assist in tackling regional and international issues currently affecting agricultural development which individual national farmers’ organisations might not competently and influentially deal with single-handedly. Amalgamated farmer organisations in the region could also manage to pool the much-needed resources required for the establishment of a shared agricultural marketing information system, for instance. In the recent past, the farmer organisations in the region established the Southern African Confederation of Agricultural Unions (SACAU), a body envisaged to coordinate and uphold the interest of member farmer organisations at regional level. However, the outfit has suffered a number of setbacks ranging from weaker national farmer organisations and lack of financial base, thereby diminishing the purpose and vision for which it was established.

8.4.8. Financial Resource Mobilisation

Before the liberalisation of markets, governments of developing countries had a major role in directing agriculture and farmers used to lobby them for better prices. Today, liberalisation has made governments and farmers natural partners in development. In some cases, there has been a reversal of roles, with farmer organisations taking over some of the services that were previously provided by the state, e.g. marketing or extension work. Unfortunately, very few farmer organisations are able to take over these service provision roles due to limited financial resources.

Currently, farmer organisations depend mainly on the goodwill of donor agencies for their sustenance due to lack of adequate self-generated financial resources. This makes farmer organisations in the region vulnerable, incompetent to carry out most of their functions and assume new roles, and less strong than they should be. Farmer organisations, therefore, need technical assistance to help them begin generating their own financial resources and to begin operating sustainably.

Investment in this kind of institutional capacity will not only strengthen the administrative and operational structures and means but it will also enable farmer organisations to generate resources needed to run such services and to assume other such responsibilities like those cited above. Furthermore, investment in building farmer organisations’ capacity to generate their own-financial resources will also contribute to
the promotion of democratic structures of governance. There is a need for independent, self-sustaining not-for-profit organisations for farmers by farmers.

**8.4.9. Skills Development / Training Needs**

The skills development / training capacity-building needs of farmer organisations in the SADC are many and vary greatly depending on the diverse membership needs. Farmers, especially small-scale farmers in General Interest Organisations and Cooperatives need to be trained with a broad range of skills in: (i) leadership to ensure effective administration, operation and representation; (ii) advocacy and policy formulation to primarily stimulate, harmonise and rationalise public and private sector agricultural development efforts aimed at empowering the farming fraternity in the region; (iii) agribusiness and entrepreneurship to improve agricultural productivity and profitability; and (iv) ICT to improve communication and information dissemination amongst skills and practices needs.

Farmers need skills such as the ones above for them to make a successful career in agriculture by choice, rather than because there are no other options. It is therefore imperative that development efforts should focus more on people and their organisations, i.e. strengthening farmer skills and institutional competence.

**8.4.10. Leadership Skills Development Support**

To ensure effective administration, operation and representation among farmer organisations in the region, there is a need for leadership skills training. For the farmer organisations to be able to articulate themselves effectively under the current operational environment, vibrant and visionary leadership is indispensable. Therefore, the need for providing skills development packages for the farmer organisations leadership cannot be over-emphasised. Leadership among most farmer organisations is not democratically enshrined and stable. The absence of a defined relationship between the paid leadership (secretariat) and the voluntary leadership (elected leaders) is vividly observed and has often brought a lot wrangles in management of the farmer organisations. This simply goes to underline the absence of constitutionalism among the farmer organisations. Constitutionalism, which demands having a constitution, promotes democratic doctrines, well-defined governance structures and respect for the constitutional provisions as having the force of law, which every member is bound by. To circumvent the pitfalls in terms of the relationship between the paid leadership and the elected leadership, the ZNFU has, as a part of its 2004 program activities, planned to subject its Board of Directors to training (ZNFU, 2004).
For instance, in the Zimbabwe Farmers' Union (ZFU), elections have been delayed for nearly twelve months because of constitutional issues which were being worked on. It is sad to note some farmer organisations, despite advocating presentation and unity, ignoring the principles of democratic governance. Therefore, it becomes clear that intervention should be sought in leadership and democratic principles.

8.4.11. Advocacy and Policy Analysis Support

Stimulating, harmonising and rationalising public and private sector agricultural development efforts aimed at empowering the farming fraternity, particularly the small-scale farmers, with the much needed policy influence preceded by well-researched position papers on various commodity sector industries, is a must for farmer organisations. Lobbying and advocacy are core functions of farmer organisations and underline the traditional foundations of most of the farmer organisations in world today. For any farmer organisation to be effective in lobbying and advocacy, and to continue to be relevant and to be seen to protect the interest of its members, there is need for a strong policy analysis power engine within the structures of the organisation.

In most farmer organisations in the region, the ZNFU inclusive, this has been one of the teething problems in that most of the farmer organisations lack capacity to carry out analyses in various sector commodity industries and come up with position papers that answer most of the frequently asked questions by members. For instance, the newly formed Farmers Union of Malawi has no staff responsible for carrying out policy research and developing commodity sector position papers for its membership, which consists largely of commodity producers. The ZNFU, with a membership of over 33,000, had only one staff in the Policy Research and Business Development Unit - and certainly the output was far short of the demand for service by members.

With trade issues becoming increasingly important at international fora (WTO), and continental (the New Partnership for Africa's Development) and regional economic groupings (COMESA, SADC, etc), this particular pillar in the farmer organisations should be enhanced so as to arm them with the necessary capacity to efficiently service their farmers.

8.4.12. Agribusiness and Entrepreneurship Support

To improve agricultural productivity and profitability, a partnership should be fostered between agribusinesses and farmers. Increased agricultural productivity and profitability is key to creating both operational and financial sustainability among farmer organisations. The reluctance of central governments to provide adequate extension services to farmers has left farmers with no choice but to carry out the task themselves.
Therefore the only sustainable and sure way to ensure the success of this undertaking is through strong partnership between (1) large-scale and small-scale farmers, and (2) agribusinesses and farmers of all sizes through the concept of contract farming. However, to a lesser extent, partnership is still also relevant between government agencies and the private sector. In this case, the agribusinesses and the government ought to collaborate in the provision of improved skills for agricultural production.

Of significance in this area, is the re-orienting of the farmer organisations to how best to be financially independent. Thus, a new thinking should evolve among farmer organisations to generate revenue from other than the traditional sources, which include membership fees, donations, grants, etc. While it is appreciated that by their nature the farmer organisations, at least in most common law countries, are incorporated in such a way that it is intelligibly hard to ever contemplate that the farmer organisations could venture into commercial activities so as to generate revenue. However, partnership with agribusinesses and the creation of a strong link with commodity associations could be the best way out of the financial disabilities of farmer organisations. Intervention, therefore, is sought on how to best achieve this. As observed, some farmer organisations, such as the ZNFU, have already commenced on such initiatives of partnering with the private sector to provide commercial services to farmers with a subordinate view of revenue generation. One such outfit set up by the ZNFU to provide a market channel for small-scale farmers and to generate revenue for the Union is the Zambia Agricultural Marketing Corporation (ZAMAC).

8.4.13. Information Communication Technological Support

Apart from lobbying and advocacy, information and communication to members is yet another functionality that preoccupies the farmer organisations. Thus, to improve communication and information dissemination as one of the skills packages to farmer organisations is vital. The importance of information in any organisation set-up cannot be overemphasised. The global economic trends call for farmers to have access to information and be aware of what is happening around them if they are to make informed decisions in the farming business. There is certainly a need to have, among the farmer organisations both at national and regional level, a focal point from which relevant information is generated and packaged for the membership. Thus, any intervention in the area of information and communication technology should be on two fronts, one at the regional level and the other at the national farmer organisations.

The challenge in this regard is to package the information in such a way to enable it to reach, in a timely manner, small-scale farmers located in the remote country side. It is, however, critical that small-scale farmers are connected to an information system, enabling them to effectively exercise their political power by participating meaningfully in national policy debates and dialogue.
8.5. Conclusions

In conclusion, and in light of the foregoing, it has come apparent that the role of farmer organisations cannot be easily substituted. However, their relevance to the members they represent can only be sustained if they possess the necessary political power to influence policy change. Thus, small-scale farmers should take cognisance of the fact that change is inevitable in the current operational environment and therefore serious efforts should be made to try and depart from the only historical and traditional way the farmer organisations function (lobbying and advocacy, and information provision) to enable the creation of business partnerships with the private sector.

Leadership and good governance structures are essential for the development of farmer organisations with the capacity to articulate the aspirations of farmers thus taking the central role in driving agricultural development in the region forward. The constraints facing farmer organisations are many but challengeable. Political power is necessary both for the long-term survival of farmer organisations and their relevance to the membership. The farmer organisations' political power and influence in Zambia, like most SADC countries, lies in effectively involving small-scale farmers in determining the agenda and the operations of farmer organisations. The ZNFU case is unique and shall require documentation as a case study of how political power can be enhanced by bringing together small- and large-scale farmers for their mutual benefit.
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9. Global Mechanisms Relevant to Small-Scale Farmers in Liberalised Trade Environment

Mehmet Arda

9.1. Introduction

The concept of “liberalised trade environment” can be interpreted in various ways. From the narrowest perspective, it can be linked simply to the outcome of negotiations in the World Trade Organization (WTO) framework. From a somewhat broader point of view, it also comprises certain policies that are put into practice in the context of the implementation of structural adjustment policies. Finally, a more comprehensive interpretation includes changes that are taking place in the structure of world markets, as a result of which the private sector and large companies are exerting a deeper and stronger influence than before on the way that international trade takes place and affects the producers.

In this article, a brief review will first be made of these three different interpretations of liberalised trade environment and their links with problems, particularly new ones, faced by small-scale farmers. Secondly, price issues in agriculture will be examined. Although low and declining prices appear to be a permanent problem and their links with recent liberalisation are not evident, such an examination is called for because prices are among the most immediate concerns for farmers. Moreover, liberal philosophy circumscribes the methods for dealing with them. Thirdly, all this will be followed by a survey of global mechanisms that can address these problems. This survey will attempt to assess these mechanisms from the point of view of their effectiveness and applicability. The focus will be on the impact on small-scale farmers. It will be argued that single-track initiatives are unlikely to achieve the objective of enhancing the capacity of small farmers to obtain benefits from the liberalised trading environment and, in the case of developing countries, of alleviating poverty that is rampant in the rural sector.

9.2. Liberalisation of the Trading Environment

At the outset, it is important to note that all movements towards liberalisation bring with them new rules and conditions that need to be satisfied by various actors in the supply chain. The principal impacts on small producers stem from the difficulties in meeting these conditions, because of their relatively weaker capacity for doing so compared with larger participants in the market.

35 Head, Commodities Branch, United Nations Conference on Trade and Development (UNCTAD). The views expressed are those of the author and not necessarily those of UNCTAD.
9.2.1. Liberalisation in the WTO Context

Agriculture

For farmers, whether small or large, negotiations on agriculture appear as the most directly relevant aspect of the work programme of the WTO. Progress on all three aspects of these negotiations (market access, namely tariffs and related quotas, domestic support and export subsidies) will make the “playing field” more level, and open up opportunities for exporters both in the markets of the countries that will liberalise and in third country markets. While improved market access through such liberalisation would provide an enhanced possibility to export, this does not emerge as an ensured gain for small (or big) producers in world markets. The potential gains for those interested in selling on world markets will only be obtained if supply capacity is there and market entry requirements are satisfied to take advantage of the access opportunities. Small-scale farmers are inherently disadvantaged on both accounts.

Recent history shows that successful suppliers (of all sizes) have prospered where supply capacity and business skills have been developed rather than in countries enjoying preferable market access conditions. Over the last thirty years, the market share of ACP (African, Caribbean and Pacific countries as defined by the EC) and African countries has declined sharply from almost 8 percent of world food exports to less than 4 percent in spite of preferential market access conditions, but the share of countries in Southeast Asia, which are also the successful exporters of manufactured products, has substantially increased.

While the reduction of subsidies (both domestic support and export subsidies) will probably lead to the elimination of some of the oversupply on world markets, to the improved competitiveness of developing country producers and increased prices, small (as well as large) producers in liberalising countries will naturally face increased competition on the domestic market. The problem here is to ensure the livelihoods of small producers. In developed countries that have the financial means, various alternatives can be designed, introduced or improved to deal with the loss of subsidies. Developing countries, however, have only very limited financial means for such support and only a few better-off countries provide support through subsidies. Elimination of subsidies in exporting countries will eliminate an important market distortion, reduce competition for farmers in countries importing subsidised products that compete with domestic supplies, such as meat, cereals, sugar and vegetable oils.

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36 This is not a discussion of the progress of the Doha Work Programme in the WTO. No assessment is made to the various modalities that may be agreed upon. It only covers a general overview of the principles.

37 There are several issues linked to price increases that need to be kept in mind here. One is the fact that many of the rural poor, including many small-scale farmers, are net buyers of food. The second issue, which will be discussed below, is the nature of the pass-through mechanism between international prices and farmgate prices and the way farmgate prices are determined in developing countries.
The example of cotton in Table 1 puts the differences in the levels of support in perspective and shows that even in developing countries with relatively better means than most, subsidies per unit of output are very small but important for poor farmers that benefit from them. In such countries, any reduction, albeit minimal in dollar terms, would be significant from the point of view of their livelihoods. Given the rudimentary administrative and institutional framework in many of them, alternative social programmes would be difficult to implement.

**Table 1.** Direct government assistance provided to cotton (ICAC, 2004)\(^a\).

<table>
<thead>
<tr>
<th>Country</th>
<th>Average assistance (cents/lb)</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>23</td>
</tr>
<tr>
<td>China</td>
<td>17</td>
</tr>
<tr>
<td>Greece</td>
<td>87</td>
</tr>
<tr>
<td>Spain</td>
<td>108</td>
</tr>
<tr>
<td>Turkey</td>
<td>3</td>
</tr>
<tr>
<td>Egypt</td>
<td>9</td>
</tr>
<tr>
<td>Mexico</td>
<td>5</td>
</tr>
</tbody>
</table>

\(^a\)Brazil, Colombia and India sometimes provide some support but did not do so at all in these years.

In developing countries, the main tool of protection against subsidised supplies is agricultural tariffs. These protect farmers without government outlays and their elimination is likely to create bigger problems than the reduction of subsidies. For example, after the liberalisation of tomato concentrate imports in 1994, Senegal, which used to process domestically produced tomatoes and export concentrate, increased its imports of this product from the EU from 62 tons in 1994 to 5,130 tons in 1995, significantly harming local tomato producers and processors. Producers in Trinidad and Tobago complain about their inability to compete with imports following liberalisation. “Most notable were the cases of ice cream producers, vegetable farmers and pork”. With the elimination of surcharges, cabbage and cauliflower imports rose, respectively, twice and by 50 times in value terms between 1997 and 1999 (Trinidad and Tobago, 2000), mainly affecting local small producers. Reduction of tariffs will also lead to significant loss of government revenue.

**Other WTO Agreements**

One important shift in multilateral trade negotiations that started with the Uruguay Round is the advent of positive rule making. Areas that, although linked to trade, have traditionally been the domain of domestic policies, are now part of international trade rules. “In order to participate fully in international trade, governments are required to adopt and implement specific policies, practices and procedures and, one might add,
eventually values, in areas related to trade” (Arda, 2000: 497). Firms, including small farmers, have to abide by them. Sanitary and phytosanitary measures (e.g. traceability), intellectual property rights (e.g. what seeds can be used – for example, exports of roses from India to France were returned because of uncertified plant use), operation of state trading organisations have to confirm to the outcome of the “liberalisation” process.

The General Agreement on Trade in Services of WTO aims to liberalise the retail sector. Although it cannot be said to be a result of this Agreement, as service sectors have been opened up in line with liberalisation, global supermarket chains have increased their dominance of the retail sector in many countries. The requirements for supplying supermarkets are different from those of selling in traditional markets. Here again, while the playing field is becoming more level, rules are becoming more complicated, and only those that can play according to these rules can take part in the game. Small producers everywhere find it more difficult to fulfill the requirements but those in developing countries are further disadvantaged not only because they are poorer, but also because the requisite institutional structure and governmental support are lacking.

9.2.2. Liberalisation under Structural Adjustment Programmes

Structural adjustment programmes, often implemented by developing countries in line with the demands of international financial institutions, generate significant impacts for small-scale farmers. The trade-related liberalisation components of these programmes often go beyond what is agreed at the WTO. Tariffs are reduced below WTO commitments. These include certain macroeconomic policies, such as correcting the overvaluation in exchange rates, eliminate some of the implicit taxing of agriculture (although, in the case of devaluation, increasing domestic prices of imported inputs may cause difficulties). Government support to agriculture is sharply reduced in line with budgetary restraint. The latter reduction is not only in terms of subsidies or guaranteed prices but also leads to a precipitous fall in extension services, which are particularly important for small farmers.

The impact on the farming sector of one significant element of structural adjustment programmes, namely abolishing marketing boards and other governmental support structures for agriculture, including the liberalisation of agricultural credit systems, has been generally negative. Despite the fact that in many cases marketing boards were the instruments of implicit taxation of the farming sector and suffered from inefficiencies and sometimes corruption, they also provided useful services. In many countries, the private sector has been unable to fill the gap and supply these services satisfactorily, basically as a result of its underdevelopment, and unfavourable institutional, legal and

38 It should be noted that this kind of liberalisation is not fully reflected in some developed countries. For example, Canadian and Australian Wheat Boards (Australian has been privatised into Australian Wheat Board Ltd.) account for about 1/3 of world wheat exports. The New Zealand Dairy Board handles about 30 percent of world dairy exports (Murphy, 1999: 6-7).
regulatory frameworks. These services include the provision of information, finance and inputs as well as quality control. For example, in the cocoa market, cocoa from Ghana, which has retained its marketing board unlike many other developing countries, enjoys a quality premium because of the market’s confidence in quality assurance by the government.

Managing exposure to world market price risks and holding products in storage to avoid losses and to benefit from seasonal price variations are among the many new challenges for small farmers in dealing with a liberalised market where governmental support has been discontinued. The demise of governmental finance has also exacerbated the lack of working capital and poor access to credit for small-scale producers (in part as a result of smallholders not having viable collateral and the widespread inability of local banks to secure agricultural loans against, for example, future sales or commodity inventories).

In the first years of liberalisation of domestic agricultural markets, some of the activities of the former government marketing boards were taken over by a range of local traders. Relatively quickly, however, international trading companies or their agents and foreign traders with easy access to finance replaced these traders. Foreign firms, in particular large ones, were able to reach deep into the production, trading and processing levels in these countries. Anecdotal evidence on the impact of these changes on small farmers can be contradictory (UNCTAD, 1999). In some cases farmers were paid promptly and in cash, and enjoyed a slight increase in their share of (in most cases, a declining) world price. On the negative side, however, input use declined and the quality of the product fell. Nevertheless, especially in cases where intermediaries without an established presence in commodity markets act between small producers and large traders, the market does not seem to function and prices received by farmers fluctuate almost randomly, thus losing their economic meaning.

One would expect that without the protective mechanism against price instability at the producer level that existed with marketing boards, producers would be directly subject to the fluctuations in international markets. It is not uncommon, however, for producers to face price instability much bigger than that in the international price and even totally unrelated to it. In October 2004, a small cocoa farmer in Cameroon explained to an UNCTAD team that he was paid for one kilo of cocoa, 100 CFA in 2002, 800 CFA in 2003 and 400 CFA in 2004. The average international prices during the cocoa purchasing period in Cameroon in the corresponding years were respectively, 1224 CFA, 1182 CFA and 1254 CFA. Not only is the variation in local price incomparably higher than that in international price, even the direction of change is contradictory. Better functioning and transparent markets could reduce the haphazard movements in domestic prices. Price risk management instruments are powerful tools for coping with price instability. But any attempt to use them is wrought with special difficulties under these circumstances. A well-functioning domestic market with understandable links with international markets is a necessity in this respect.
Liberalisation under structural adjustment programmes, at least until recently, put almost exclusive emphasis on the workings of the price mechanism and smooth changes based on price signals. The case of the cashew sector reform in Mozambique provides a good example of liberalisation in the commodity sector and reliance on prices as the instigator of change and supply response (McMillan, 2003; McMillan et al., 2002). In the early 1990s, the World Bank prevailed on Mozambique’s government to liberalise the cashew sector and to remove restrictions on exports of raw cashews. The Bank hoped that cashew prices would rise, resources would be allocated more efficiently by moving away from the protected processing sector into other areas, and the output as well as incomes of cashew farmers would be boosted. The policy was met with fierce opposition from the domestic cashew-processing industry, which ironically had just been privatised. Cashew prices rose somewhat but the expected output increase did not materialise. It is estimated that after long and hard efforts by the government, the additional income accruing to the farmers was probably no greater than USD 5.3 million, or USD 5.30 per year for the average cashew-growing household. This has to be looked at in relation to job losses in the cashew-processing sector, which was unable to compete on the international market with Indian processors. One account claims that 90 percent of the sector’s 11,000 workers were unemployed in 2001. There was also a dramatic collapse in cashew tree planting, which led to a failed supply response to the price rise. As in most sub-Saharan Africa, the supply response to price liberalisation was disappointing. Non-price factors appear much more significant in generating a change in small farmers’ behaviour. Information, technology and finance are key factors in this respect.

9.2.3. Liberal International Market Structures for Agricultural Commodities

“Liberalised” markets prompt a connotation of competitive conditions. The more liberalised a market, the more competition would normally be expected. However, for such markets to perform their functions as expected in economic theory, the players in these markets need to be of comparable size and have equal access to information. While these conditions have hardly been satisfied in the past, recent changes in the way international trade is being conducted have generated further difficulties for small farmers.

The increasing presence of large vertically integrated international commodity firms in developing countries, and their direct contacts with small farmers have already been mentioned. Although these buyers sometimes provide useful technical advice as well as financial and market security, often through contract farming, the imbalances in power and access to information are evident, with small farmers being dominated by international buyers.

39 Recently, however, institution building has been increasingly emphasised by the World Bank. This seems a revival of similar views raised in the World Bank particularly in the 1980s.
In markets characterised by low price and income elasticities of demand, especially where atomised suppliers with little bargaining power face large and powerful buyers, as is increasingly the case in most agricultural commodity markets, the bulk of the gains of higher productivity are passed on to buyers. Whether these gains will be passed on to consumers again depends on the structure of markets. This will be the case when markets are competitive. With increasing concentration in the processing stages and distribution chains, and increasing expenditures on activities such as packaging and advertising in developed countries, low prices of commodities do not normally get reflected in lower consumer prices that might increase quantities demanded. The distribution of the value added along the value chains is increasingly determined through the governance of these chains by large international firms.

The gap between the prices paid by the consumer and the international prices is widening (Morriset, 1998) and the share of the producer in the final value of the product is falling. Coffee provides a striking example in this regard. “In the late 1980s and part of the 1990s earnings by coffee producing countries in terms of exports free on board (f.o.b.) were around USD 10-12 billion per year but they have now dropped to around USD 5.5 billion. This contrasts with the continued growth in the value of retail sales in consuming countries from around USD 30 billion in the 1980s to around USD 80 billion at present” (Osorio, 2004). In the 2001/02 cotton season at the time of rock bottom cotton prices, the difference between the price indices for cotton and cotton yarn, produced generally by large firms, was the greatest since the yarn index had first been calculated in 1982 (ICAC, 2002). With increasing concentration in processing stages and distribution chains, low prices of commodities do not normally get reflected in lower consumer prices.

The increasing presence of international distribution firms and supermarket chains in food trade and the retail sector has generated significant impacts on small-scale farmers not only in developing but also in developed countries.40 Their growth and dominance are reflected in the marked surge of foreign direct investment flows into the retailing sector (Reardon and Berdegué, 2002: 376). With the advent of the “global supermarket”, the distinction between world and local markets is fast disappearing. Quality concerns and modern business practices reminiscent of the international markets are being transferred and diffused into domestic markets (Alvarado and Charmel, 2002: 483). This becomes even more so as markets are opened up and competition with imports becomes inevitable. This is true not only in developed and relatively richer developing countries, but also in Africa (Weatherspoon et al., 2003). Those who can meet the requirements of supermarkets in international markets, and only those, are likely to succeed in the higher segments of domestic markets. Efficiency gains imposed by meeting the standards may also lead to higher earnings for the successful farmer.

40 The attaché reports posted on the USDA website http//:www.fas.usda.gov/scriptsw/attacherep/default.asp provide valuable information on the food retail sector in many countries.
Small producers are at a disadvantage under these new trading practices as not only what is produced, but also how and by whom it is produced emerge as important concerns. Firstly, the simple understanding of the exigencies is a complicated matter. Secondly, meeting these exigencies requires investments that small producers are usually unable to undertake individually. Investments for meeting health, safety and quality requirements can range from upgrading management skills to purchasing new equipment and the establishment of quality control and coordination systems. Therefore, the importance of cooperative action among small producers is evident. The large size of the importers, coupled with the necessity to ensure quality, traceability and continuity in supplies bestows an advantage for large farms over smaller ones, stemming from lower transaction costs. This is another reason for small farmers to organise themselves and act cooperatively.

While market access barriers and international trade measures implemented by governments comprise the first hurdle to selling in international markets, clearing this hurdle does not guarantee that a product will appear on retailers’ shelves. For instance, sanitary and phytosanitary (SPS) requirements define the necessary but not the sufficient conditions for being able to export. Many, and in most cases much more stringent, quality and labelling requirements, as well as conditions regarding production and processing practices are imposed by importing firms either individually or collectively as is the case with EurepGAP. Particularly in the case of food items, meeting the requirements of importing firms and distribution and retailing channels is the principal prerequisite for success, and the burden for doing so ultimately falls upon the farmer. These requirements are usually more stringent than the government regulations reflected in measures undertaken in accordance with the requirements of the SPS Agreement. Moreover when requirements are imposed by private enterprises, there is no way to contest them legally, except in situations where rules on competition are violated (UNCTAD, 2002: 11).

9.3. Price Issues

Price related problems of small-scale farmers are of two kinds. Firstly, there is the long-term decline in the real prices of agricultural products, with current levels at historical lows in many cases. Secondly, there is the problem of volatility.

9.3.1. Long Term Decline in Commodity Prices

Caveats have already made about the link between international prices and those received by farmers, in particular small ones. Nevertheless, a pass-through mechanism undeniably exists, albeit imperfect and not instantaneous. Higher prices for their products are

41 (http://www.eurep.org/)
naturally desirable for farmers. We have to be sure, however, about which prices we are referring to. Internationally quoted prices, border prices, farmgate prices tend to be mixed up in many discussions. From the point of view of poor farmers, it is farmgate prices, and from the point of view of countries, it is border prices that count.

As the above example of the cocoa farmer in Cameroon illustrates, there is at best an imperfect relationship among the three sets of prices, particularly between farmgate and international prices. It can even be argued with some conviction that the prices received by small farmers, particularly in developing countries, are residual. They are likely to receive whatever is left after all the (steadily increasing) costs and margins are deducted from the prices that consumers are willing to pay. Left to the operation of imperfect domestic markets, they often fluctuate more than international prices, and without any rational reason.

Real commodity prices quoted for international markets generally exhibit a long-term downward trend in real terms. As seen in Table 2, this is true for all agricultural products over the last four decades. The tropical beverages group, which includes coffee, cocoa and tea, fares the worst. It also represents products grown by small and poor farmers in many developing countries. The vegetable oilseeds and oils group, which faced a critical price situation comparable to tropical beverages 10 years ago, has recovered some of its losses in prices.

Table 2. Commodity prices 1964-2004 (UNCTAD, Commodity Price Bulletin various issues).

<table>
<thead>
<tr>
<th>Product group</th>
<th>Annual indices of monthly averages (1985=100)</th>
<th></th>
<th></th>
<th></th>
<th>Real prices*</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Current USD</td>
<td>Current SDRs</td>
<td>Real prices</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tropical beverages</td>
<td>33    91   55</td>
<td>63   38</td>
<td>89   58   37</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other food</td>
<td>66    152  133</td>
<td>106  91</td>
<td>178  96   88</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vegetable oilseeds</td>
<td>46    107  112</td>
<td>75   77</td>
<td>124  67   7474</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agricultural raw</td>
<td>46    140  126</td>
<td>98   87</td>
<td>124  89   83</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>materials</td>
<td>49    124  155</td>
<td>86   107</td>
<td>132  79   103</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Crude petroleum</td>
<td>8     57   127</td>
<td>39   87</td>
<td>22   35   83</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Current prices in dollars deflated by Manufactures Export Unit Value Index for developed countries.

bOctober 2003-Sept 2004 average.

Special Drawing Rights - an index of the value of a few major currencies.

More rapid growth in supply than in demand exerts a downward pressure on long-term commodity prices. The bringing of new areas into cultivation, and improvements in
productivity, subsidies and other support measures, particularly in developed countries, lead to increased production and lower international prices. These are not necessarily outcomes of liberalisation. However, the liberal political environment determined by the current paradigm precludes the consideration of international supply management and other international action on prices.

Although higher yields could compensate for the decline in real prices and increase revenues per hectare, this has been the case only in very few instances where gains in yields have been spectacular. Among the examples provided in Table 3, cotton in Latin America and the Caribbean is the only such example. Higher yields and better financial returns are generally obtained in new areas brought into cultivation. This is one of the main reasons why output increases even when prices are low. For example, it is estimated that areas dedicated to cotton production in China, Xinjiang; Brazil, Mato Grosso; and Turkey, Southeast Anatolia, expanded by more than one million hectares since 1993/94 despite low prices. An average yield of nearly 1.5 tons per hectare is realised in these new areas, compared to an average yield of around 630 kilograms per hectare in the rest of the world (Estur, 2004: 10). Naturally, the situation varies from country to country and from commodity to commodity, depending on the changes in the proportion of international price accruing to the producer, and on the changes in productivity of each farmer. Moreover, changes in input costs are a crucial element in determining actual net earnings.


<table>
<thead>
<tr>
<th></th>
<th>Coffee</th>
<th>Cocoa</th>
<th>Maize</th>
<th>Cotton</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Price</td>
<td>Price</td>
<td>Price</td>
<td>Price</td>
</tr>
<tr>
<td>Sub-Saharan</td>
<td>21a</td>
<td>122</td>
<td>141</td>
<td>103</td>
</tr>
<tr>
<td>Africa</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Developing</td>
<td>25b</td>
<td>151</td>
<td>109</td>
<td>139</td>
</tr>
<tr>
<td>Asia</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lat. Amer.</td>
<td>22c</td>
<td>147</td>
<td>63</td>
<td>163</td>
</tr>
<tr>
<td>and Carib.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Developed</td>
<td></td>
<td></td>
<td>122</td>
<td>97</td>
</tr>
</tbody>
</table>

*aRobustas.
*bInternational Commodity Agreement indicator 1976.
*cBrazilian and other arabicas.

9.3.2. Price Volatility

In general, commodity prices are inherently more volatile than prices of manufactured products. Apart from lags in (the often imperfect) supply response to price signals and the impact of weather conditions, speculative activity also generates price fluctuations. Price fluctuations have continued to be a characteristic common to almost all commodity
markets, and if anything, their amplitude appears to have increased (UNCTAD, 2003a: 3). This can be seen in Table 4, which gives percentage variations around the exponential trend for selected price indices over two three-year periods.

Table 4. Instability indices for prices: commodity groups and selected products (UNCTAD, secretariat calculations).

<table>
<thead>
<tr>
<th></th>
<th>1989-92</th>
<th>2000-03</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tropical beverages</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coffee</td>
<td>8.2</td>
<td>11.2</td>
</tr>
<tr>
<td>Cocoa</td>
<td>9.1</td>
<td>14.1</td>
</tr>
<tr>
<td>Other food</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wheat</td>
<td>3.6</td>
<td>4.0</td>
</tr>
<tr>
<td>Sugar</td>
<td>12.1</td>
<td>7.0</td>
</tr>
<tr>
<td>Bananas</td>
<td>17.7</td>
<td>20.3</td>
</tr>
<tr>
<td>Vegetable oilseeds</td>
<td></td>
<td></td>
</tr>
<tr>
<td>and oils</td>
<td>6.7</td>
<td>9.3</td>
</tr>
<tr>
<td>Soyabeans oil</td>
<td>3.5</td>
<td>9.1</td>
</tr>
<tr>
<td>Palm oil</td>
<td>10.2</td>
<td>11.3</td>
</tr>
<tr>
<td>Agricultural raw</td>
<td></td>
<td></td>
</tr>
<tr>
<td>materials</td>
<td>3.6</td>
<td>6.0</td>
</tr>
<tr>
<td>Cotton</td>
<td>10.5</td>
<td>15.3</td>
</tr>
<tr>
<td>Rubber</td>
<td>5.7</td>
<td>13.2</td>
</tr>
</tbody>
</table>

A link between liberalisation and the degree of volatility is not evident. While liberalisation, in its manifestation as the demise of governmental support structures, exposes farmers to wider fluctuations, the reduction of subsidies leads to the better functioning of markets and speedier adjustments to supply demand imbalances. Moreover, when a greater proportion of the output is traded on the free market and subject to prices determined there rather than by special arrangements, such as would be the case with sugar, the impact of such imbalances is spread out among a greater volume of trade and this should lead to smaller variations in freely determined prices.

Fluctuations in the f.o.b prices received by the country have important implications for macroeconomic management, and may negatively affect investments in areas relevant to small farmers. Farmers, however, are directly affected by, and need to manage, fluctuations in farmgate prices. For many commodities, risk management instruments exist both for countries and for individual actors. Therefore, these are, in principle, relatively easy to deal with. The institutional framework (including governments’ role) and the capacity to use these instruments are the constraining factors. For other commodities, markets do not function properly and institutions are too weak. The building up of national or regional commodity exchanges is an example in this respect. International support is necessary, however, to improve this institutional framework and improve the capacity to use the instruments.
9.4. International Mechanisms

The problems mentioned above call for a variety of responses and initiatives, at global as well as national or local levels. Some of these are necessarily governmental actions, others can be undertaken privately or by non-governmental organisations or as multi-stakeholder initiatives. Some of these aim at improving the global framework that determines the general conditions affecting small farmers. Actions related to international price levels and commodity specific generic promotion activities fall into this group. The second type of global initiative aims to contribute to and facilitate local actions for the amelioration of local conditions. From a proactive point of view, these include improving competitiveness so that small farmers can abide by the new rules and other market requirements and thus benefit from trade. Avoiding or alleviating hardships such as those caused by excessive price fluctuations falls into the defensive type.

9.4.1. Global Initiatives Dealing with “Global” Issues

Although most of the activities mentioned in this section involve governments, civil society has also been active and successful in initiating global initiatives. The coffee campaign of OXFAM is a good example in this context. Their “coffee rescue plan” aimed at achieving the following goals:

- **Coffee companies paying farmers a decent price so they can send their children to school, afford medicines and enough food.**
- **Increased producer prices through the following measures:**
  - Roaster companies trading only in coffee that meets basic quality standards as proposed by the International Coffee Organisation (ICO).
  - The destruction of at least 5m bags of coffee stocks, funded by roaster companies and rich country governments.
  - The creation of a fund to help poor farmers find other ways of making a living so they are less reliant on coffee.

Initiatives on Commodity Prices

From the point of view of commodity exporters, higher prices are, obviously, a good thing. Whether this leads to oversupply through a positive supply response (when there is no supply management) or whether it affects demand negatively are also important considerations. Supply may be inelastic in the short term, particularly owing to the imperfections in the pass through mechanisms and the inevitable lags, which are especially long in the case of tree crops. In the long term, however, it responds to price changes. Concerning demand, there are two reasons why it would be price-inelastic and

One reason why it should be otherwise. Inelasticity of demand with respect to agricultural prices stems partly from the small share that commodities have in the final price that consumers pay at the retail level and partly from the small share that most of these products have in the total expenditure of consumers, particularly in developed countries. Price elasticity of demand, on the other hand, is relatively high for products that have viable substitutes as intermediate inputs in industry. Cotton, sugar and vegetable oils are prime examples in this regard.

Any action to affect prices, however, is very complicated, as has been observed in the past. Over the years, there have been various attempts by producers and consumers to stabilise commodity prices in International Commodity Agreements (ICAs), or by producers alone to increase them through retention schemes in producers associations. Owing to both economic and political reasons, however, these efforts have not been successful for sustained periods.

When ICAs intervened in the markets, they did so with the aim of stabilising prices. This was done through either buffer stocks or quota mechanisms. Although the aim was always to “stabilise” prices, exporters were really interested in “raising” them, particularly in the light of the generally declining trends. Unless target prices were frequently revised downward, this was what economic conditions would have necessitated anyway. The tools and mechanisms used, however, were inherently inappropriate for going against the trend. When this was tried and done for a relatively long period by the International Tin Agreement, it went bankrupt. Apart from the economic reasons, consuming countries have been seldom supportive of the price stabilising efforts of ICAs, particularly at a time of declining prices. Currently, no international commodity agreement has economic measures directly aimed at influencing prices, and their reintroduction is not seriously contemplated in any agreement.

Producing countries have sometimes attempted to raise prices themselves through supply management and retention schemes in producers associations. Here again, the record is not good. Producers have often broken the strict discipline that is required of them to cap their exports. The latest example has been with coffee in the year 2000 when a decision to retain 20 percent of production could not be implemented, basically owing to increasing exports from Brazil. It was abandoned in early 2001. In some cases, however, such as with rubber, which is produced by a small number of countries, the mere announcement of a supply management scheme has led to rising prices because

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43 Income elasticity of demand for commodities, while being low in developed countries is considerably higher in developing countries with currently low levels of income.

44 This is still possible in the “liberalised trading environment”. The exception provided by GATT applies to commodity agreements of which both exporting and importing countries are members (i.e. to ICAs). Countries which are members of such agreements are permitted under “general exceptions” to the provisions of GATT 1994, Article XX to impose restriction on production, imports and exports, even though they may be inconsistent with its rules, if they are imposed in pursuance the obligations which such agreements impose. Articles XI and XXXVI of GATT also contain wording that could allow such restrictions. Whether “Blue Box provisions” can be interpreted as allowing for supply management has not been discussed.

45 Talking about stabilisation may be politically correct but rationally it is not in many cases. Who would want to stabilise coffee prices at their current level?
implementation of a retention scheme by a small number of countries is much more likely.

One of the main constraints faced by price stabilisation policies, and particularly by retention schemes, has been the difficulty of dealing with the root causes of structural oversupplies. Important exit barriers, lack of information and technical know-how, as well as financial bottlenecks prevent diversification into other products (which, in turn, may be subject to excess supplies). Another important factor that makes supply management difficult is that at times of economic difficulties, in particular foreign exchange crises, the commodity sector appears to present the easiest avenue for increasing a country’s export earnings. Even when this may have a depressing effect on world prices, governments encourage expanding exports. As this often comes with devaluation, farmers’ incomes in local currency may rise while international prices fall.

Analysis of the past experience with schemes to stabilise or increase prices is again attracting interest (Koning et al., 2004). Economic tools are now much more developed than in the past for realistically assessing the possibilities and likely results of market regulation. These tools should be used both for analysis of the past experience and for coming up with alternatives. For example, game-theoretic models about the functioning of coalitions could be helpful in assessing more realistically the likely behaviour of potential participants. Introduction of imperfection in information would also deem more realistic the models that aim to assess the impact of supply management and market intervention on prices. It would be wrong and harmful to base policy suggestions on the results of simplistic and mechanistic models. Apart from simplicity that may verge upon unreality, the results are not robust. Small variations in the elasticities fed into the models can lead to contradictory outcomes. Proposals for market regulation should not fall into the trap of generating figures that seem attractive but are not even approached once they are implemented (as has been the case with figures generated by models about gains from trade liberalisation).

At an informal Geneva meeting of Ambassadors from Commonwealth African developing countries in 2002, the idea was put forward "for [the] exchange of views on the action that could be taken at national and international level to deal with problems posed by declining commodity prices to countries which are heavily dependent on exports of primary commodities”. More recently, the proposal made a part of the WTO non-paper, communicated from Kenya, Uganda and Tanzania (WTO, 2003). The non-paper says that the medium to long-term purpose of any supply management programme should be not to regulate the price of a commodity at a specific level for the foreseeable future, but rather to limit the duration of a programme to a point when the necessary investment from the revenue generated by higher prices could be undertaken to establish domestic processing industries and marketing services for added-value products. The long-term purpose, therefore, would be to relieve countries from dependence on primary commodities.
The major components of the proposal are that the agreement should be on a company/producers level instead of on intergovernmental level and should be led by the private sector; the system should be based on agreed export capacity, and not on agreed export quotas, the linkage with investment of extra revenue obtained in added-value products should be included, some proportion of production capacity should be destructed; the scheme is to begin with a single commodity, and the support of developed countries governments. UN agencies, other governmental and non-governmental organisations, civil society and the Common Fund for Commodities would be important.

Recently, there has been considerable interest in supply management schemes, particularly in the US but also in Europe, which is considered by some to be dumping agricultural products on the world market and where small producers are found to be suffering (IATP, 2004; Ray et al., 2003). While the analysis is fairly novel, there is the implicit assumption that such schemes would be coupled with import controls. From a developmental point of view, limitations on the potential of developing countries’ access to developed country markets are untenable. The proponents of controls argue that any benefits from such access will be reaped by very large producers in relatively developed countries and not by small farmers in poorer ones. This, however, is a different matter than providing or limiting trading opportunities for developing countries.

Short-term global action on prices, which aims to deal with “emergency” situations that go on too long, such as the case with coffee, needs to be considered on an one-off basis. The first necessity is to get rid of the excess stocks that overhang the market. And any destruction of excess stocks needs a global approach. Naturally, so long as the supply capacity that has led to the present situation continues, similar situation is inevitable. Measures to eliminate the flow of excess supplies do not necessarily have to put quantitative limits on production or sales. For example, in 2002, the ICO has introduced the Coffee Quality Improvement Programme (CQP), which consists of target standards for exportable coffee, providing that from 1 October 2002 exporting Members would strive not to export coffee that does not meet certain quality specifications. The CQP also envisages the development of alternative uses for sub-standard coffee. The CQP is designed to improve the balance between supply and demand of coffee by stimulating demand through the provision of a better overall standard of quality to the market. It is also expected to reduce some of the supply pressure through the withdrawal of sub-standard coffee from the market as a result of the quality specifications. Technical changes in coffee processing have recently allowed the use of low quality coffee in blends and demand for cheap, low quality coffee exists. However, there is growing evidence that deteriorating quality in blends is correlated with stagnant or declining output, with price a less significant factor.46

46 Competition exists among different grades of commodities used in blending – for example, to produce instant coffee. Particularly with improvements in technology, which reduces the significance of quality specifications, even small changes in relative prices can lead to significant variations in competitiveness and demand. For example, advances in coffee-processing technology (e.g. steam cleaning for coffee) and longer processing that compensates for poor bean quality in producing cocoa, now allow low-quality raw materials to be included in prestigious blends (International Coffee Organization http://www.ico.org).
As some final remarks on global action on prices through market regulation, one could say that the principal prerequisites for success are sufficient financial resources, at least for some time, and political will that generates a wide participation and resolves the free rider problem. If these are present, schemes can be devised and implemented. Moreover, as mentioned above, international level market regulation deals with international prices, whereas what is important for farmers is the price they receive. Therefore, international schemes that aim to increase prices must have the necessary supplementary measures which would ensure that the farmers benefit. Finally, market regulation efforts should keep in mind that the poor are not just producers, but also important buyers of commodities, in particular food commodities. The majority of the poor in Asia are landless or depend for most of their earnings on off-farm labour; the smaller farmers in Africa tend to be net buyers of food crops; large parts of the population of developing countries now live in cities and are buyers of food.

*Action to Increase Global Generic Demand*

Demand for commodities changes as consumer tastes evolve. This evolution is affected by many factors. For example, tropical fruit have found an important gateway into developed country markets as tourism has flourished. For some others, such as the shift from red meat to white meat, health concerns have been the determining factor. Tastes, however, can be developed or changed through concerted action by producers. Any such action, which would necessarily include publicity campaigns, is too expensive for a single producer (except for promoting a specific origin such as Colombian coffee – where the whole of the industry in the country contributes). Therefore, to avoid the temptation of free riding and staying out, they have to be jointly financed by all concerned. The coffee campaign in Russia organised by the ICO is an example in this connection.

For commodities, two levels of competitiveness can be ascertained (UNCTAD, 2002). At the macro level is the competitiveness of a certain product with respect to others. This can be competition between natural and synthetic items, as for cotton, or between different natural products, such as the sugar and corn syrup and cocoa and other fats used in chocolate. Micro-level competitiveness is that among different suppliers of the same commodity.

The case of cotton provides a good example of competition at the macro level. Cotton’s share in the world fibre market, which was slightly less than 50 percent between the mid-1970s and the early 1990s, has since declined to about 40 percent, and is expected to remain at that level (ICAC, 2002: 27). The causes of this decline are not in the cotton sector but in the proliferation of relatively cheap synthetic fibre supplies, often with government support, particularly in several Asian countries.
In addition to price, factors such as environmental and health considerations also affect the competitiveness of commodities. The rapidly growing demand for organic food, expressed preferences for white meat over red meat, and recent changes in the material composition of cars are examples of this. “Alternative uses” can also increase the demand for a commodity. Expanded use of ethanol utilisation as a fuel has had a significant positive impact on the demand for sugar and other products that can be used for this purpose. Here, governmental legislation plays a crucial role in determining consumption patterns. For some products, such as geotextiles obtained from jute or other hard fibres, which have environmentally preferable characteristics, technical specifications and acceptance by the industry are the critical factors affecting competitiveness.47 Global, rather than individual initiatives are necessary because of both cost-effectiveness and the need to make use of advanced technical skills.

Perceptions and publicity campaigns mounted to form these perceptions crucially influence the competitiveness of one product vis-à-vis another. For example, the “up-market” image of cotton fabrics is an important factor preventing it from losing more market share. This macro-level competitiveness is an area where the suppliers of a product have a common interest and would benefit from global initiatives and cooperation on generic promotion, either globally or on specific target markets, and research that could improve technological attributes of products. In the case of products for which ICAs exist, these bodies would be the right place to deal with such issues. The Coffee Quality Improvement Programme of ICO is an initiative in this vein.

Compensatory Financing for Export Earnings Shortfalls48

Traditionally, international policies at the macro level focused on reducing the instability of international commodity prices, and at compensating countries for export earning shortfalls or import cost increases. In many cases, exposure to price risks was identified as a threat for the success of structural adjustment or debt restructuring efforts, but nothing was done to pro-actively manage this exposure.

Compensatory finance, provided by the International Monetary Fund (IMF) (for exports and imports) and the European Union (STABEX, for exports from ACP countries) has also been ineffective. The IMF’s schemes have hardly been used in the past decade; cumbersome policy conditionalities were the major reason. Various reviews of the operational modalities of the IMF’s lending schemes have not led to much improvement. Thus, in the past, the major source of compensatory finance for export earnings shortfalls was the European Union, which provided grant resources to ACP countries through its

47 The Common Fund for Commodities (CFC), which finances a wide variety of commodity projects also supports activities in areas such as “Utilisation of Sisal Waste for Biogas & Biofertilisers”, and “Composite Applications Using Coir Fibres in Sri Lanka”. For information on CFC, see www.common-fund.org.
48 This part is based on Background note 8, “Dealing with instability – ex-post and ex-ante approaches” in UNCTAD, 2003a.
STABEX vehicle. STABEX, which had proved unsatisfactory in many regards, was replaced by a new vehicle, called FLEX, in the ACP-EU Partnership Agreement signed in Cotonou in June 2000. This Agreement recognised that instability of export earnings may adversely affect development, and therefore set up a system of additional support to provide financing in mitigation of short-term fluctuations. Unfortunately, the new mechanisms to trigger such financing are only little better than those of STABEX; so far, despite disastrously low prices, no use has been made of them. The EU is planning to make improvements in FLEX. After discussion with different stakeholders, the European Commission decided in February 2004 to reshape the FLEX export-income compensation instrument by simplifying the criteria for benefiting from the scheme (e.g. considering the elimination of the eligibility requirements regarding an increase in the public deficit, proposing a preferential 2 percent trigger threshold applied to LDCs and landlocked and island states as well as examining the special case of African cotton producing countries). Further work will be needed to assess the impact of such approaches as well as to review past and potential new schemes (including those using new financial instruments and commodity-risk insurance schemes).

Given the large practical difficulties with traditional compensatory finance, it may be worthwhile for the IMF and the European Commission to consider radically different but much more efficient arrangements. Traditionally, compensatory finance is triggered by export shortfalls (or import cost increases – but the remainder of this section will focus on exports) compared to a moving historic average. But disbursement was often slow because of delays in establishing whether there was a shortfall and discussing to what extent a government was itself responsible for its problems. Furthermore, in the case of the European Union, the funds allocated to STABEX at times fell far short of the shortfalls. It would be much easier if compensatory finance were allocated separately for the two components of earning shortfalls: declines in export volumes, and declines in export prices. Compensatory finance for volume falls can take a form similar to disaster insurance – that is, granted only when volume falls are large. It would be relatively easy to determine whether such large shortfalls are the result of government policies or not. If not, unconditional support should be made available. In the case of earnings shortfalls due to price falls, the cause would normally be external to the country; so again, compensatory finance should be made available without policy conditionalities. Such a new approach would make it possible to convert compensatory finance from an ex-post transfer to an ex-ante insurance; ex-ante, not in the sense that funds will actually be disbursed before the problem occurs, but in the sense that at any moment in time, those eligible to draw on compensatory finance schemes know what “drawing rights” are created by which external events.
Establishment of Standards to Be Met by Producers

Farming is done under very different conditions all over the world. The standards that products have to meet, however, are generally the same for everyone. Some of these are governmental standards, others stem from health, safety and environmental concerns of consumers, and are set by the private sector. The former are under the discipline of SPS and TBT\textsuperscript{49} agreements and can be challenged at the WTO, whereas there is no mechanism to dispute the others. Some of these standards are considered excessively and unnecessarily tight. There is no justification to seek exemptions from the standards because the consumers will not purchase what is considered sub-standard products, except perhaps at very substantial discounts. And a case of non-compliance would lead to the closing of markets.

Globally, a better assessment of the standards, as they are introduced, taking account of the different production conditions in the supplying countries, would contribute to the establishment of a more unbiased system of standards. So far as intergovernmental mechanisms, such as the Codex Alimentarius, are concerned, these countries have the right but not the financial or technical means to participate. Global initiatives can be envisaged to assist developing countries in making their views heard, and enable them to contribute substantively to the process.

\textit{Competition Policy at the Global Level}

There can well be situations, most likely outside the retail domain, where the notion of monopsony power would provide a good framework for investigating possible economic welfare losses occasioned by a firm enjoying a dominant position as a buyer, and that this is especially likely in cases arising in the agricultural sector where something close to monopsony power could produce a deadweight loss in producers' surplus and perhaps even, if downstream markets are insufficiently competitive, some deadweight loss as well in consumer surplus.

The distribution of the value added along the supply chain is affected by the difference in the market power of the agents dealing with each other. Large international firms dominate world markets and enter into commercial relations with much smaller entities. While national rules on competition policy may deal with dominance on domestic markets, there has also been considerable debate in developed countries over the design of appropriate competition law and policy towards buyer power, but this remains a contentious area (UNCTAD, 2003b: 15).

No corresponding mechanism exists regarding the situation in international markets. Nevertheless, there have some been proposals to bring a discipline to concentration in international commodity markets. These include an international review mechanism for

\textsuperscript{49} Technical Barriers to Trade
proposed mergers and acquisitions among agribusiness companies that are present in a number of countries simultaneously, and extending transparency requirements now imposed on state-trading enterprises to companies with 20 percent or more of a national or global market in a given commodity (IATP, 2004).

9.4.2. Global Action to Contribute to and Facilitate the Amelioration of Local Conditions

For farmers, what really matters is the situation at home. Global action can facilitate and contribute to initiatives that operate domestically. Some of these aim to enhance competitiveness, and others to alleviate hardships faced by small farmers in managing their risks. The issues raised below are only indicative, as an exhaustive coverage would be almost impossible to achieve.

Global Support to Enhance Competitiveness and Diversification into Higher Value Added Products

It is worth mentioning at the outset that international resource flows to agriculture, necessary for removing supply side constraints and achieving the objectives stated above, have declined rather than increased in spite of the declarations of the international community to the contrary, for example in the Monterrey Consensus (UN, 2002). According to the Development Assistance Committee of the OECD financial flows to agriculture, which comprised 11.7 percent of the total in 1981-82, declined to 5.6 percent in 2001-2002 (OECD, 2004), and there is no indication that it has rebounded. The Common Fund for Commodities is the only international organisation that provides finance exclusively for the commodities sector. Its meager resources need to be increased.

The Group of Eminent Persons convened by UNCTAD in 2003 included as one of its top priority recommendations the pursuing of possibilities for the creation of a new International Diversification Fund (UNCTAD, 2003c). This Fund would focus on developing private sector capacity. In addition to strengthening the institution-building and other relevant activities mentioned earlier, it would develop strong producer associations, with a proper role for the majority of producers (women); develop key infrastructure; and stimulate investments (e.g. by providing risk capital, or temporary compensation for certain infrastructural weaknesses). The international community has not yet responded favourably to this proposal.

Low productivity is rampant in the agriculture of many developing countries, especially in Africa. For example, maize yields are 1.6 tonnes per hectare in Africa compared to 3.8 tonnes per hectare in Asia (Sachs and Sanchez, 2004), and the gap is not narrowing. In
the midst of what can best be named a benign neglect ("conspiracy of silence" in the words of President Chirac), a significant initiative, which has been launched in April 2004, is the EU Action Plan on Agricultural Commodities, Dependence and Poverty, in which UNCTAD has been designated as one of the partner organisations (EU, 2004). The actual implementation of this initiative, which is expected to provide additional resources for commodity development activities, has not yet started, but UNCTAD expects to participate fully in areas of its competence once the preparations are completed.

As regards enhancing competitiveness, being aware of and understanding market conditions and requirements comes as one of the first prerequisites. Access to usable information is the key factor. There are global information sources, but many of them are costly. UNCTAD’s Infocomm programme provides useful information on several commodities freely on the Internet\textsuperscript{50}. The key is to make it useful for the farming sector in the countries themselves, and work has begun to form partnerships with countries (Cameroon is the first example) to increase the utility of this system for the farming sector. One possibility is participation in the financing of the provision of market information to remote areas (possibly across borders in local languages) by using radio and mobile telephone networks. Required hardware could be supplied through donations.

The ability to meet the standards is very limited among small farmers. In many cases this requires considerable investments, which small farmers are unable to undertake individually. Moreover, institutions and infrastructure for quality control and assurance are lacking. Global initiatives that would provide support in these areas, including both financial and technical assistance is required. Support to farmers’ organisations would also help. International financial support to agriculture has declined sharply. Coupled with the difficulties met by national extension services as a result of budgetary constraints, local capacities for research and training have practically disintegrated. Globally, financial flows to agriculture through bilateral and multilateral public agencies need to be increased.

Owing to the large quantities involved in trade, small farmers are disadvantaged as regards their participation in supply chains. Buying from small suppliers leads to higher transaction costs for the buyers who prefer to deal with a small number of large suppliers. Organisation among small farmers could reduce some of these transaction costs, but it is a complicated venture. International cooperative movements could assist in this area.

Access to finance is an important constraint for the agricultural sector, particularly in developing countries, and especially for small farmers.\textsuperscript{51} In the early 1980s, the interest of governments and donors in agricultural finance started to wane. It has now become “the forgotten half of rural finance”, but the financing problems of farmers, processors

\textsuperscript{50} (www.unctad.org/infocomm)

\textsuperscript{51} The following discussion on financing is based on UNCTAD, 2004a.
and traders in developing countries have not disappeared. In effect, this importance may increase as globalisation creates new opportunities while conditions in commodity markets become more stringent. To supply increasingly demanding international and local (urban) markets, farmers, processors and traders need access to funds to invest in new equipment and systems. Without funds, they can expect to be marginalised. Warehouse receipt finance is probably the simplest technique for providing finance to producers. Other ways of collateral management also exist and finance can be structured around farmers’ purchases and sales. Improvement of the legal environment with respect to ownership rights, bankruptcy, and the transferability of warehouse receipts, contracts and export licenses is a prerequisite for enhancing finance opportunities for farmers, and the international community can provide much help in this respect. Global initiatives could be envisaged to support pilot projects on commodity finance. They should stimulate the exchange of experience between practitioners and government policy makers and help reduce transaction costs by funding the development of blueprints for financing specific commodities.

Regarding finance, UNCTAD has proposed innovative solutions to commodity financing problems, such as the creation of a "global commodity warehousing facility", in which governments would provide extra-territorial status to certain warehouses in their countries; these government guarantees could then be counter-guaranteed by an international organisation such as the World Bank, and the result would be that every producer, processor and trader able to convey his commodities to such a warehouse can get immediate access to credit at international rates, much cheaper than what is now currently available in most developing countries.

One form of relationship between small farmers and large companies that is becoming globally more widespread and which helps in generating mutually beneficial links is **contract farming**. Companies are providing product service offerings to farmers that include an optimised set of fertilizer, seed and chemicals; the financing to acquire this optimised input bundle; a risk management programme including product warranties, options and forward contracting arrangements, and insurance products; and finally a contract or other arrangement to buy the finished product from the producer. Thus, financing is integrated as part of a total product/service bundle – a total systems solution. And in this arrangement the product flow relationship is dominant and is used as a carrier to provide the risk and financial services components of the package (Boehlje et al., 1999). Contract farming provides many opportunities but one problem that may arise is a relation of excessive dependence. Moreover, a successful implementation requires an adequate legal framework that ensures contract compliance by all parties involved.
Support for Coping with Risks

Given the lack of governmental mechanisms to shield producers from price fluctuations, they should be enabled to manage their price risks themselves. Without access to efficient, market-based mechanisms to lay off risks, they are now forced to resort to traditional, costly means to mitigate risks. For example, it has been estimated that in India inefficient risk management strategies into which farmers were forced reduced the average income of poor farmers by 20 per cent (UNCTAD, 2003a). Good price risk management markets exist for many key commodities; and efforts are underway to develop new ones, such as, through the creation of new national or regional commodity exchanges. But many of those most exposed to price risk do not have access to these markets. “Local Transmission Mechanisms” which enable the grouping of the risk management needs of small operators, which can then be laid off in the market, are largely absent (notable exceptions include a number of large cooperatives in Latin America, an innovative government scheme in Mexico, and pilot efforts by a few local banks in East Africa to intermediate risk management transactions for cooperatives). The international community has so far made too little effort to strengthen such Local Transmission Mechanisms, let alone explore the possibilities created by new technologies. Given the large economic cost of price risk exposure, efforts to create the capacity to manage commodity price instability should be a part of all rural development schemes, as well as the various efforts to plan and prioritise development assistance.

A global initiative in this area has been the International Task Force on Commodity Risk Management in Developing Countries. It was established to provide support to producers, developing country organisations and governments to manage the impact of volatility on commodity production and earnings. It was originally set up by the World Bank to give a strong boost to the ability of developing countries to manage commodity price risk. It started very ambitiously, and UNCTAD, which is traditionally, with the Bank, the major institution working on this issue gave its enthusiastic support. Lacking strong support within the Bank and from other organisations, however, the Task Force now has had to reduce its activities.

Regarding risks faced by small producers, an international facility can be envisaged to manage weather risk. Technically feasible, the lack of familiarity of donor organisations with the issue has meant years of pilot projects by the World Bank, and it is not clear how fast the approach will be mainstreamed.
9.5. Conclusions

The problems faced by small-scale farmers are very diverse. For example, the Sao Paulo Consensus (UNCTAD, 2004b), adopted at UNCTAD XI, in particular in its paragraph 100, refers to many of the problems mentioned above, and provides useful guidance regarding action by UNCTAD. Partial solutions and single-track approaches are unlikely to be effective, as has been seen in the past. A coherent, multi-faceted stance, however, requires a global multi-stakeholder participation in the conceptualisation as well as implementation of programmes to deal with the problems of the commodity sector in general, and small farmers, in particular. In this connection, it is necessary to overcome scepticism and find the political will.

To further this "mindset change", an International Task Force on Commodities has been launched at UNCTAD XI (UNCTAD, 2004b: 34). It will examine such global initiatives, provide substantive ideas and give a political boost where warranted. It will help in ensuring networking and synergies between activities of different bodies and different actors, *inter alia* to avoid duplication and ensure coherence, and in generating technical cooperation ideas, building upon technical cooperation projects so that their impacts are enhanced, and identifying technical cooperation projects that fall outside the purview of existing organisations, in particular multi-stakeholder projects.
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PART THREE

Themes and Results of the Working Groups
10. Supply Chains and Small-Scale Farmers

WORKING GROUP 1

This group comprised of 18 participants from Vietnam, Finland, Tanzania, Zambia, US, UK, Nicaragua, and Poland.
Chair: Anthony Mwanaumo; Rapporteur: Camilla Toulmin.

10.1. Discussion

Our initial discussion of assumptions noted that there are many different forms of supply chain. Each kind of market has a different chain linking the producer to the ultimate consumer. Some of these are very short, as when a farmer takes her produce directly to the market for sale to a housewife. Others are far longer and more complex, as when farm produce is collected and bulked for sale through several intermediaries to a major purchasing company, who sells on to a processor. This processor may then sell on again for package and subsequent retail. The requirements of each market chain will differ in terms of quality, timeframe, links to credit and input availability, as well as the technology required.

For many small-scale producers in Africa, it makes more sense to focus on the domestic market rather than seek to penetrate an increasingly difficult market in Europe or North America, where issues of standards and certification create major hurdles for small producers. Estimates suggest that Africa’s domestic food markets currently are more than five times larger than export markets, and they also offer great growth potential over the next 10 years. This is in contrast to the sluggish demand for food in Europe and North America. Africa’s domestic markets will also provide an easier option for many small-scale farmers, since the requirements in terms of standards are lower.

Supply chains also differ in terms of who controls them, and who benefits. Certain commodity chains are characterised by very high levels of corporate concentration at key points in the chain. Thus, for example, most cocoa grinding is carried out by 4 major companies. Similar levels of concentration apply for other bulk commodities, such as coffee, grain and oils. Vertical integration within supply chains allows the companies concerned to exercise considerable power and leverage high levels of profit from paying a low price to producers.

Much of the development debate is couched in language which hides the real relationships at stake. Thus, for example, many harsh economic measures are called “market liberalisation”, while exploitative relationships in which one powerful actor takes all the benefit while shifting the major risks to the weaker actor are called “partnerships”.
The world economy is very complex and changing fast. Any strategies for positioning small-scale farmers better within the global economy must recognise such dynamic change and try to think ahead. Complexity means there must be reliance on those who know the intricacies of certain markets best – the private sector. However, it must clearly be recognised that there is very substantial asymmetry in power and information within supply chains, which makes it harder for small-scale farmers to negotiate effectively.

10.2. Recommendations

A number of recommendations were proposed, recognising that such recommendations need to be tailored according to the supply chain in question, as well as the kind of farmer involved. Certain commodity supply chains may imply a given technology is chosen, since this is demanded if the harvest is to gain access to a particular buying chain. The position faced by farmers in rural worlds 1, 2, and 3 are very different, given highly unequal access to land, inputs, labour, capital and other key assets. There will likely be important interlinkages between actors in Rural World 1, 2, and 3, whether positive or negative. As conditions tighten for the smallest, poorest farmers, it will be especially important to find opportunities for Rural World 3 to gain from Rural World 1 and Rural World 2 such as through employment.

The first set of recommendations cover trade, aid and policy coherence.

1. Rich countries must make their policies more coherent, to ensure that money given out in aid is not taken back two or three times over in damaging impacts from dumping, and over-production due to farm subsidies. Cuts to production subsidies are essential, though other means could be found to maintain income levels for farmers in developed countries, in ways which do not generate systematic surpluses. Export subsidies must be abandoned.

2. Currently, standards and norms for commodities entering European and North American markets are set absurdly high. They are also in continuous escalation. Both public and private standard setting needs to take better account of the damaging effects such escalation brings to small-scale farmers. One means would be to involve farmers and their representatives in the standard setting process in order better to build on farm-level realities.

3. Better consumer labelling needs development to highlight small-scale farmer-friendly production, and fair trade.

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52 Rural World 1. Globally competitive, embedded in agribusiness, commodity producers and processors; Rural World 2. Locally orientated, with access to and control of land, multiple enterprises, undercapitalised, declining terms of trade, the ‘shrinking middle’ of agriculture. Rural World 3. Fragile livelihoods, limited access to productive resources, multi-occupational migrants straddling rural and urban residencies, unskilled and uneducated, dependent on low-waged, ‘casual’ family labour.
Recommendations for national governments include:

1. Means to facilitate trade, and customs procedures so that it is easier to export produce. Better access to market information will also enable smaller scale actors to negotiate more advantageous trade deals. Encouraging investment, for example by providing tax breaks to small businesses.

2. Getting a better deal at WTO on technical barriers to trade, agricultural and export subsidies, as well as tariff escalation will help in the longer term.

3. Farmer organisations would benefit from further support. This includes capacity building to operate effectively in particular commodity chains, help them act as the interface with purchasers, bulk production for marketing, better represent their membership, and provide credit and other inputs. Develop farmer perspectives on setting of standards and certification processes to ensure these are realistic for the large majority of farmers.

4. Innovative risk/insurance schemes for small-scale farmers are worth exploring, as a means to avoid impoverishment and destitution in the event of harvest failure.

5. Action in-country should pay particular attention to the most disadvantaged of rural producers - Rural World 3. Within this group, the position of women is particularly vulnerable in terms of rights to access land and natural resources. Here there may be innovations such as joint registration of land in the name of man and wife, which deserves promotion. Easier access to credit, inputs, wage labour, and skills development can also make a big difference to poorer and more vulnerable producers.
11. Broader Dimensions of Agricultural Policy in the Case of Small-Scale Farmers

WORKING GROUP 2

This group comprised of 15 participants representing the following countries: Finland, Sweden, Nicaragua, Vietnam, Tanzania, Mozambique and Zambia. Chair: Janet Bitegeko; Rapporteur: Mwikisa Likulunga.

11.1. Discussion

The topic of Dimensions of Agricultural Policy on the case of small-scale farmers was discussed at length before the Strengths-Weaknesses-Opportunities and Threats Analysis (SWOT) was developed. Key actors were identified as being important in electing influences on the agricultural policy affecting small-scale farmers. The main actors identified were the government, the private sector or inter-governmental organisations, the civil society, international NGOs, donor governments and the farmers themselves.

Roles of Key Actors

The main roles of the key actors were identified. The main roles, though not exhaustive for each of the key actors are indicated below:

The Role of the Government

The government is responsible for creating a legal system and legislation in support of small-scale farmers e.g. rural law, land ownership, council measures, contract farming etc. Moreover, the government must ensure an enabling environment for investment, trade and operations of small-scale farmers (regulations, taxation, other policies etc), the institutional means to combat multinational companies’ monopoly in terms of contract forming which works to the disadvantage of the farmer. It must further support research on regional arrangement basis, provide agricultural advisory services (e.g. contract farming, subsides etc), market research and negotiation for international trade, and market information and extension service to the farmer. It is the government's duty to remove obstacles for private sector development and act out its general planning role.
Private Sector/Inter-Governmental Organisations

The private sector should carry out objective studies on how to assist the small-scale farmers, participate and lobby international negotiations, ratification of conventions and policy harmonisation, provide technical assistance in capacity building, research and development, extension, training (small-scale farmers to understand production and international trade), carry out dialogue with the government to enhance the role of agriculture and development, develop technology and pool resources to assist small-scale farmers (e.g. regional organisations and continental organisations).

Civil Society's Role

The civil society exists in this context to influence government policy through lobbying and advocacy.

International NGOs' Role

International non-governmental organisations should focus on policy issues and food security which are country specific, provide country specific funding (basket funding) following national development plans. When funding is programme specific, it is difficult to identify the result/impact.

Farmers' Role

The farmers should participate in strengthening farmers' organisations. It is important to identify the kinds of farmers' organisations there are. As a farmer strategy, farmers' organisations should be commodity specific and organised on specific economic activities, for example a sugar campaign – e.g. civil society activity in Kenya.

11.2. SWOT Analysis

Following a lengthy discussion the strengths, weaknesses, opportunities and challenges (threats) with regard to small-scale farmers were identified.

Strengths

There is a large number of small-scale farmers. They function as significant contributors to Gross Domestic Product; producers of employment; providers of stability, security and peace; providers of knowledge of the production process and they have a thorough understanding of the possibilities and limitations of the environment.

Weaknesses
Small-scale farmers need help to get integrated into the production chain. In general, they have poor access to the market, poor access to credit or other type of finance. However, their investment needs may be significant. They are vulnerable to the supermarket chains and concentrated market mechanisms. A good proportion of small-scale farmers tend to produce the same products, and therefore have limited market demand. Moreover, they tend to be poorly organised; politically under-represented and they supply small quantities and low quality products. They are burdened by a lack of comparative advantage in many fields and live in isolated conditions lacking adequate infrastructure.

Opportunities

The opportunities afforded to small-scale farmers include the reallocation of work force through migration, better organisation among the producers (increased bargaining power, spreading of information, self-education), a sense of ownership and improved incentives through established land rights. Achieving comparative advantage is possible, but hard to discover without sufficient market information and technology. The adoption of innovative methods can spur productivity. Opportunities can also be found in the context of public-private partnerships and the reallocation of the work force through migration.

Challenges

Shocks occurring as a result of liberalised trade can be too severe for the small-scale farmers. Challenges can also come in the form of financing of the agricultural sector and fluctuation of world market prices. Farmers need to adapt to demand and consumer behaviour. Furthermore, things to be taken into account include the unequal regional development, the fact that inputs and outputs are market driven, the inconsistent policies and internally contradictory policies of governments and the disease burden, which lowers productivity.
11.3. Recommendations

1. Prioritise rural development policies in the national and international agenda
2. Harmonisation of other national sector policies to support small-scale farmers
3. National and donor governments should assist the small-scale farmers by improving access to technological innovation and research
4. Advocacy of fair play in international trade liberalisation
5. Maintain food security as a global responsibility; small-scale farmers need to be assisted
6. Involvement of all actors in policy formulation
7. Policy framework directed towards the opportunities of the small-scale farmers in the liberalised trade environment
8. Safety nets to cushion the negative impacts of trade liberalisation
9. Empower and encourage small-scale farmers to organise among themselves
10. Encourage public-private partnerships, including investments in value adding chain
11. Strengthen the local and regional markets for products of small-scale farmers
12. Political Power of Small-Scale Farmers and the Role of Producer Organisations

WORKING GROUP 3

The group consisted of 14 participants, from 6 countries (Nicaragua, Tanzania, Zambia, Mozambique, Sweden, and Finland) and 3 continents and as such, represented diverse views and experiences on the topic of discussion.

Chair: Kaisa Karttunen; Rapporteur: Mats Denninger.

12.1. Discussion

One of the most striking problems of farmers' organisations relate to financial situation. This was recognised in the presentation of the Zambian representative but also by the other participants. It was found difficult to reach the grassroots level and get the smallholders to join the organisations. In some cases, organisations do not yet exist at any level and therefore, the group spent some time discussing what would be an appropriate way to help the small-scale farmers to organise themselves. In order for the process to be sustainable, the farmers should not be pushed from above but the need for joining the forces should rather be discovered by farmers themselves. The group discussed about empowerment to allow smallholders to articulate their own needs. Later it should be followed by capacity building, which has a central role in forming and developing any kind of farmers’ organisation.

Although many smallholders’ problems are similar regardless the country, there are also different needs, relating for example to land tenure, rural financing, and agriculture’s role in the national society and economy. Every country has a unique history and therefore, the same farmer organisation model does not necessarily fit in all conditions.

An interesting issue were the links between farmer organisations and the political parties. It was recognised that although many present organisations have their history as partisan movements, nowadays the politics play a smaller role. One participant concluded by stating that regardless the political composition of the government, we need anyhow to get along and negotiate with it.

It was also realised that in order to cope with the trans-national agribusiness and globalisation, national organisations alone are not strong enough. Therefore, farmers’ collaboration is needed also at the regional and global levels.

Since farmers in some cases have lost their faith in the former cooperatives, it was recognised that new types of economic collaboration among farmers would be necessary.
The former cooperatives were not initiated by farmers but rather by the governments and/or political parties, and with donor financing and political protection they grew too large and inefficient, which lead to their collapse after the withdrawal of the external support. Still, economic collaboration was found to be of utmost importance in the liberalised trade environment concerning both domestic and foreign trade.

12.2. Conclusions

Towards the end of the lively debate the group started drafting conclusions. First, the factors shaping the economic environment where smallholder farmers operate today were defined. The following factors can be seen either as challenges and/or opportunities to smallholders:

- WTO-liberalised trade, changes in market access,
- volatility of markets,
- decentralisation processes,
- increasing competition and demand for increased efficiency and productivity
- rate of government involvement in agriculture and national agricultural policies,
- and private traders and trans-national companies.

Also other factors and trends were recognised, such as in some countries HIV/AIDS pandemic and environmental degradation, which have an impact on farmers’ possibilities to operate. The group found that a farmer alone is rather weak to meet the challenges and tap into the new opportunities but by getting together farmers’ can multiply their power.

Then the group moved forward to discuss what is needed from a farmers’ organisation to attract farmers to become members, and to respond to their needs. Three main characteristics were defined:

**Independence**

This covers both financial independence and political integrity. The organisation should be as independent as possible from external financing and political parties in order to be able to defend the needs of its membership.

**Attractiveness**

An attractive farmer organisation, from its membership point of view, is able to represent its members, i.e. act as a spokesman on their behalf. Therefore the agenda of a farmer organisation has to be built to meet the demands of the members. A farmer organisation should have a capacity to influence the policies, which requires a considerable size of the organisation and efficient lobbying. A farmer organisation helps its members to manage
and share risks they face in agriculture. An organisation provides services to members, which may include, for example, training, credits, insurance, economic collaboration, information services (including market information), liaison services, and mediating between various actors. A farmer organisation does not necessarily work on its own but can establish long-term or short-term partnerships and alliances in order to gain more influence.

**Financial sustainability**

The financial sustainability is one of the biggest problems the organisations are faced with. In order to remain financially independent but sustainable the farmer organisations need to explore multiple sources of funding, e.g., membership fees from farmers and member organisations, fundraising, partnerships with donors and other sources of funds, commercial activities such as involvement in trade, and producing commercial services to their members.
13. Global Mechanisms - Links to Small-Scale Farmers' Reality

WORKING GROUP 4

The members of this group were represented by 20 participants coming from UNCTAD, FAO, IFPRI, WIDER, a farmers’ association (MTK), Ministry of Agriculture (in Finland), NGOs and academic institutions. The accounted countries were Malawi, Mozambique, Zambia, Malaysia, China, Turkey, Ireland, Germany and Finland.

Chair: Tom Arnold; Rapporteur: Ellen Huan-Niemi.

13.1. Discussion

The problems are diverse in linking the small-scale farmers to the global mechanisms. Rules made by the World Trade Organization (WTO), structural adjustment policies imposed by the international financial institutions, and changing market structures in the world market for agricultural products are the main pressures endangering the future survival of small-scale farmers. The disparate interest between production efficiency and subsidised production of agricultural products are pitting the developing countries in the South against the developed countries in the North, thus forming a division between North and South in agricultural issues within the global mechanisms.

In poor developing countries, there is a lack of resources and investment for small-scale farming; hence small-scale farmers do not have the means or capacity to enter the domestic or international markets for agricultural products. The weaknesses of linking small-scale farmers to the global mechanisms are listed below:

- Commodity agreements are not functioning well and no other mechanisms are available to replace them;
- Particularly for poor developing countries, small-scale farmers are not able to compete in the world market due to the imposed structural adjustment programs that hindered their capacity to capture the agricultural markets;
- The concentration of buying power within the supply chain may disadvantage the market entry of small producers;
- Limited financial resources available for investment in agriculture due to political neglect;
- No mechanisms available for small holders in risk management;
- Fluctuating and decreasing real prices of agricultural products over time;
- Unable to capitalise on existing opportunities for market access due to limited capacity to enter the markets (market access versus market entry);
- Lack of political will to improve the economic position of rural areas;
- Poorly developed private sector due to the lack of entrepreneurs;
• Lack of farmers’ association or organisation that represent the interest of small-scale farmers.

Therefore, the survival of small-scale farmers in poor developing countries is under the threats listed below:

• Stagnation of the current situation with no further improvement;
• Unfavourable and uneven outcome from the Doha Development Agenda (DDA) under the WTO;
• Incoherent application of structural adjustment policies by the international financial institutions that damage the agricultural production capacity of developing countries;
• Inadequate availability of domestic resources, foreign direct investment, and aid funding;
• Conflicts and civil unrest;
• Poor governance due to the lack of space for civil society to operate;
• The rising and large number of AIDS infections in poor developing countries that incapacitate the workforce available for agriculture, and the devastating impact of AIDS on the structure of society.

13.2. Recommendations

Supportive framework is needed to built and strengthen institutions for small-scale farmers in order to protect them due to the absence of social protection. The strengths listed below should be focused on comprehensively to provide the supportive framework for small-scale farmers:

• The existing national (farmers associations) and international institutions (WTO, UNCTAD, UNDP) must be utilised to the advantage of small-scale farmers;
• The existence of the Millennium Development Goals;
• Models of good practices in several successful developing countries could be applied and serve as an outline for other developing countries.

The existing strengths will serve as a base to capture the opportunities available for small-scale farmers:

• Formation of farmers’ associations and organisations that provide better and more bargaining power for small-scale farmers (mentoring possibilities from developed countries’ farmers’ association through aid programs);
• Develop the rural economy by creating town and village enterprises;
• Improvement in governance;
• Reduce transaction costs through research and adoption of technology;
• Improve information flows and finance (micro-credit) for small-scale farmers;
• Transparency in the pricing of products and market development (commodity exchange at regional level);
• Investment in efficiency (production, processing, marketing);
• Linking buyers and sellers through contractual selling (the supermarket chain phenomena);
• Private investment and establishment of financial institutions for risk management;
• Improvement of infrastructure support for small farmers (packaging, transportation, refrigeration);
• A favourable outcome for developing countries from the negotiations under the Doha Development Agenda in the WTO (development box for food security, etc);
• Linking development assistance to trade facilitation (making market entry possible by taking advantage of the given market access);
• Learning from best practices through global movements;
• Social auditing through national and international NGOs and media.

An optimistic future for small-scale farmers can be foreseen due to the empowerment of small farmers in countries with huge populations like China and India. Markets are becoming more dynamic, and changes could be made to the benefit of small-scale farmers. The wisdom of small farmers is an asset and their future survival is very important to global society.
14. Closing Notes of the Seminar

14.1. Conclusions

Joachim von Braun\textsuperscript{53}
Jukka Kola\textsuperscript{54}

At centre stage in this seminar were strategies and opportunities for small-scale farmers in the context of globalisation. The specific purpose of the seminar was to analyse the liberalisation of agro-food trade and develop recommendations so that the poor, and especially small-scale farmers, can benefit from it.

Of great value was the in-depth information from five developing countries (Mozambique, Nicaragua, Tanzania, Vietnam, and Zambia) presented in general and especially in specific case studies at the seminar. Holding this seminar in Finland, a country that has rapidly transformed from an economy based on agriculture and forestry to a high-income, high-technology economy in a matter of three generations, prompted creative thinking. Finland started to invest consistently in her small farmers after the Second World War. This national decision has been an important factor in the formation and steady development of Finnish society.

14.1.1. General Conclusions

The seminar has been rich in research- and experience-based findings that are relevant for rural and agricultural development policy, as well as for trade policy. Consensus emerged on four broad issues:

First, there was a broad consensus on the relevance of the Millennium Development Goals -in particular the first goal, on poverty -for small farmers. Small-scale farmers and small rural businesses need to be considered in their dual roles, both as targets of the poverty reduction goal and as partners in actually achieving the goal. Small-scale farmers are key agents in creating the necessary rural growth to achieve the goal of poverty reduction. It was noted, however, that the declared goals themselves do not offer a coherent and conceptually sound agenda for action. Global, national, and regional policies need to be in place to translate the goals into strategies and actions. These strategies and action programmes do not exist in many countries, and without them, the goals risk leading to new development frustrations.

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Second, stagnation in rural economies would act as a “push factor,” creating incentives for the sons and daughters of today’s smallholders to look for alternative livelihoods away from the farms. The rapid expansion of information and communications technology (ICT) stimulates new aspirations among younger generations. Bringing ICT in rural areas to significant density can facilitate small farm growth, rural diversification, and market opportunities. If trade opening and liberalisation policies do not help markets reach poor rural communities, young people will migrate to places where they can find market opportunities.

Third, there was broad consensus that trade liberalisation has significant benefits for many low-income countries, at least at an economy wide level. But these benefits will accrue only if developed countries reduce their protectionism and if developing countries reduce trade barriers among themselves. How trade liberalisation will affect wealth distribution and poverty is less clear. Research is lacking in this area, in particular on the dynamic effects of trade liberalisation policies on the poor. Rapid trade policy reform without social safety nets for the poorest people therefore did not find much support at the seminar. Consequently, some seminar participants suggested that governments take a more active role in finding and providing measures to help farmers manage and reduce apparent risks in the liberalisation of agricultural and food trade.

Fourth, seminar participants noted the substantial heterogeneity among small-scale farmers. At least three different types of small-scale farmers need to be distinguished in relation to domestic and international markets: (1) small subsistence farmers who have access only to local markets, (2) small-scale farmers who operate in the national market, and (3) small-scale farmers who have access to international market channels. Strategies for transformation of the small farm sector must take note of these different types. Addressing the diversity of small farmers through appropriate policies and programmes requires trade financing, infrastructure improvement, and institutional innovations, including the strengthening of cooperative and contract farming. It is clear, both in practice and in terms of the new political economy, that small-scale farmers and other rural people need assistance and support to create and maintain well-functioning, efficient organisations. These organisations could then operate as serious pressure groups in competition with other national (and sometimes international) organisations and interest groups. Education and capacity strengthening are key elements to form and run efficient interest groups and organisations. Overall infrastructure and personal abilities to communicate also play important roles in the effort to create efficient organisations and to improve the bargaining power of small-scale farmers and rural people as a whole.

These conclusions lead to some suggestions for action. Each of the papers offered important conclusions, and four working groups provided forums for controversial debate on action proposals, which will not be repeated here.
14.1.2. Recommended Actions

1. Trade policy reform serving developing-country farmers and rural communities must be combined with finance for development. Development finance must adopt a new focus on poor people in the agricultural and rural sectors. Coordinating between trade policy reform and development finance is at the core of aid coherence. Likewise, it is important to harmonise rural development policies with sector policies in support of small-scale farmers.

2. In view of developing countries’ diversity, it is crucial to classify them appropriately, according to their economic and institutional characteristics, for trade negotiations. Otherwise, the identity of winners and losers from trade policy reform will remain less transparent, a situation that could lead to inefficient global trade negotiations with inappropriate special and differential treatments.

3. More investment is needed in public goods that help link small farmers to market opportunities, including infrastructure, contract security, research and technology, and information access. Investment in access to information, innovation, and research that will benefit small farmers remains a major area for public action. Connecting small-scale farmers to market opportunities requires connecting them to knowledge.

4. Social protection, education, and health in rural areas are key elements for successfully managing the transition for small-scale farmers who have the fewest resources. Seminar participants called for due attention to HIV/AIDS, especially in Africa, where small-scale farmers in rural communities are most affected by the disease.

5. Small-scale farmers must be enabled to gain political power through organisations. These organisations must be self-governed and represent their members; they must have the capacity to influence policy; and they must provide member services, such as insurance and credit. They can also strengthen small-scale farmers’ market power. To be effective, these organisations will require financial independence and political integrity. But there is a risk that such organisations will be captured by the local rich. Government facilitation, not subsidisation, is called for. Many countries are undergoing political changes, such as improved civil rights and democratic elections, that may increase access to power for large numbers of small-scale farmers. An appropriate legal framework, together with self-help initiatives in support of farmers’ organisations, is recommended to address the power imbalance.

6. Seminar participants called for a new division of labour among key actors. International and national actors, including governments, civil society organisations, and the private sector, should optimise their respective roles in interactions. Governments in developing countries should focus on facilitating and implementing fair competition policies also in the agriculture sector. Civil society organisations should facilitate collective action, especially among small-scale farmers, in order to achieve more efficient operation both upstream and
downstream in the increasingly complex food chain. The private sector at the national and global levels should recognise that the 2 billion poor people in the world, many of whom are small-scale farmers, can act as business partners. Private sector actors should invest in market development and in integrating poor communities into future-oriented business strategies, especially in rural banking and insurance industries, not merely in input- and output-related processing and trade.

7. It is crucial to achieve sound management of supply chains at the local, regional, and global levels and to address distorted competition. Innovative partnerships between public actors and the private sector are critical for creating opportunities for small farmers in the context of rapidly changing markets. For example, small farmers need improved connections to the retail sector, where food systems and agriculture are increasingly shaped by the supermarket culture.

8. To maintain and develop a vibrant rural economy, special attention should be paid to changes in the social fabric of smallholder communities. The small-scale farm sector is aging and changing its gender composition, mainly because of the rapid migration of young and predominantly male rural workers into the cities. Thus, investing in social protection for the aged and giving women farmers rights related to land and banking are of growing importance. After all, small-scale farming is not just a mode of business, but also a social system. Governing the transformation of small-scale farmers’ communities cannot and should not be done only for these communities, but predominantly by the communities. This approach requires strengthening rural institutions to manage that transformation.

Facilitating rural growth and reducing hunger and poverty in small farm communities would have large benefits for international public goods, including peace and security. Therefore, the theme is of global relevance. It is noteworthy that this seminar was co-organised by three Finnish actors: the Ministry for Foreign Affairs, the Ministry of Agriculture and Forestry, and the Central Union of Agricultural Producers and Forest Owners. Likewise, future challenges facing small farmers must be addressed by such alliances and not just from a single perspective like agricultural trade policy, farm business, or development aid policy. The various perspectives must come together to find feasible and efficient policy solutions.

The seminar organisers were asked to carry this initiative into their respective national development policy making fora, as well as into the European Union’s relevant decision making bodies. In view of the long-term challenge of transforming the small farm sector, seminar participants urged organisers to stay with this important policy theme.
14.2. Closing Speech

Pekka Puustinen
Director
Ministry for Foreign Affairs

Ladies and Gentlemen,

On behalf of the organisers of this seminar, I would like to warmly thank all the participants, especially presenters, chairs and rapporteurs and, of course, the supporting staff. Thank you for the extensive work done. Without your invaluable contribution and expertise, this seminar would simply not have been possible!

It is encouraging to see that small-scale farmers have received your undivided attention during these two days. I believe that if this level of attention is systematically kept up in all decision-making related to this theme, we have a chance to really contribute to cutting in half hunger and poverty as stated in the first MDG.

As we have well noted during the seminar and exchange of views, rural poverty is an extremely complex issue requiring actions by a multitude of stakeholders. We need to involve various levels of actors: individual farmers, farmers associations and organisations, local and national governments and international organisations including the donor community.

As we are closing this seminar, I would like to mention that the outcome of our two days' gathering will be published and distributed to all the participants in the next 3-4 months' time. I hope that the proceedings of the seminar will serve you as a useful tool when you are approaching the policy makers or when you discuss this theme with your constituencies.

Dr. von Braun has very professionally summarised the main results of our seminar so I will present just a couple of personal remarks on the presentations by the four working groups. I think my view on the topics discussed is to a great extent that of a donor government.

Firstly, and personally, I would like to stress the importance of aid coherence. One of the working groups took up the issue of reducing tariff escalation and ensuring a better market access for processed commodities. I think it is fair to say that the OECD countries still have a lot to do in this field.

Secondly, a very important notion was made by another group: small-scale agricultural producers create employment, stability and, eventually, peace. This is important to notice when we think of development from a wider perspective. Small-scale producers produce much more than just agricultural products, they produce such global goods as stability.
The third point of importance is the need of the small-scale producers to organise among themselves. Getting organised is possibly the only effective way for these producers to manage the risks and gain influence on policy makers. This issue has been thoroughly discussed here today.

Now we have to take all these recommendations back home and ensure that they are integrated in our work. As far as my Ministry is concerned, we have to discuss these issues with our colleagues who are in charge of, say, WTO trade negotiations, FAO work, bilateral development cooperation and the World Bank. I think that most of you already know that our Minister for Development Cooperation is also the Minister for Foreign Trade and also in charge of Finnish positions in the ongoing WTO trade negotiations. That should be a good starting point for coherent action.

There is another point I would like to underline. It is the importance of involving all available human resources. This is the reason why the gender aspect becomes important. It is only by taking into account the different roles and responsibilities of men and women that we can harness all our forces to the achievement of the goals set here today.

I really liked the recommendation made by Dr. von Braun when he was urging us to make sure that there will be follow up to this seminar, and that Finland should be active in promoting these ideas within the European Union. Personally, I try to work for this goal and encourage also our fellow Member States to work for the common goal and influence the European Commission. Naturally, it may be a challenge to find consensus within the twenty-five members of the Union.

Finally, I think we have to ensure that agriculture figures high on the overall development agenda. We are approaching the 2005 UN Major Event where the international community will take stock of progress towards MDGs and consider possible new measures to attain them. Hunger is the first MDG and thus food and agricultural production should be on the top of our minds when we prepare for these events.

Once again, I thank you all very much for your contributions to this common endeavour!
# SEMINAR PROGRAMME

## Monday, October 18

<table>
<thead>
<tr>
<th>Time</th>
<th>Session</th>
<th>Chair/Presenter</th>
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<tbody>
<tr>
<td>08.30</td>
<td>Opening of the seminar</td>
<td>Opening speeches by Mr. Pertti Majanen, Under-Secretary of State, Ministry for Foreign Affairs of Finland and Mr. Veli-Pekka Talvela, Director General, Ministry of Agriculture and Forestry</td>
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<tr>
<td>09.00</td>
<td>Monday morning session begins</td>
<td>Chair: Mr. Mafa Chipeta, Director of Policy Assistance Division, Food and Agricultural Organization of the United Nations (FAO)</td>
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<tr>
<td>09.00</td>
<td>Key note: The role of small-scale farmers (SSFs) in a liberalised trade environment</td>
<td>Dr. Joachim von Braun, Director General, IFPRI</td>
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<tr>
<td>10.00</td>
<td>Three Rural Worlds</td>
<td>Dr. Camilla Toulmin, Director, IIED</td>
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<tr>
<td>10.30</td>
<td>SSFs’ role and challenges in developing Africa’s agriculture sector</td>
<td>Dr. Rosebud Kurwijila, Commissioner for Rural Economy and Agriculture, African Union</td>
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<tr>
<td>11.00</td>
<td>Coffee Break</td>
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<tr>
<td>11.30</td>
<td>Case study on Vietnam</td>
<td>Mrs. Chu Thi Hao, Deputy Director-General, Department of Cooperatives and Rural Development, MARD, Vietnam</td>
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<td></td>
<td>Comments and concise case study on China</td>
<td>Prof. Guanghua Wan, senior fellow, WIDER</td>
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<tr>
<td>12.00</td>
<td>Case study on Mozambique</td>
<td>Higino de Marrule, Director, Department of Policy Analysis, Ministry of Agriculture and Rural Development, Mozambique</td>
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<tr>
<td>12.30</td>
<td>Discussion</td>
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<td>13.00</td>
<td>Lunch</td>
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<tr>
<td>14.30</td>
<td>Organisation into thematic groups</td>
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<tr>
<td>14.45</td>
<td>Thematic case study 1: Need for and forms of supply chain management</td>
<td>Chair: Dr. Anthony Mwanaumo, Coordinator, Agricultural Consultative Forum</td>
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<td>Thematic case study 2: Broader Dimensions of Agricultural Policy in the case of SSFs</td>
<td>Presenter: Dr. Gary Howe, Director for Africa Division, IFAD</td>
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<td></td>
<td>Thematic case study 3: Political power of SSFs and the role of producer organisations</td>
<td>Chair: Mrs. Janet Bitegeko, Director, Policy and Planning Department, Ministry of Agriculture and Food Security</td>
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<tr>
<td></td>
<td>Thematic case study 4: Global mechanisms - links to SSFs' reality</td>
<td>Chair: Ms Kaisa Karttunen, Agricultural Counsellor, Embassy of Finland, Rome</td>
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<td></td>
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<td>Presenter: Mr. Jervis Zimba, Zambian National Farmers' Union</td>
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<td>Chair: Tom Arnold, Chief Executive, Concern Worldwide</td>
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<td>Presenter: Mehmet Arda, Head, Commodities Branch, UNCTAD</td>
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<tr>
<td>17.00</td>
<td>Closure of day 1.</td>
<td>Mr Esa Härmälä, President of the Central Union of Agricultural Producers and Forest Owners (MTK)</td>
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<td>tbc</td>
<td>Dinner</td>
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Tuesday, October 19

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<tr>
<th>09.00</th>
<th>Thematic group work continues – SWOT analysis</th>
<th>Group chairpersons</th>
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<tr>
<td></td>
<td>Synthesis of group work</td>
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<tr>
<td>12.00</td>
<td>Lunch</td>
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<tr>
<td>13.30</td>
<td>Tuesday afternoon session begins</td>
<td>Chair: Ms. Alexandra Trzeciak-Duval, Coordinator, Policy Coherence for Development, Organisation for Economic Co-operation and Development (OECD)</td>
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<tr>
<td></td>
<td>Seminar open to the press and public</td>
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<tr>
<td>13.30</td>
<td>Reports by the groups</td>
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<tr>
<td>15.30</td>
<td>Conclusions of the seminar</td>
<td>Dr. Joachim von Braun, Director General, IFPRI</td>
</tr>
<tr>
<td>17.00</td>
<td>Closing of the seminar</td>
<td>Mr. Pekka Puustinen, Director, Ministry for Foreign Affairs of Finland</td>
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Wednesday, October 20

11.00-13.00 Helsinki Sightseeing. Guided bus tour by Helsinki Expert leaves from Sokos Hotel Helsinki.
Appendix 2.

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