



# Turning a Crisis into an Opportunity - Supporting Smallholder-led Poverty Reduction

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Food Crisis Response Program  
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# Key Messages

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- Smallholders are numerically important in addressing poverty
- Support to smallholders can turn a poverty increasing crisis into a poverty reducing opportunity
- “Production safety nets” can catalyze the process
- Sustainability requires broader set of investments based on rapidly changing context of agriculture
- Several key constraints limit realizing these opportunities
- Innovations in both public and private actions are needed to overcome these constraints
- There are a number of good examples which can be expanded and scaled up
- We must ensure that those smallholder families who will not integrate or will do so slowly are not forgotten



# The Smallholder Sector – Why Care?

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- 3/4 of the world's poor live in rural areas
- Over 450 million farms are less than 2 has
- Almost 1/3 of world's population depend on smallholder farming
- Agricultural growth is at least twice as effective in reducing poverty as non-agricultural growth
- For the majority of crops, smallholders are more efficient producers
- Smallholder agriculture systems, particularly the commercial aspects, are increasingly managed by women



# Beyond the dogma – are low food prices really pro-poor?

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- Dogma of “net consumers” and “net producers” for poverty impacts is being reconsidered as basis for policy
- Half of “net consumers” are marginally so, suggesting higher prices could provide incentive to become net producers
- In rural areas, non-farm household incomes are often closely linked to farm incomes which may over-ride positive consumption effect of lower prices
- Overall, lower food prices would transfer income from generally poorer net and near net producers to wealthier net consumers



# So are we wrong on the food price crisis?

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- Crisis is real as there is little existing financial capacity for poor producers to invest in higher productivity and production
- Lagged returns means families are still worse off until harvest
- Household efforts to increase investment could increase risk due to liquidation of assets/indebtedness
- Increased price variability with liberalization increases perceived risk
- Even with funds, poor quality assurance and lack of technical knowledge limit returns to inputs



# Making high food prices work for the poor – The immediate challenge

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- “Production safety nets” or “Production catalysts” to ensure access to seeds, fertilizer with technical support and subsidies based on poverty/avoided poverty
- Combine with ‘traditional” safety net activities
- Ensure technical support
- Same issues of cash vs. voucher vs. in-kind which apply to food and nutrition consumption safety nets
- Increase local food availability



# Good practice with production safety nets or catalysts

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- Targeting and transparency
- Minimize market distortions
- Combine with technical support and quality regulations
- Sustainability – build markets and phase out plan
- Monitoring and Evaluation



# Immediate Production Support

## Delivery Options: In-Kind Seed or Fertilizer

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**Appropriate when...** Need to stimulate demand and/or difficult local availability or quality control

### **Examples:**

- Demonstration packs
- Direct provision

### **Challenges:**

- Expensive to implement (purchase, transport, etc)
- Targeting/Elite capture
- Difficult to phase out
- Not substitute for liberalization of fertilizer trade
- TA support
- Adjust types to local needs



# Immediate Production Support Delivery Options: Input Vouchers

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**Appropriate when...** need to convince private sector to invest in expanding input supply networks/services

## **Examples:**

- Fertilizer coupons

## **Challenges:**

- Targeting/elite capture
- Transferable - leakage
- Need to ensure private sector will import
- TA support
- Quality regulation of inputs



# Immediate Production Support Delivery Options: Cash-based

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**Appropriate when...** Private input markets functioning but farmers face financing constraint

## **Examples:**

- Matching grants
- Loan guarantees for banks, suppliers

## **Challenges:**

- Work best with solidarity/production groups
- Targeting/elite capture
- Moral hazard
- Reduces due diligence/prudence of lenders
- TA support
- Quality regulation of inputs



# Immediate Production Support

## Example: Malawi

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- Introduced fertilizer subsidies in 2004/5
- Targeting through local councils
- Combined with favorable weather, resulted in strong supply response – from net maize importer to net exporter
- Now facing issues of increasing role of private sector, costs of refining targeting, adopting to local needs, high cost of fertilizers, phase out

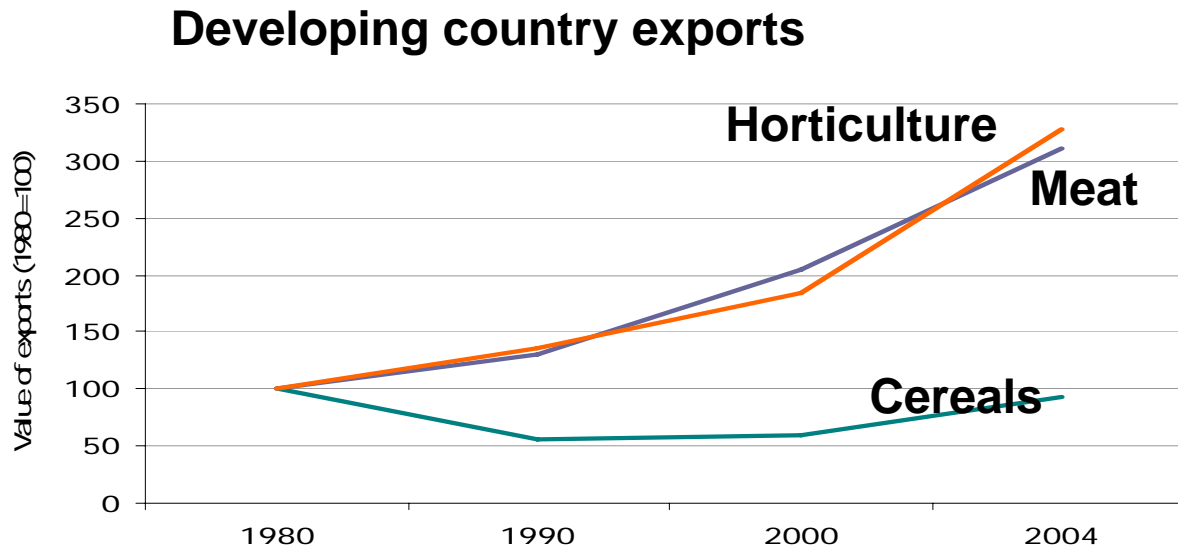
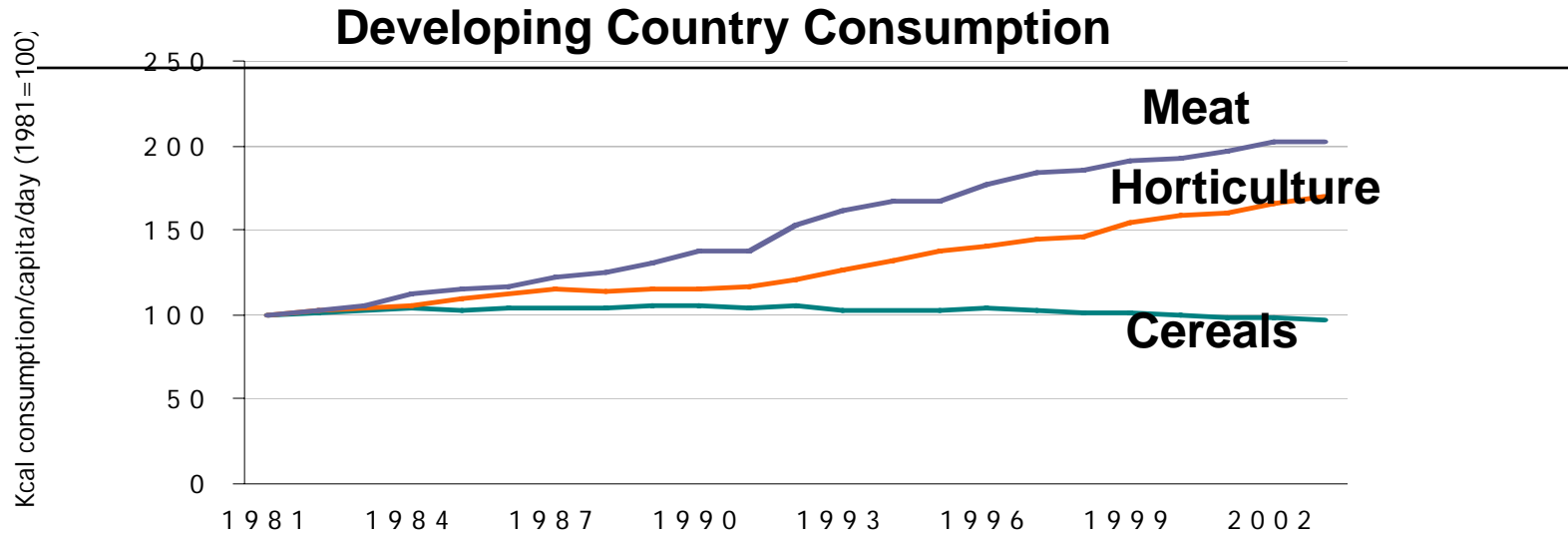


# Making the food crisis work for the poor – the sustainability challenge

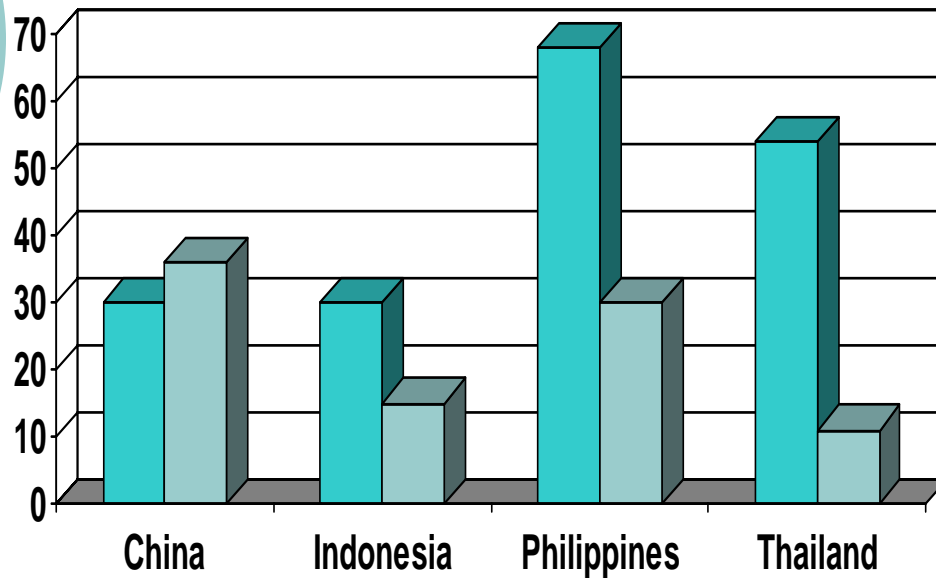
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- Sustainability of production gains requires addressing structural issues in agricultural sector
- Efforts must acknowledge dynamic context of food markets
- Efforts must address constraints which limit private investment flows to replace public support

# Food demand is changing



# Supply chains are increasingly integrated...



■ Share of supermarkets in total food sales  
■ Annual growth rate in supermarket outlets

- Supermarkets are rapidly dominating food sales worldwide
- Supermarket supply chains require high levels of coordination between producers, processors and marketing
- Supermarkets are also targeting the poor, selling cheap food and expanding to relatively small cities
- Foreign investors are often critical to knowledge transfer

...but smallholder sourcing adds  
retail value

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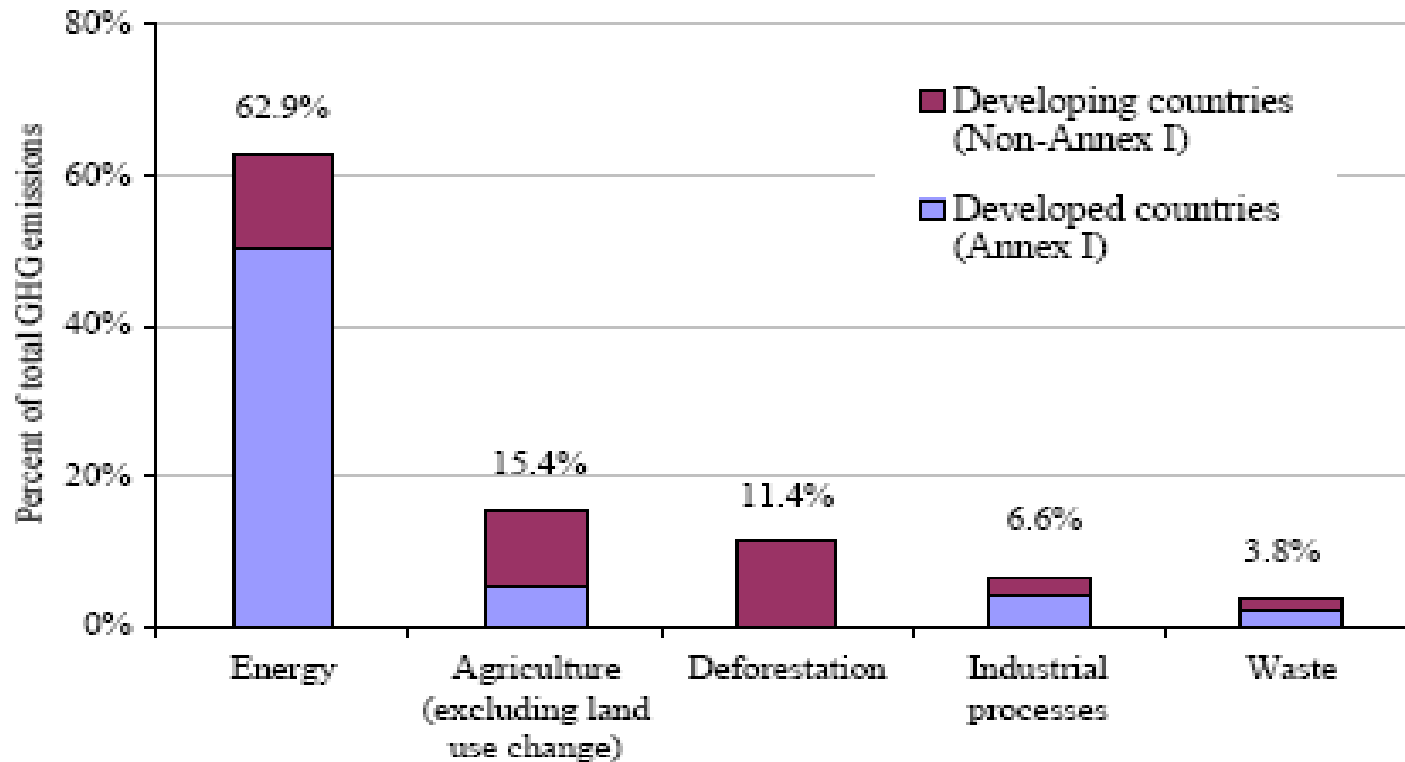
# Increasing demand for environmental services from agriculture

## Environmental services and examples of buyers

ECOSYSTEM SERVICE	BENEFICIARIES	BUYERS
Carbon sequestration	<ul style="list-style-type: none"> <li>■ Global community</li> </ul>	<ul style="list-style-type: none"> <li>■ Local, regional and national governments</li> <li>■ International organizations (World Bank – BioCarbon Fund)</li> <li>■ National carbon funds (Italian Carbon Fund, The Netherlands CDM Facility)</li> <li>■ Conservation groups</li> <li>■ Land trusts</li> <li>■ Corporations</li> <li>■ Hedge funds and investment groups</li> </ul>
Biodiversity	<ul style="list-style-type: none"> <li>■ Global community</li> </ul>	<ul style="list-style-type: none"> <li>■ International and national NGOs</li> <li>■ Private businesses (offsets)</li> </ul>
Water quality	<ul style="list-style-type: none"> <li>■ Local community (potable water)</li> <li>■ Fishers (pollution)</li> <li>■ Farmers (salinity)</li> </ul>	<ul style="list-style-type: none"> <li>■ Municipalities</li> <li>■ Private water suppliers</li> <li>■ Public water suppliers</li> <li>■ Bottled water companies</li> <li>■ Farming organizations</li> </ul>
Erosion control	<ul style="list-style-type: none"> <li>■ Local community (potable water)</li> <li>■ Dam owners (sedimentation)</li> <li>■ Fishers (sedimentation)</li> </ul>	<ul style="list-style-type: none"> <li>■ Hydroelectric energy providers</li> </ul>

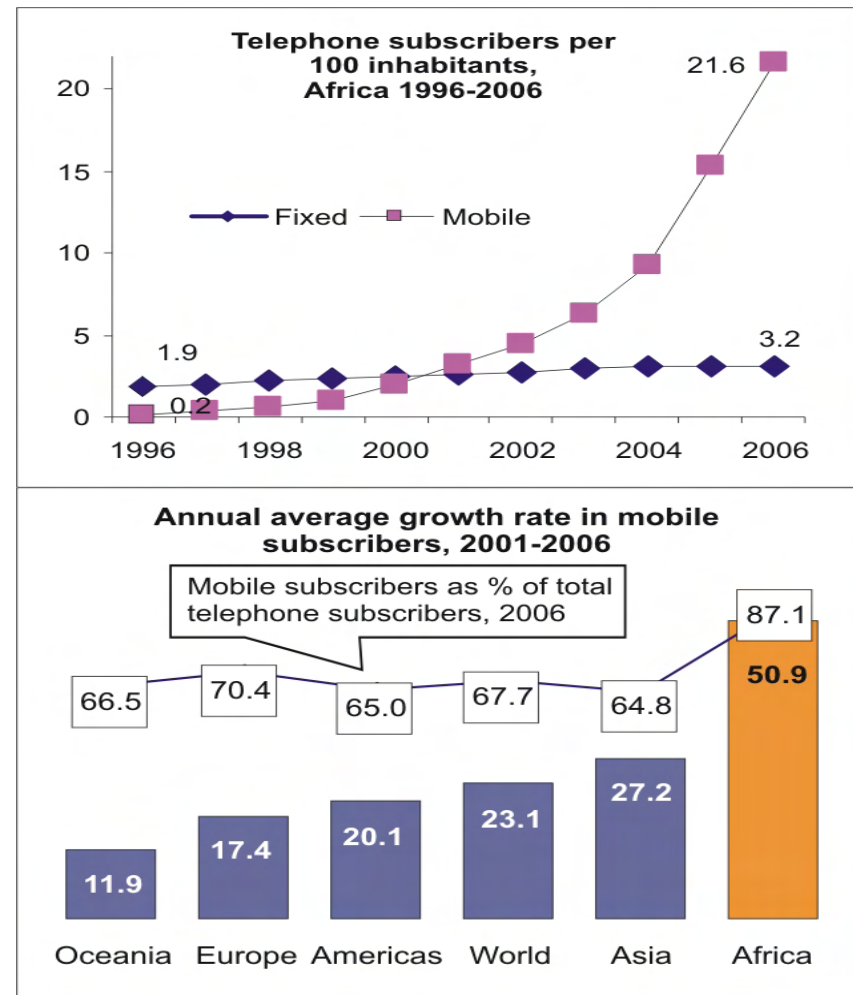
Source: adapted from FAO, 2007d.

# Agriculture is also critical to climate change in developing countries



# New technology is “democratizing” information access

- Mobile technology lowers the hurdle for joining the networks
- Many developing countries are closing the technology gap
- Smaller businesses are able to gain benefits of scale in information access





# An Emerging Concept: Empowering Value Chains

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- Allow smallholders to seize new opportunities in agriculture by:
  - Increase producer knowledge of market demand and pricing
  - Increase investments from farmers and the other private sector
  - Increase access of smallholders to knowledge, finance, inputs and technology
  - Reduce transactions costs of the producer-processor/marketing interface
  - Increase the share of value added captured by primary producers



# Empowering Value Chains: Examples

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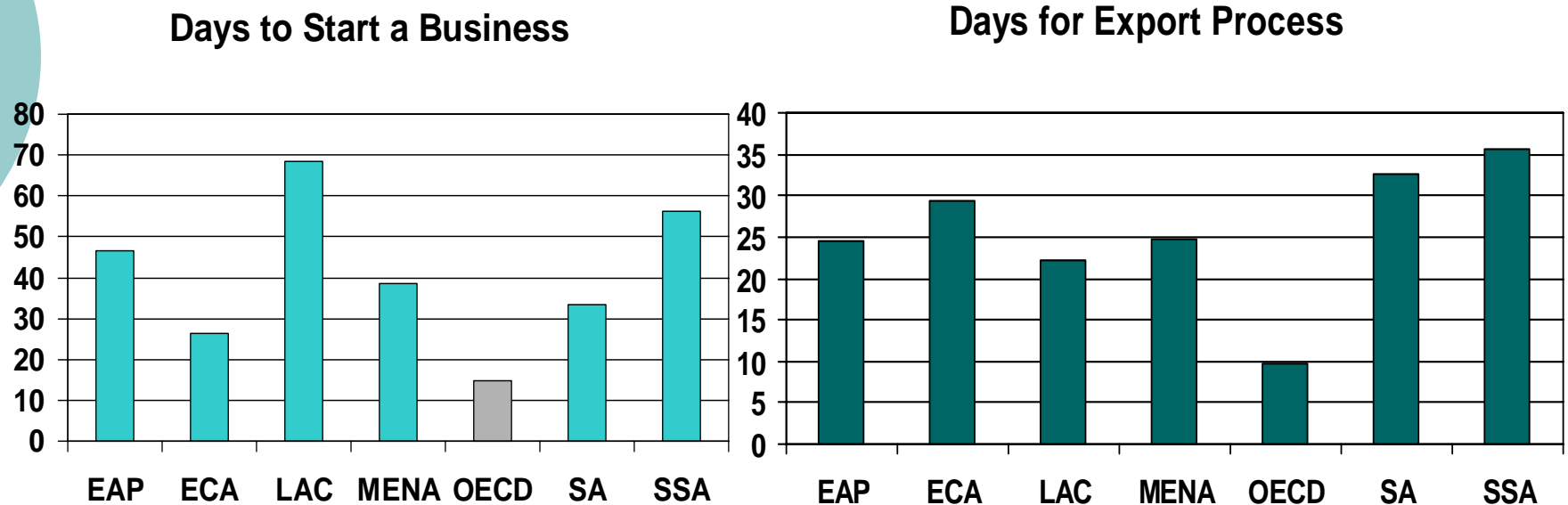
- Ghana “grains partnership” between smallholders and private actors (input suppliers, produce buyers) to boost farm-level productivity and secure transactions (maize)
- Yulin watermelons (China): Direct marketing to wholesalers, supermarkets and retailers increased selling price from 1.2 to 3.0 yuan per kilogram and its farmed area from less than a ha to several thousand
- NorminVeggies (Philippines): Supplies vegetables to fast food, supermarkets and processors. Monthly sales were 80 tons in 2006.
- Konzum Supermarket (Croatia): Helped small farmer-preferred suppliers to use contracts as collateral with local banks to investment in greenhouses and irrigation
- World Food Program Contract Farming: Multi-year contracts with local smallholders for food aid grains with provision of organizational, technical and input support



Why aren't more empowering  
value chains emerging?

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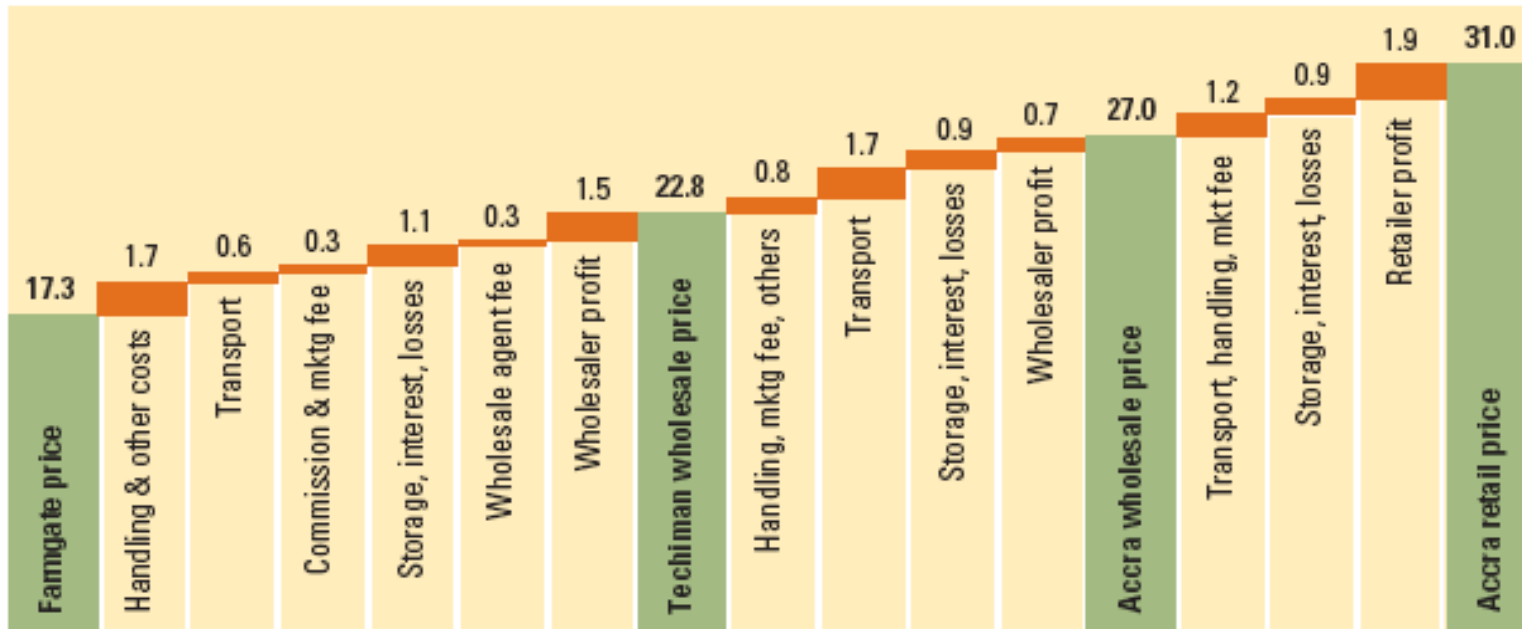
# Investment climate limits quantity and quality of agricultural investment



- Poor business climate attracts “extractive” investors and limits development of modern marketing systems
- Particular problem for countries with small internal markets

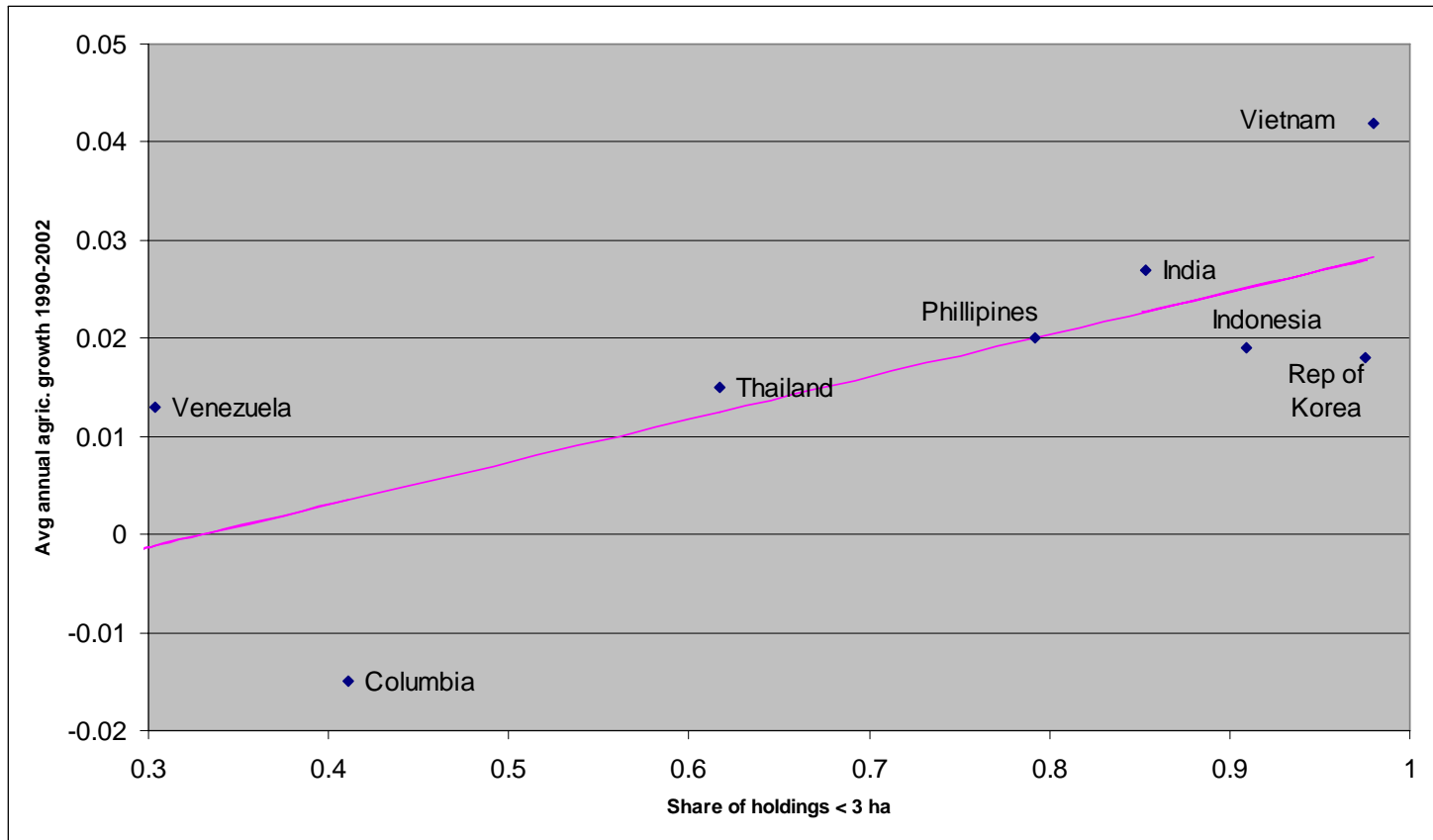
# Marketing Systems are Inefficient

\$ per 100 kilograms, 1998



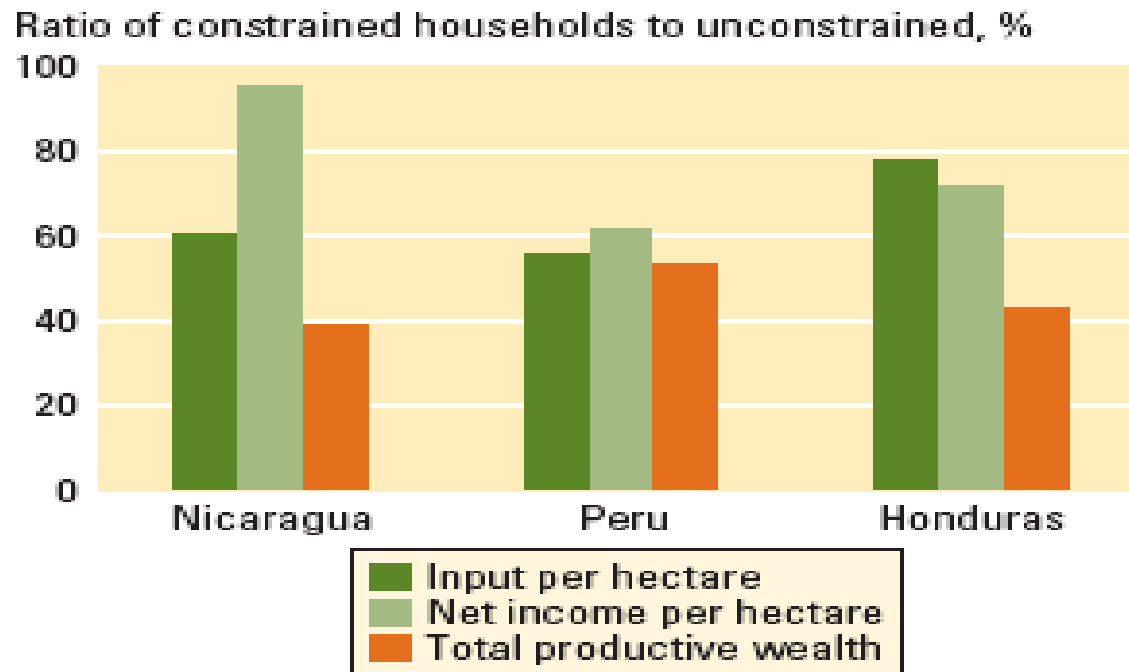
- Large number of intermediaries increases costs, risks and losses

# Property Rights Need to Work for the Poor



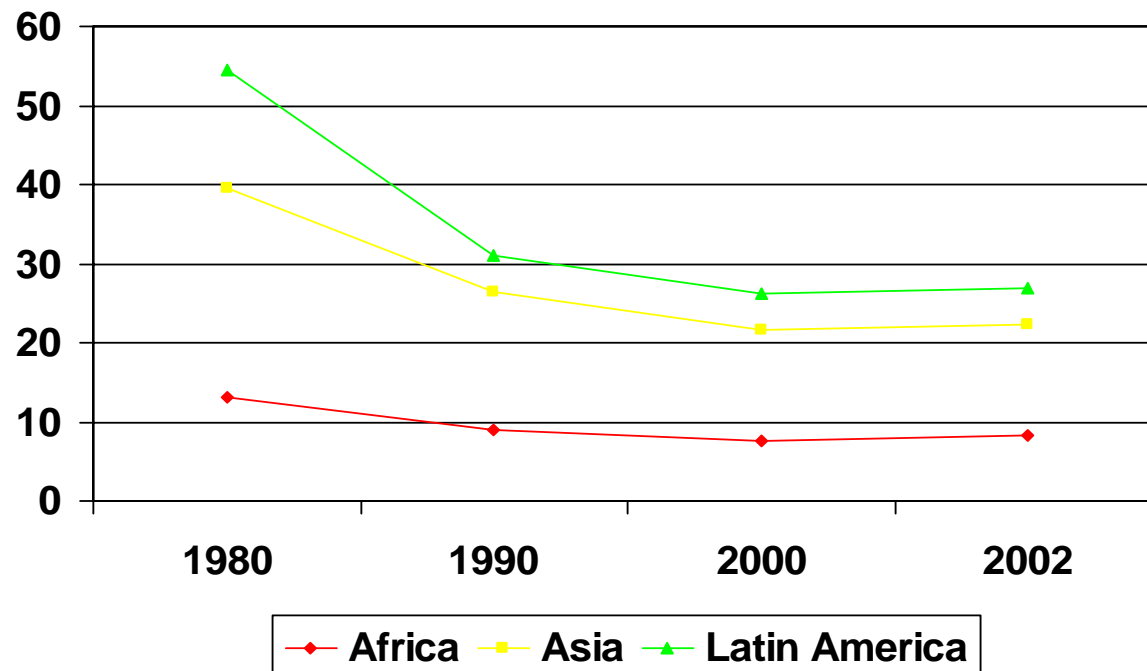
- smallholder advantages depend, in large part, on tenure security as incentive for farmer to invest

# Limited Access to finance



- Credit constrained use less inputs and earn lower incomes
- Credit constraint is often associated with risk rationing as well

# Under-investment in agriculture and rural infrastructure



- Agriculture and rural infrastructure's share of public expenditures have declined significantly

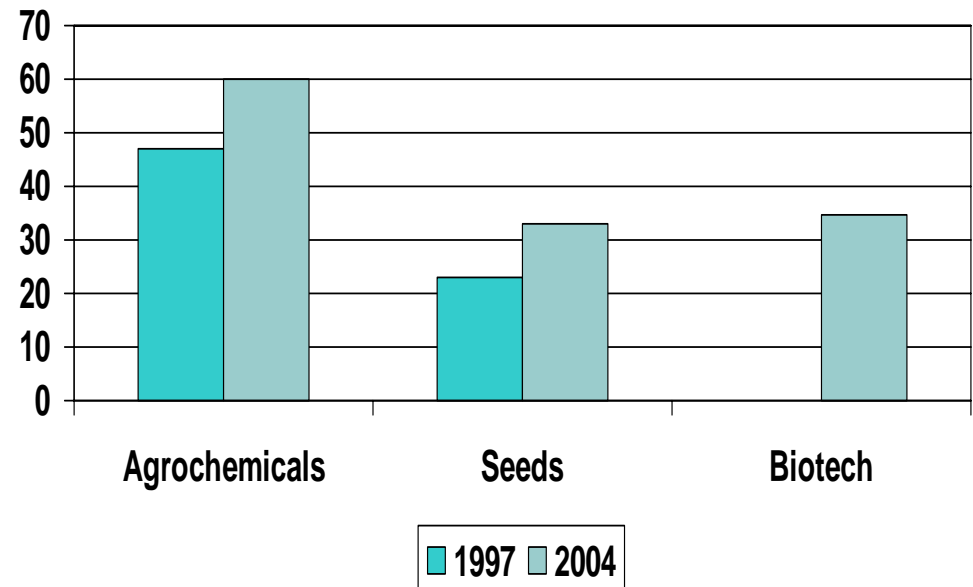
# Need to improve efficiency of investment in rural development

	<i>China</i>	<i>India</i>	<i>Thailand</i>	<i>Vietnam</i>	<i>Uganda</i>
<b>Ranking of Returns to Agricultural Production</b>					
Agriculture R&D	1	1	1	1	1
Irrigation	5	4	5	4	
Education	2	3	3	3	3
Roads	3	2	4	2	2
Telecommunications	4				
Electricity	6	8	2		
Health		7			4
Soil and Water Conservation		6			
Anti-Poverty Programs		5			
<b>Ranking of Returns in Poverty Reduction</b>					
Agriculture R&D	2	2	2	3	1
Irrigation	6	7	5	4	
Education	1	3	4	1	3
Roads	3	1	3	2	2
Telecommunications	5				
Electricity	4	8	1		
Health		6			4
Soil and Water Conservation		5			
<b>Anti-Poverty Programs</b>	7	4			

# Concentration in Agribusiness Sector

- Concentration widens the spread between world and domestic prices – from 1974 to 1994 this more than doubled for wheat, rice and sugar
- Developing countries' claim on value added declined from around 60% in 1970-72 to 28% in 1998-2000

Market share of four largest input suppliers





# Role of Doha Trade Reform

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- Studies indicate initial price increase for most food commodities
- However tariff reductions could put farmers at risk from imports given low investment over past years
- Is there scope for “special safeguard mechanisms”, “special products” and “aid for trade” to provide basis for a more predictable investment climate for smallholder agriculture to develop?

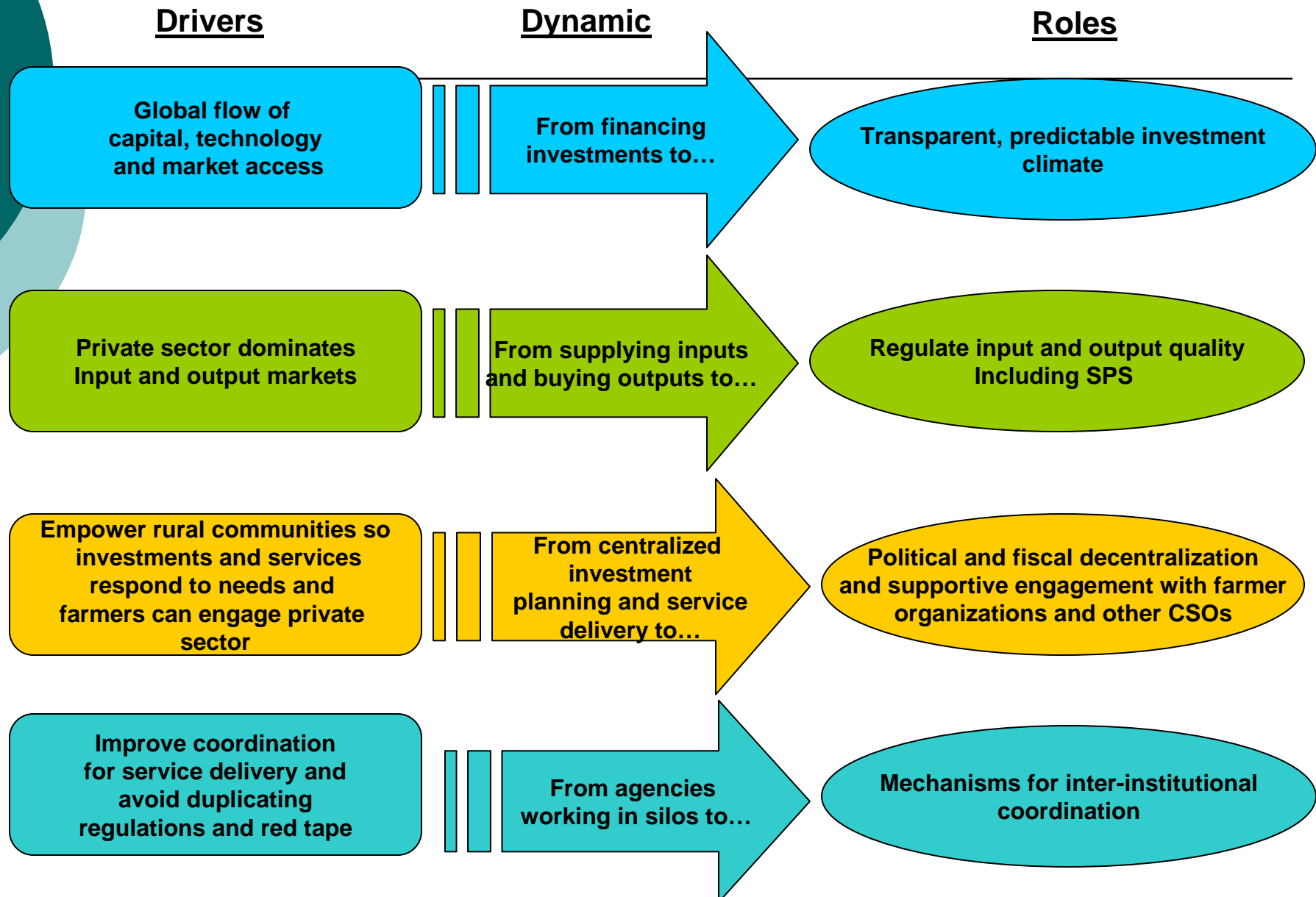


# Actions to Build Empowering Value Chains

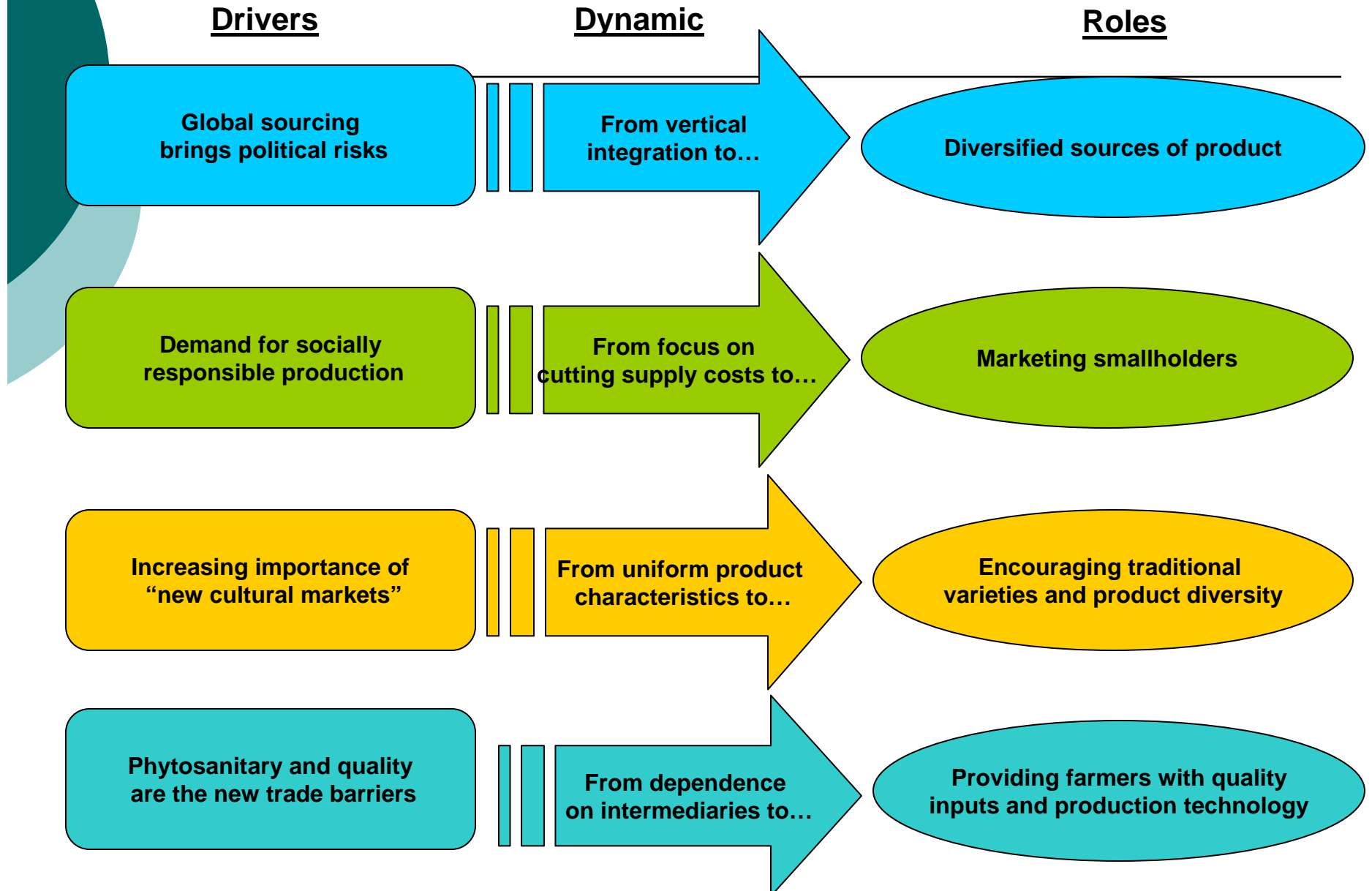
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- Strong facilitation & strengthened legal framework to secure, build trust & reduce costs of transactions
- General business climate – business licensing, trade facilitation
- Strengthen land access and tenure security
- Develop rural financial and risk services
- Efficient input markets
- Rural infrastructure
- Quality, and Sanitary and Phytosanitary Standards
- Market information
- Producer organizations in order to help farmers engage on less skewed terms

# Bridging the Gap: New Role of the State



# Bridging the Gap: New Role of the Private Sector





## Important Caveat: Many smallholders will not be able to integrate or will do so slowly

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- Areas constrained agronomically (low rainfall)
- Areas constrained by market access (time to market)
- Need investments in rural roads, irrigation and other food security measures
- Need investments in education and health and active labor market policies
- Safety net programs such as public works



## Final thought...

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- **Crises and deadlocks when they occur have at least this advantage, that they force us to think.**

Jawaharlal Nehru