POWERING UP SMALLHOLDER FARMERS TO MAKE FOOD FAIR

A FIVE POINT AGENDA

A Fairtrade International Report

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FAIRTRADE

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INTRODUCTION

'You go into the kitchen to drink your coffee for the morning, and that's poured into your cup by a South American. And maybe you want tea: that's poured into your cup by a Chinese. Or maybe you're desirous of having cocoa for breakfast, and that's poured into your cup by a West African… And before you finish eating breakfast in the morning, you've depended on more than half the world.'

Martin Luther King Jr

Imagine a world without many of the foods we increasingly take for granted every day – without coffee, tea, cocoa, sugar, bananas. How would our lives change? The fact is the trade in these tropical agricultural commodities is heavily reliant on smallholders, many of whom struggle to earn the sustainable cost of production. Their vulnerability – and the need to find lasting solutions – should serve as a wake-up call to all of us.

Smallholders grow 70 per cent of the world's food – in cocoa, as much as 90 per cent. But many farmers are trapped in a cycle of poverty, made worse by decades of price volatility and underinvestment in agriculture, and now facing new threats from a changing climate. This phenomenon is threatening the very sustainability of many of the products we enjoy on a daily basis.

It is a scandal that half of the world's hungriest people are themselves smallholder farmers[1], The fact that so many hungry people are food producers shows just how unbalanced our global food system has become. Hunger, undernourishment and poverty continue to scar the lives of millions, while consumers in rich countries waste as much food as the entire net food production of sub-Saharan Africa.[2] Recent World Health Organisation research reveals that, for the first time ever, the number of years of healthy living lost globally as a result of over-eating outweighs the number lost by people eating too little.

Our global food system is dangerously out of control: out of control for consumers, out of control for farmers and out of control in the way food is traded and distributed. We know there is enough food for everyone, but everyone is not getting enough food. 2013 is the year that we need to put the politics of food on the public agenda and find better solutions to the insanity of our broken food system.

Since 2009 both staple food and commodity prices have remained highly volatile. This puts the livelihoods of commodity producers at risk and threatens the food security of a huge number of people in the developing world, many of them smallholder farmers. Millions were plunged into poverty due to high food prices in 2010 and 2011.[4] International bodies predict that food prices are likely to remain high and volatile for the next decade, at the very least posing grave concerns for the future of smallholder farmers.[5]

'Previously there used to be extension workers, but there are almost none now. There are some but they often know little and do not visit the coffee farmers. They need support in areas like crop husbandry, environmental protection and soil erosion.'

Milton Riuyooka, Ankole Coffee Producers Co-operative Union, Uganda

After decades of neglect, the issues of food security and smallholder agriculture are again starting to receive more serious attention from world leaders and institutions. There are new calls for reinvestment in small-scale farming. Major new private sector sustainability initiatives are seeking to increase the number of smallholders in their supply chains.

This report draws on Fairtrade's experience of working with smallholders in five principal agricultural commodities: coffee, cocoa, tea, sugar and bananas, as well as wider evidence and research. It explores the realities of the challenges facing smallholder farmers, as well as the role that farmers themselves can play in building a sustainable path towards greater food security.

Fairtrade's experience has been in working with farmers who earn their incomes through sale of cash crops to local and international markets, rather than subsistence farming which requires different solutions. Our agenda focuses therefore on action to support the role that cash crops can play in supporting farmer livelihoods.

Our report argues that five fundamental principles – putting farmers first, ensuring fair share of value chains and fair access to finance, building future-proofed farming and increasing the focus of government funding – should inform the policies and practices of governments, donors, multilateral agencies and private sector actors. Of course, we must listen hard to smallholder organisations themselves. It is they who know what the problems and solutions are, who pioneer improved farming practices, and who put their own money and working lives into growing staple food and commodities. As Beatrice Makwenda from the National Association of Small Farmers in Malawi (NASFAM) once told us 'the person wearing the shoe knows best where it pinches'.

Smallholder farmers are not a 'problem' neither are they passive 'beneficiaries' of aid-driven solutions. Indeed, FAO figures show that smallholders themselves already invest US$170 billion a year into their own farms, four times more than investment from all other funding sources put together. If the power imbalances that hold smallholders back can be addressed now, and within supportive policy environments, they will drive down hunger and build prosperity for hundreds of millions.

Harriet Lamb, CEO, Fairtrade International

'While almost 870 million people go hungry, an even greater number are overweight or obese. And even as inadequate access to food causes suffering in poor countries, every year consumers in industrialized countries waste 220 million tons of food, an amount equivalent to sub-Saharan Africa's total annual food production.'

José Graziano da Silva, Director-General, FAO, speaking in December 2012


Oliva Kishero on her farm in Uganda

SUMMARY

Sugar cane harvesting by hand, Belize Sugar Cane Farmers Association

Hunger blights the lives of one in eight of the people on our planet, while consumers in rich countries waste as much food each year as the entire net food production of sub-Saharan Africa. Most of the world's food is produced by small farms, yet half of the world's hungriest people are themselves smallholder farmers. High and volatile food prices are the new normal for producers and consumers the world over.

This report examines the role played by smallholders in world agriculture and explores their potential power to contribute to food security, poverty reduction and environmental stewardship.

Challenges facing smallholder farmers

Smallholder farmers encompass a wide range of producers, from the most marginal and impoverished to those involved to some extent with markets at a local, national or international level. The term smallholder covers diverse groups and contexts. This report focuses on smallholders working with Fairtrade produce and where possible identifies common challenges faced more broadly, both at the level of the farm and at the level of national and international policy and practice.

Smallholders often lack influence and power over decisions that affect them. Their demands for local services and farming inputs, for example, regularly go unheard. Their influence on agricultural policy and budgets, or in any global supply chains that they are part of, is extremely low.

Many smallholders are hampered by poor quality of land, inadequate water supplies, reliance on basic farming equipment and a lack of land tenure security. These are compounded by the increasing impacts of climate change and poor access to local markets, extension services and rural financial services. They are routinely manipulated by local traders, lacking up-to-date market information to negotiate effectively. All these challenges are far greater for women. Because of these challenges, they are highly vulnerable to shocks, poverty and hunger.

Their vulnerability to hunger is exacerbated by high food prices. Most smallholders are net food buyers (buying more food than they sell), meaning they are currently suffering rather than gaining from high food prices. Since 2000, food prices on international markets have doubled, and high prices are set to continue.

Smallholders producing agricultural commodities for sale in global markets live with extremely volatile markets and prices for their produce, exacerbated by speculation on commodity markets. Whether world market prices for commodities like coffee and cocoa are high or low, in general, small farmers receive only a fraction of the final retail price for which those commodities are sold by retailers – just 7-10 per cent of the supermarket retail price for coffee growers, and under 3 per cent of the retail price for smallholder tea producers.

A five point agenda for powering up smallholder farmers and the future of our food system

Fairtrade's experience over the last 20 years through our work with over 990 farmers' organisations can offer valuable lessons on how small farmers need to be supported. Drawing from this experience, this report sets out a five point agenda for rebalancing the power in the global food system in favour of smallholder farmers. We call on governments, donors and the private sector to make sure that new initiatives and investments in agriculture adopt these five fundamentals – above all, placing smallholders themselves at the heart of any solutions.

1. Farmers first: Increase farmers' voice, influence and organisation

Underlying smallholder farmers' lack of access to inputs, land and services is their lack of power and voice. Recent initiatives by governments and the private sector have seen major efforts to increase the productivity of small farms, but these have often been driven through a top-down approach, rather than a model that empowers smallholder organisations to develop their own local capacity to deliver farming improvements. Similarly in trade negotiations and policy formulation, the voices of farmers are rarely sought out or heard. In particular, the voice of women smallholders remains marginalised in both farmer organisations and policy making.

Fairtrade's experience shows that where smallholder farmers are organised, have control over their resources and visibility and influence over decisions that affect them, results are impressive. Producer organisations like co-operatives and farmers associations offer smallholder farmers support through collective action to secure land rights, access better market opportunities, or secure group discounts on inputs such as fuel, seed and machinery. It is vital that policies do more to encourage the formation and capacity-building of producer groups that represent smallholder farmers and ensure they influence policy design and implementation.

A core characteristic of Fairtrade's work is building and strengthening such farmers' organisations. Fairtrade standards encourage farmer organisations to be representative, democratic and participatory (for example collective decision making over where to invest social premiums) and build individual and collective capacity to become effective planning and decision-making bodies.

Recommendations

To increase farmers' voice, influence and organisation…

Governments and international donors should:
- Strengthen policies and increase investment to build the operational and advocacy capacity of producer organisations, especially women farmer groups, so that they are able to influence policy design and implementation.
- Transform the agriculture and trade policy-making culture, to make it transparent and participatory. In particular, actively consult with smallholders on the extent to which they feel able to participate in policy making and set targets for year-on-year improvement.

Low and middle income governments should:
- Ensure national and local agriculture budgets are transparent and comprehensible to the public and smallholders, and commit to participatory approaches that include smallholder farmers in agreeing priorities, involving farmers' organisations and civil society groups.

Business should:
- Recognise the value and power of smallholder organisations as wider social and environmental actors, and therefore key partners in achieving sustainability.
- Develop focussed programmes to better support the specific context, needs, and priorities of smallholders' organisations in their supply chains, and build joint business partnerships to invest in smallholder-led solutions that go beyond productivity.

Dickson Chatulwa picking tea, Malawi

Cocoa farmer Vida Addai collects water at the community borehole, Ghana

2. Fair share of value: Ensure farmers are empowered in value chains and receive fair prices

The global market in most commodities is highly concentrated, with a small number of transnational corporations dominating the trade and securing most of the value from international supply chains. Meanwhile smallholders are generally marginalised and receive low returns for their produce.

Governments need to explore ways to ensure greater transparency and 'fair competition' in international supply chains, which create a fairer distribution of value across the supply chain and so enable smallholders to secure a sustainable price for their produce.

Building fairer trading relationships is central to Fairtrade's work. Tools like the Fairtrade minimum price, premium and access to pre-financing, enable farmer organisations to improve their negotiating power and the potential share of value they receive. Equally, Fairtrade focuses on building direct business partnerships between farmer organisations and large businesses and equipping farmers with information and training to secure better terms of trade. Collectively, these measures bring greater benefits to small farmers and can help them increase productivity, diversify and move up the value chain. Importantly, Fairtrade addresses a critical problem facing smallholders – high price volatility – through a guaranteed, minimum price for their produce that covers sustainable costs of production. Research has demonstrated the benefit that such a minimum price can have on farmers' income stability, and their ability to plan and save – and therefore their capacity to invest in their farms and their communities – and that price stability mechanisms such as those offered in Fairtrade can act as an effective buffer against the effects of price volatility in global markets.

Recommendations:

To ensure that farmers are empowered in value chains and receive fair prices…

Governments should:
- Champion fairer supply chains for their smallholders and help build the capacity of producer organisations to capture more value from their production.
- Include within their export promotion strategies measures to support initiatives such as Fairtrade, which enable smallholders to capture more value, over the long term, in international markets.
- Ensure inward investment policies include a focus on enabling smallholders to capture more value from their produce.
- Explore ways to ensure greater transparency and 'fair competition' in supply chains and so enable smallholders to secure a sustainable price for their produce.
- Set an example by ensuring public procurement strategies encourage sourcing from value chains that provide market access on fair terms for smallholders.

Businesses should:
- Adopt mechanisms to ensure the sustainable cost of production for the food products in their supply chains and commit to paying this price as a minimum.
- Build strong and long term relationships with the farmer organisations in their supply chains in order to build economic security for smallholders.

The public should:
- Actively seek out and purchase products which ensure a better deal is passed on to smallholder organisations, such as Fairtrade products.
- Support campaigns that spotlight the uneven distribution of value and the need for fair competition in the global commodities trade.

Stephen Best, banana farmer and member of WINFA in Dennery, St Lucia

3. Fair access to finance: Ensure access to timely and affordable credit

Many smallholders need small loans to make investments in their farming, to buy inputs or technologies or diversify into new varieties or crops, but credit is often unavailable or unaffordable for smallholders. Likewise smallholder organisations often struggle with liquidity problems or historic debt burdens from years of being forced to sell produce below cost of production.

Fairtrade understands the critical importance of timely access to affordable credit for small farmers and addresses this by providing them access to pre-financing (the trading standard provides for pre-financing of up to 60 per cent). In addition to this direct avenue to credit, research also indicates that Fairtrade producer organisations are seen as more credit-worthy borrowers by banks and other financial institutions and thereby enjoy greater access to credit than their non-certified counterparts. For instance, co-operatives can use Fairtrade contracts as collateral when taking out loans from financial institutions, and thus access lines of credit otherwise unavailable to them. The Fairtrade Premium received by Fairtrade growers can also, for example, be used to establish funds for community finance.

Innovations in lending practice are urgently needed to reduce costs and encourage more financial institutions to extend their services to the majority of smallholders. If governments, donors, and businesses are serious about powering up smallholder farmers, they must rethink their approach to credit. By investing in subsidised credit schemes, for example, or by providing loan guarantees to private banks, timely and accessible credit could transform the opportunities of hundreds of thousands of smallholders.

Businesses in particular need to look closely at their own practices and the specific needs of the smallholders in their supply chains. Businesses must ensure that any credit they offer (whether money, goods or services) is appropriate for the smallholders in their supply chains in terms of its scale, timeliness and means of access.

Recommendations

To ensure access to timely and affordable credit…

Governments and international donors should:
- Explore government- and donor-backed schemes to increase the provision of rural credit to smallholder farmers – such as providing subsidies to credit schemes or loan guarantees to banks.

Businesses should:
- Ensure that any credit they offer (whether money, goods or services) is appropriate for the smallholders in their supply chains in terms of its scale, timeliness and means of access.

4. Future-proofed farming: Prioritise sustainable agriculture and climate resilience

Sustainable agriculture offers the prospect of both improving farm productivity and helping smallholders adapt to climate change. Critical practices include soil conservation, using animal and green manure, agro-forestry and intercropping, integrated pest management and water harvesting. Increasing evidence suggests that sustainable agriculture methods result in good yields and have numerous advantages over conventional farming.

Fairtrade standards include strong environmental standards on how farming can promote both sustainable development and good agricultural practice. These include measures such as banning the use of listed pesticides, safe use of permitted pesticides and ensuring that farmers are trained in the disposal of hazardous waste that helps protect farmers' health and the environment. Fairtrade farmers are trained by producer organisations in water protection, soil conservation and ways to minimise their use of pesticides. Producers are required to protect existing natural resources and encouraged to reduce their energy consumption over time.

Fairtrade also provides training and access to finance and know-how to help farmer organisations combat climate change through adaptive techniques and technologies. Fairtrade's own research indicates that some producers are using the income they receive through the Fairtrade Premium to invest in technologies that help them adapt to climate change. Some coffee farmers have, for example, used the premium for purposes such as planting trees in order to avoid soil erosion and planting shade trees to protect coffee trees from higher temperatures or to counteract higher temperatures.

Recommendations

To prioritise sustainable agriculture and climate resilience…
Governments, international donors and multilateral institutions should:

- Greatly increase investment in promoting sustainable agriculture and helping farmers adapt to climate change, especially by re-orienting extension services to provide training and support. Importantly, these investments should be developed in close consultation with smallholder farmer groups so that their needs and priorities are kept central.

Businesses should:
- Adopt and publicly report on compliance with environmental standards that promote both sustainable development and good agricultural practices.
- Increase investment in climate adaptation techniques and technologies for the smallholder farmers with which they work.

5. Focus in government funding: Increase and target national and donor government spending on agriculture

The amount and focus of national and donor government funding must improve. Developing countries in which agriculture contributes a large proportion of national income generally need to spend much more on support to farming. They currently allocate an average of just 5 per cent of their national budgets to agriculture. Recent analysis by the FAO calculates that an additional $42.7 billion per year globally needs to be spent on agriculture up to 2025 in order to end hunger.[6] The UK based 'Enough… If' campaign is asking G8 member states to commit $21.3bn towards meeting this funding gap in 2013.

The focus of spending must change course. There is a vital need in most countries to increase farmers' access to extension services and to improve agricultural research. Currently, many governments have skewed agriculture budgets that spend little on these services. Women farmers should be explicitly targeted in extension services, subsidy programmes, credit schemes and agricultural research – otherwise, men will tend to be the main beneficiaries. It is estimated that even if women simply had the same access to productive resources such as land and seed as men, they could increase yields on their farms by 25-30 per cent.

Alongside spending on agriculture, national governments must also improve land tenure security. This is likely to increase food security since it encourages farmers to invest more in their land and enables them to access services such as finance. At the same time it can prevent smallholder farmers from being displaced from their land in the current wave of land grabs.

Recommendations

To increase and target national and donor government spending on agriculture…

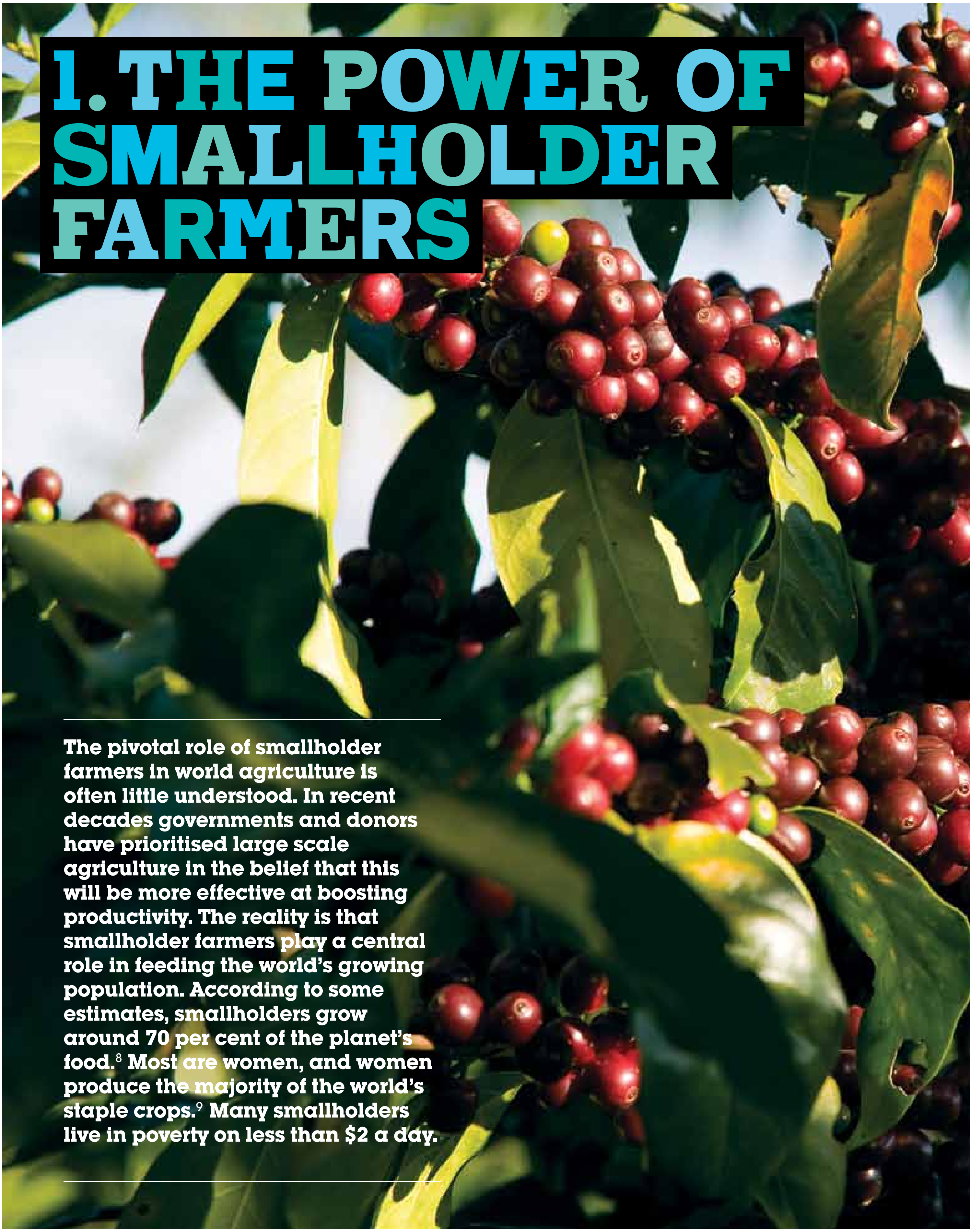
Governments in producing countries should:
- Re-commit to allocating 10 per cent of their national budgets to agriculture with clear timetables to reach this figure, and annual public reports on progress.
- Revitalise investment in agricultural extension services for smallholders, including strengthening the agronomist capacity of farmer organisations themselves.
- Respond to the specific challenges that women farmers face through orienting spending and policy towards targeted programmes including extension, finance, research and subsidy programmes.
- Enshrine into law and implement policies to promote secure land tenure for all, including integration of policies to promote women's land rights and tenure security into national land legislation and agricultural development policy, and incorporate the recently-formulated Voluntary Guidelines on governance of land tenure into national legislation.

International donors should:
- Increase aid to agriculture to help meet the US$42.7 billion FAO target in support of developing country agriculture strategies, targeted in line with the priorities identified in this report.[7]
- Improve transparency and reporting on aid commitments and development outcomes for small-scale agricultural communities.

Recommendation to the G8 members for the G8 meeting in June 2013

At the 2013 meeting, G8 members should champion and lead the way for global investment in sustainable small-scale agriculture, in line with our Five Point Agenda.

1. THE POWER OF SMALLHOLDER FARMERS



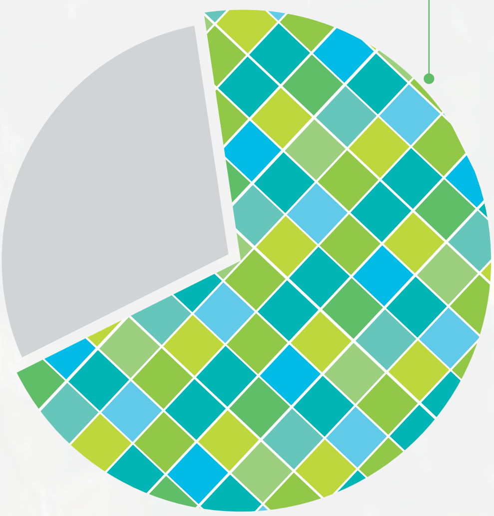
The pivotal role of smallholder farmers in world agriculture is often little understood. In recent decades governments and donors have prioritised large scale agriculture in the belief that this will be more effective at boosting productivity. The reality is that smallholder farmers play a central role in feeding the world's growing population. According to some estimates, smallholders grow around 70 per cent of the planet's food.[8] Most are women, and women produce the majority of the world's staple crops.[9] Many smallholders live in poverty on less than $2 a day.

The power of smallholders

Fairtrade International defines a smallholder as a producer who is dependent on family labour, as opposed to non family labour.[10] Smallholders predominate in the production of many commodity cash crops. Some 30 million smallholder farmers produce most of the world's coffee and cocoa and tens of millions of others play important roles in the production of tea, bananas and sugar.

Around **17 out of 20** of the world's farms are still **2 hectares** or less in size[11]

These small farmers grow around **70%** of the planet's food



Some **30 million** smallholder farmers produce most of the world's coffee and cocoa

Over **90%** of the world's cocoa is grown on **5 million** small farms

80% of the world's coffee is grown by smallholders

Smallholder producers also play critical roles in livestock production. Small livestock enterprises drive dairy production in eastern Africa and South Asia, for example. India is now the largest dairy producer in the world, and most of the country's milk is produced by smallholder farmers. In Kenya, over 80 per cent of milk comes not from large milk companies but from around 800,000 smallholder dairy farmers.[12]

Poverty reduction and economic growth

Small farms have a crucial place in the rural economy but their potential power to drive economic growth has not always been recognised. Research by the FAO suggests that, on average, small farms in developing countries generate 40-60 per cent of total rural income, including both farm and non-farm activities.[13] Although some donors and government decision-makers still hold the view that more large-scale plantations are needed to 'modernise' agriculture, there is considerable evidence that smallholder farmers can not only be more productive but also reduce poverty more than large farms.[14]

- In Uganda, smallholders working an average plot of 1.7 acres produce 96 per cent of the food that passes through the market outlets in the country.[15]
- In Ghana and Zambia, smallholders produce 80 per cent of the food.[16]
- In Brazil, smallholders hold only a quarter of the land but produce 87 per cent of the cassava, 70 per cent of the beans and 50 per cent of the poultry.[17]

As recently noted by the FAO, smallholders can have significant advantages over large-scale farmers in terms of efficiency in producing staple foods. The FAO notes that 'there is a rich empirical literature suggesting that output per unit area in small farms is higher compared with larger farms'. This is due to greater intensity in the use of inputs, especially of family labour, which increases food security. Such family labour offers flexibility denied to larger farms that depend on wage labour. The FAO also highlights that smallholder production is more suitable for labour-intensive produce, such as vegetables, that require transplanting, multiple harvests by hand and for other produce that requires attention to detail.[18]

Small farms also play major social roles. Income from small farms tends to be spent on local goods and services, boosting local economies. Small farms are more likely to employ people than adopt capital-intensive technologies, too, which is critical in economies with a labour surplus.[19]

In countries where agriculture contributes a large proportion of national income, the case for prioritising agriculture is clear as a potential route out of poverty. GDP growth originating in agriculture is five times more effective in reducing poverty in low income countries than growth in other sectors; in sub-Saharan Africa, it is 11 times more effective.[20] Studies suggest that for every 10 per cent increase in farm yields, poverty falls by 7 per cent in Africa and 5 per cent in Asia.[21] It is worth recalling that the two countries that have reduced rural poverty the most in recent decades – China and Vietnam – did so by empowering smallholder farmers with tiny plots of land. In China, rural poverty was reduced among 200 million smallholders with an average holding of just 0.65 hectares[22]; in Vietnam, the average landholding was around 0.46 ha.[23]

Environmental stewardship

Smallholders act as stewards for much of the world's natural resources like land, water and forests, thus protecting vital ecosystems services.[24] Because the land represents the future livelihood of the household, there is a strong incentive to manage the natural resources in a sustainable manner. Natural resources are highly likely to be under pressure from other users (such as commercial demand for water, land or forestry) and regulation can be weak. The rights of smallholders to have influence and control over the natural resources upon which they depend need to be upheld.

Climate change exacerbates the existing pressure on ecosystems – for example, by increasing the frequency and intensity of extreme weather events – so smallholders also need active support within climate change adaptation strategies.[25] This issue is explored further elsewhere in this paper.

Joyce Line Joseph works on Stephen Best's farm as a packer. Steven Best is a member of Winfa, St Lucia

Women in farming

Women produce 60-80 per cent of the food in most developing countries and are the main producers of the world's staple crops – rice, wheat and maize. Production by women smallholders is essential for responding to rural hunger, since staple crops provide 90 per cent of the food consumed by the rural poor.[26]

Women-headed households make up around **40%** of all rural households in southern Africa and **35-40%** in parts of Asia.[28]

And constitute over **70%** of agricultural workers and **80%** those employed in basic processing work like sorting, grading and packaging food.[27]

Despite their critical position in agricultural production, women are often disempowered and isolated, lacking legally recognised titles to the land they farm, and having too little voice in any producer organisations to which they belong. They may lack negotiating experience when seeking access to markets or face discrimination because of their gender. They may also simply not have the use of a vehicle in which to transport their produce. 20 per cent of all small producers registered in Fairtrade co-operatives are women.

Critical for the supply of popular commodities

The majority of smallholder farmers produce food for their immediate families and local communities. A minority, like those with whom Fairtrade works, manage to access local, national or international markets. But too often these farmers still experience poverty and insecurity.












Some 30 million smallholders produce most of the world's coffee and cocoa, and tens of millions of others play important roles in the production of tea, bananas and sugar (see table opposite). Many of these smallholders live in poverty on less than $2 a day.

Box 1: The importance of smallholders

Cocoa

Over 90 per cent of the world's cocoa is grown on five million small farms covering 1-5 hectares.[29] In total, some 40-50 million people depend on cocoa for their livelihood.[30] The Ivory Coast and Ghana dominate world production. Each has 700,000-800,000 cocoa growers who are among the poorest people in the country, many living on $2 a day. In Ivory Coast, cocoa provides a livelihood for around six million people, nearly a quarter of the population. In Ghana, over three million people – 12 per cent of the population – depend for their livelihood on cocoa, which provides a quarter of the government's foreign exchange earnings.[31]

Coffee

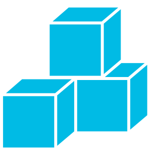
Some 25 million smallholders produce 80 per cent of the world's coffee and 100 million people depend on the crop for their livelihoods.[32] In Africa, over 90 per cent of coffee is produced by farmers with less than two hectares of land, and over 40 million people depend on the crop for their livelihood.[33] Some 15 million of them are in Ethiopia. In Uganda, half a million smallholders produce coffee, 90 per cent of whom farm land of 0.5–2.5 hectares in size, and which provides income for 3.5 million people.[34]

Tea

Tea, distinct from coffee or cocoa, is usually grown on large plantations, **but smallholder tea growers produce most of the tea in countries such as Kenya** – where it supports the livelihoods of three million people[35] – **and Sri Lanka** – where 400,000 smallholders produce 76 per cent of the country's tea, equivalent to 5 per cent of world production. China, which grows one third of the world's tea, has 80 million tea growers while India, the world's second largest producer, has 160,000 smallholders who account for 26 per cent of India's and 6 per cent of the world's production.[36]

Bananas

Bananas are an important staple food in much of Central, Western and Eastern Africa, and other countries such as the Philippines, **grown by millions of smallholder farmers**.[37] Bananas are the fourth most important crop (after rice, wheat and maize) for ensuring food security in dozens of developing countries.[38] Only around 20 per cent of bananas and plantains are traded; the rest are used for domestic consumption. Around 90 per cent of the bananas that are internationally traded are produced on large plantations run mainly by multinational companies; the rest are grown on small-scale, family farms. Only in the Windward Islands in the Caribbean do smallholder farmers produce most bananas for export.[39]



Sugar

Sugar is a source of livelihood for millions of people around the world working mainly on large plantations, notably in Brazil – the world's largest sugar producer – but **also on small farms, especially in Africa**. In Swaziland, for example, 12 per cent of the land under cane is farmed by smallholder associations, with land areas ranging up to 50 hectares per association.[40] Most smallholder sugar growers farm plots of a few hectares and many live on less than $2 a day.

Fairtrade's experience and insight is largely drawn from farmers producing these globally traded commodity crops. Such farmers typically eke out a precarious existence on small plots of land, sometimes in remote areas, faced with rising costs for essentials like fertiliser and fuel, little access to credit to invest in their businesses, and increasingly erratic weather conditions. Many are routinely manipulated by local traders and lack up-to-date market information to negotiate effectively. Despite their potential power to drive poverty reduction and economic growth, too few smallholders can make their voice heard in national and international policy making. We now turn to look in detail at the challenges they face if their power is to be unleashed.

2. CHALLENGES FACING SMALLHOLDERS

Smallholders are clearly not all the same, and the factors holding them back will vary according to their particular context. Fairtrade's experience is with farmers engaged in international supply chains, whose needs will differ in many ways to the needs of subsistence farmers selling little or nothing in local markets. Food producers' needs are often different to those of cash crop farmers, and women's needs are often different to men's. It is essential to determine which constraints are holding back improvements in productivity for which categories of smallholders, in order to identify the optimal policy interventions.[41]

However, with these caveats, some big challenges can be identified as common to most smallholders, wherever they live and whatever they grow. Addressing these challenges holds the potential to unleash the power of smallholders to achieve food security, reduce poverty, and build more sustainable livelihoods.

Voice in decision-making

An underlying problem is that smallholder farmers tend to be **ignored in national and international decision-making** so they lack influence and power over decisions that do, or could, affect them. For example, smallholders' demands for local services and farming inputs regularly go unheard. The participation of smallholders in agriculture policy and budget setting, or in global supply chains in which they participate, is extremely low. In particular, the voice of women smallholders remains marginalised in both farmer organisations and policy making networks. In many cases, policies are imposed in a top-down fashion, with insufficient attention to local needs and regional differences, by unaccountable policy-makers.

As a result, policies affecting the lives of millions of farmers are largely formed over their heads, without their substantial input. Attempts to involve stakeholders in policy design by governments and donors tend to be largely superficial, especially with regard to women farmers.[42] A recent report by African governments concluded that there is ‘only limited evidence’ of sufficient stakeholder participation in government agriculture policies.[43] The lack of consultation with farmers is a major problem in many current ‘land grabs’, where negotiations between company and government, and sometimes local leaders, often take place behind closed doors. Little or no information is provided to farmers on the contracts signed, even after projects begin.[44]

This lack of voice and power underlies numerous challenges facing smallholder farmers on the farm, and at national and international level, at which we look next.

Land and natural resources

A significant challenge for many smallholder farmers is the **poor quality of land** on which they produce their crops or manage their livestock. Millions of farmers rely on increasingly degraded, less productive land. This is often the result of over-intensive livestock keeping and cultivation, often involving excessive use of chemical fertiliser and pesticides.[45] Around 74 per cent of agricultural land in South and Southeast Asia has been severely affected by erosion, wind or water or chemical pollution.[46]

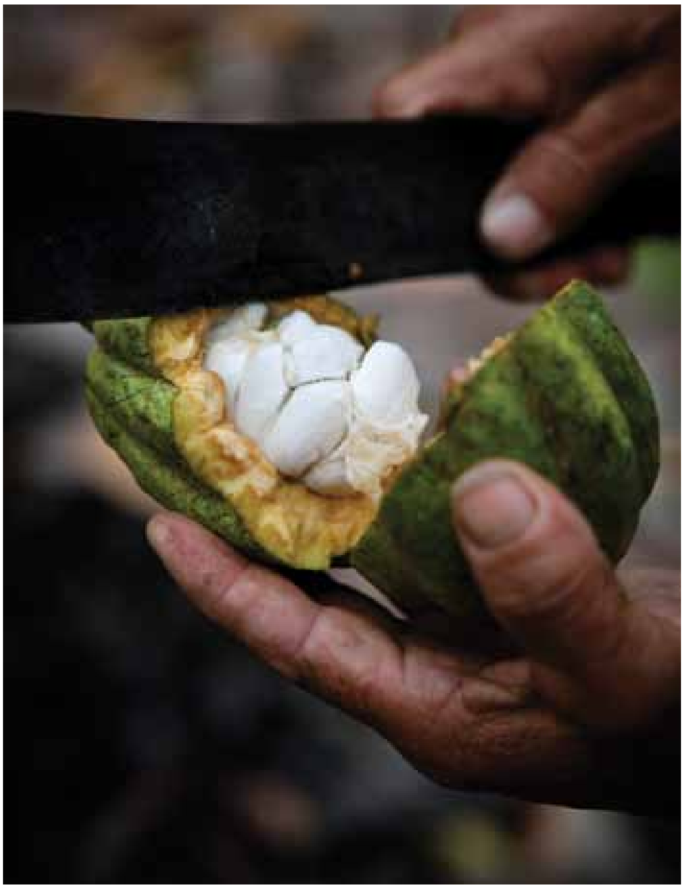
For many farmers, **water** is an increasing problem but they have little say over how any public water sources are used or managed, and there can be competition for the use of groundwater. Dependence on rain for farming, especially for those relying on a single, short rainy season, is even riskier in light of increasing climate change, which is bringing more droughts and more floods. Millions of farmers lack sufficient irrigation; in Malawi, for example, less than 1 per cent of arable land is irrigated.[47] In many places, water supply and quality have been badly affected by conventional farming. The over-use of chemicals has contaminated water aquifers and waterways with nitrogen, phosphorous and highly toxic heavy metals such as copper and zinc.[48]

In addition, many smallholder farmers do not enjoy clear or commonly understood **security over the land they farm**. This makes livelihoods more precarious and deters farmers from making long-term investments that could boost productivity – a vicious circle. Such farmers are less able to get access to finance to invest in their farming or to set up a related small business, since they are seen by lenders as too risky. Increasingly, those with unclear land tenure are more easily forced off their land in the current wave of large-scale land acquisition (often meaning ‘land grabs’) by agribusiness investors and sovereign wealth funds. In Africa, an area the size of Kenya has been acquired for agriculture by foreign investors.[49] This report does not explore the issue in detail but we note its importance for the livelihood security of smallholders.

Extreme weather

Climate change is causing more extreme weather events such as floods and droughts, spreading disease, undermining crop and livestock production and reducing water supplies. Numerous studies show that crop yields from rain-fed agriculture will likely fall due to global warming – by up to 50 per cent by 2020 in some African countries and by up to 30 per cent by 2050 in Central and South Asia, according to some estimates.[50]

Coffee farmers, for example, are already experiencing the spread of pests and disease, higher temperatures, erratic rains or periods of drought that are disrupting production. Tea production in East Africa is likely to become less viable at lower altitudes within the next few decades.



Box 2: The impact of climate change on smallholders involved in Fairtrade

The KDCU co-operative in Tanzania, which has produced Fairtrade certified coffee since 1995, has been a significant force in improving the lives of local communities over the past 20 years. But changing weather patterns are disrupting coffee growing. This has left its 17,838 members with a vastly reduced output of coffee beans. A crippling drought from the beginning of 2011 wiped out members' coffee crop.[51]

This is just one example amongst many. Recent research by the Natural Resources Institute suggests that all the major Fairtrade products are under increasing threat from climate change:

- In many **coffee**-growing regions a combination of lower rainfall and higher temperatures will render production unsustainable by 2050, at lower elevations where the crop is currently cultivated.
- The main threat to **cocoa** production posed by climate change lies in the increased susceptibility of trees to drought. This is a particular concern in West Africa where high variability in seasonal rainfall patterns is already affecting cocoa yields.
- As regards **tea**, the probable increased variability in rainfall will increase the vulnerability of tea plants to stress from drought. In East Africa, tea production is likely to become less viable at the lower levels of its current altitudinal range within the next few decades. A reduction in quality is also likely to occur in some varieties as temperatures increase at higher altitudes.
- For **bananas**, changes in rainfall patterns are likely to have a larger effect on production than increases in temperature. In Central and South America where Fairtrade bananas are grown, areas which currently have unstable rainfall during drier periods will become increasingly marginal for sustainable production.[52]

Poor access to markets

Most smallholders are net buyers, rather than net sellers, of food, but many sell some of their produce in local markets. Many would be able to sell more, and be incentivised to produce more, if they did not suffer from **poor access to local markets**. The problems here are several: it can be that there are poor roads, or no roads, to transport goods to a local market, or that there are roads but few means of transport to use them, or that there may be transport available for men, but not for women. The problems are bigger in more remote areas where there are fewer markets and fewer roads, especially feeder roads to villages which can be impassable in floods. Without access to markets, smallholders are forced to sell at their farms to passing private sector traders, often at much lower prices.

Skills, tools, technology and agricultural services

Smallholders the world over use only **basic farming equipment**. This means that farmwork is hard labour, and acts as a barrier to increasing productivity. Nor do most farmers have access to adequate crop drying or storage facilities, with the result that much of their crop can be lost after harvest. These massive losses show that increasing the availability of food is not simply a question of boosting food production.

Mobile phone (and smartphone) coverage is increasingly recognised as very beneficial for smallholders, with benefits such as improved connections with market prices, banking services and improved farmer organisation communication.[53]

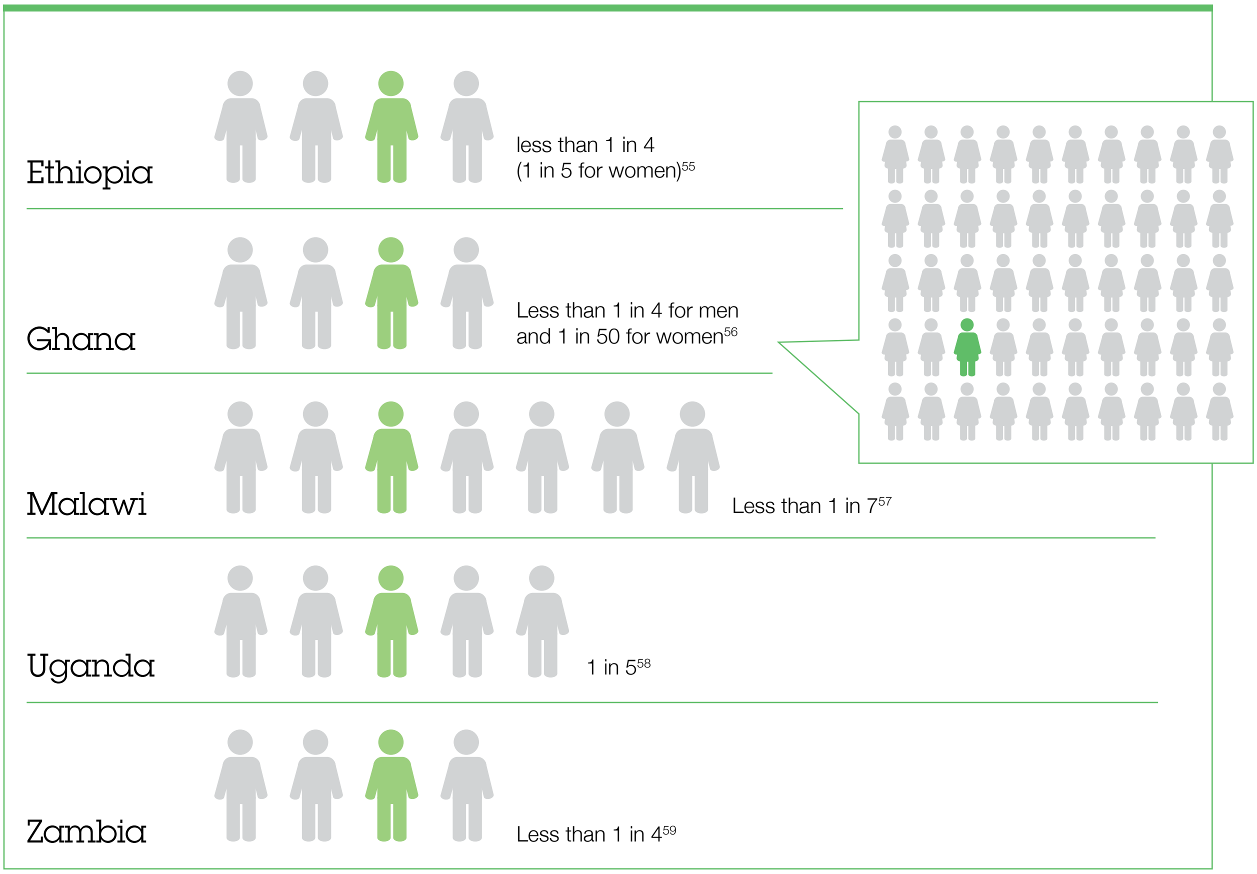
The UN's Food and Agriculture Organisation (FAO) estimates that the amount of grain lost after harvest in sub-Saharan Africa amounts to around $4 billion a year – nearly one-seventh of the total. This is roughly equivalent to the value of its cereal imports.[54]

Little or no access to **agricultural services** is a particular challenge facing most smallholder farmers. Trained agricultural officers providing extension services can be vital in providing advice to poor farmers to improve their food production and household income.

Training or information can be offered on the best farming techniques, on new, higher-yielding crop varieties, on low input technologies, or on what crops are likely to produce most profit next season. Yet many government extension budgets were massively cut in the 1990s and have never recovered. Most African farmers, especially women, now receive no extension advice (see box).

Oliva Kishero on her farm in Uganda

Box 3:
Farmers with access to extension services in select African countries



Many farmers do not have access to **rural financial services such as credit** or weather insurance.[60] Since their agriculture is mostly rain fed, smallholders often avoid seeking credit out of fear of crop failure, while the seasonal nature of farming does not fit fixed repayment periods of short-term loans.[61] Rural women are further hindered by their lack of collateral (such as ownership of land), and low awareness of how to access credit.

Lenders in turn often see agriculture as risky because of the expected high default rates from farmers.[62] There are also high administrative costs per unit of currency when lending to dispersed rural communities, alongside the small amounts of money (or other forms of credit) borrowed.[63] Together these factors result in high interest rates which in turn put off farmers from borrowing to invest in their businesses.[64]

Women

All these challenges are far greater for **women**, who are the majority of farmers in many developing countries. Women control less than 2 per cent of land globally.[65] In most countries, government agricultural policies assume farmers are men, not women, and rural women's voices seldom influence policy or budget decisions. Hardly any African governments have agricultural budget lines targeting women farmers specifically.[66] Within households, women are often the last to eat, which is ironic given their role as primary food providers for the family. Furthermore, women often have little control over family income, due to cultural attitudes.


Nofita Chikodzera tends her groundnut crop, Malawi

High and volatile food prices

International policies are another piece of the jigsaw if we are to understand the challenges facing smallholders today.

The challenges to smallholder livelihoods, and the hunger and poverty which results when they are weak, or fail, are being exacerbated by the high and volatile food prices experienced in recent years. Most smallholder farmers are net food buyers – buying more food than they sell – meaning they are currently suffering rather than gaining from high food prices.[68]

The minority of smallholders who are net sellers of food can benefit from higher prices provided that those prices trickle down to the farm gate where they sell. However, farm gate prices are usually modest compared to the world market price and to the price paid by consumers in urban areas. Although some farmers might be able to shift from subsistence farming to commercial, market-oriented production when food prices are high, the primary beneficiaries of rising food prices are likely to be larger-scale commercial farmers, along with hoarders of food stocks, who can take advantage of the higher prices.[69]

Smallholder farmers producing agricultural commodities for sale in regional or global markets – which encompasses farmers working in Fairtrade – **live with extremely volatile markets and prices for their produce**. World prices of commodities have remained very volatile in recent years, as illustrated below, which shows annual percentage changes in prices.

The amalgamated price of all commodities measured on UNCTAD's commodity index[70] is striking: the price rose by 24 per cent in 2008, declined by 17 per cent the following year and then rose 18 per cent in 2010. It then rose by 17 per cent in 2011 before plunging by 6 per cent again in 2012. To take one commodity, coffee, prices rose by 27 per cent in 2010 and 43 per cent in 2011 before falling by 18 per cent in 2012.

Staple food producers are also not immune to the impact of price volatility, even if they do not sell their produce internationally, if their national economies are linked into global markets.

Oliva Kishero on her farm, Uganda

Box 4: World commodity prices (percentage change from previous year)

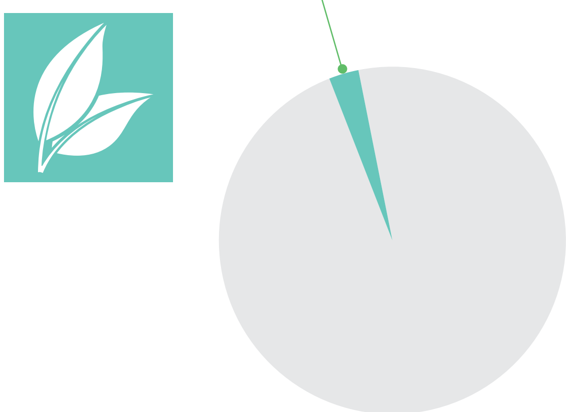
Source: UNCTAD, Trade and Development Report 2012, p.11

Smallholder farmers receive low returns from their produce, amounting to only a fraction of the price for which those commodities are sold in retail outlets. Research shows that:

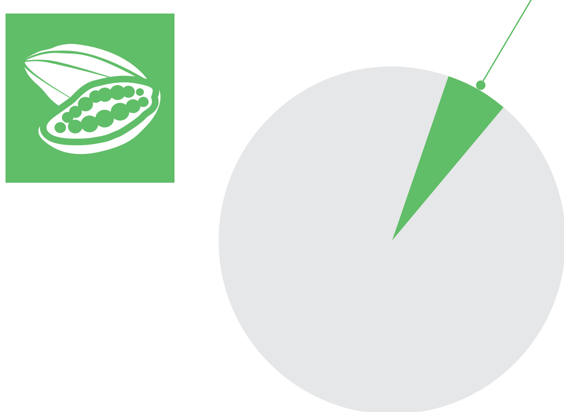
Coffee smallholders receive **7-10%** of the retail price of coffee in supermarkets.

Of the retail price of bananas just **5-10%** goes to the smallholder producers.

Smallholder tea growers are likely to receive less than **3%** of the retail value of tea, and often less than **1%**.



Cocoa smallholders are likely to receive just **3.5-6%** of the retail value of a chocolate bar.



Volatile world prices are partly driven by increased speculation on commodity markets. The annual number of commodity futures contracts traded in exchanges globally has risen exponentially from 418 million in 2001 to 2.5 trillion in 2010.[71] Between 2003 and 2008 speculative investment in commodity indexes increased from $15 billion to around $200 billion.[72]

A recent report for UNCTAD investigating coffee and cocoa price volatility concludes that, 'As a consequence of increasing speculative activity, small farmers growing cocoa and coffee in developing countries are even more exposed to price risk, especially as few alternatives to manage price risk are available to them'.[73]

Box 6: Volatile coffee and cocoa prices

Coffee prices are mainly set on international exchanges in London and New York, and are notoriously volatile, fuelled by speculative activities. Global coffee production varies from year to year according to weather conditions, disease and other factors, resulting in a coffee market that is inherently unstable and characterised by wide fluctuations in price. This price volatility makes it difficult for growers to predict their income for the coming season and budget for their household and farming needs.

For example, the price of arabica has swung from a 30-year low of 45 cents a pound in 2001 to a 34-year high of almost 309 cents in 2011. Similarly, robusta crashed to 17 cents a pound in 2001 before climbing to 120 cents in 2011.[74]

Cocoa prices are determined by trading activity in London and New York and are also volatile. They reached a 27-year low ($714/ tonne) at New York in November 2000 and a 32-year high ($3,775/ tonne) in March 2011. Current high prices are strongly affected by production deficits in some countries and the disruption of cocoa exports following the disputed presidential election in the Ivory Coast in 2010.

Longer-term price trends for cocoa are affected by changes in supply and demand, corporate acquisition, and disinvestment in the cocoa trade. Shorter-term price changes may result from weather conditions, producers withholding stocks in the expectation of higher prices, and speculative trading on futures markets.[75]

How global supply chains can disempower smallholder farmers

Despite being part of potentially lucrative international supply chains, smallholders producing commodity cash crops remain disempowered within them, viewed more as suppliers of raw commodities rather than as partners in business.

Even when prices are high, smallholder farmers receive low returns from their produce, amounting to only a fraction of the price for which those commodities are sold in retail outlets. Research shows that:

- **Coffee** smallholders receive 7-10 per cent of the retail price of coffee in supermarkets while 33 per cent goes to the retailer.[76] Less than 30 per cent of the revenues generated by world coffee sales remain in coffee producing countries.[78]
- Smallholder **tea** growers are likely to receive less than 3 per cent of the retail value of tea, and often less than 1 per cent. The price they receive varies from just 4-17 per cent of the international tea price in countries such as Malawi, Kenya and Sri Lanka.[79] By contrast, the seven transnational corporations that control world tea production, trade, processing and packaging account for up to 80 per cent of the retail price.[80]
- **Cocoa** smallholders are likely to receive just 3.5-6 per cent of the retail value of a chocolate bar. This compares to 18 per cent in the late 1980s. By contrast, the share of profits for the manufacturers has increased from 56 to 70 per cent, and for retailers from 12 to 17 per cent, over the same period.[81]
- Of the retail price of **bananas**, only 1-3 per cent returns to the workers on large plantations and just 5-10 per cent goes to the smallholder producers.[82] Overall, around 12 per cent stays in the producing countries.[83]

Low returns to growers are mainly due to the fact that supply chains are controlled by a handful of powerful corporations which secure most of the profit from those supply chains (see Box 7). Even when world commodity prices are high, large transnational corporations and financial investors tend to capture most of the gains.[85]

Box 7: Corporate control of commodities and supply chains

By largely setting the rules, for prices, costs and standards, in the supply chains they govern, companies can determine through their 'buyer power' where most costs fall and where most risks are borne. Usually costs and risks are passed down onto the weakest participants who are the farmers and labourers at the bottom.[86]

The squeeze on farmers can result in short term or precarious contracts and poverty wages, poor health and safety practices, and cuts in benefits, like maternity, sickness and pensions, for those fortunate enough to be on some sort of a contract.[87]

In coffee:

- Three main traders, Neumann Gruppe, Volcafe-ED&F Man and ECOM, control almost half the European coffee trade.
- The top five companies involved in roasting and marketing control around 85 per cent of the European market.[88]
- Three companies – Nestlé, Kraft and DeMaster Blender/Douwe Egberts – account for around 42 per cent of global coffee sales.[89]

In cocoa and chocolate:

- Supply is controlled by nine companies: three grinders who process the cocoa – Cargill, Barry Callebaut and Archer Daniels Midland – and five chocolate and confectionery companies – Mars, Nestlé, Hershey, Mondelez International and Ferrero.
- Five multinationals account for more than half of world grindings – Archer Daniels Midland, Cargill, Barry Callebaut, Petra Foods and Blommer.
- More than 70 per cent of cocoa exported goes to the Netherlands for processing: a concentration that weakens producers' positions in the value chain.[90]
- One company – Switzerland-based Barry Callebaut – dominates world production of industrial and speciality chocolate.[91]
- Four companies – Kraft (now Mondelez International), Mars, Nestle and Ferrero – accounted in 2010 for 56 per cent of world chocolate sales, worth $82.5 billion.[92]

In tea:

- Seven vertically-integrated **tea** companies control 85 per cent of tea production through their own factories and estates.[93]
- Four companies – Unilever, Tata Tea, Van Rees and James Finlay – are paramount, with Unilever, the largest, buying 12 per cent of the world's black tea.[94]

- Retail sales are highly concentrated. The top three packers control 60 per cent of the tea market in the UK, 67 per cent in Germany and 66 per cent in Italy.[95]

In bananas:

- Just five companies – Chiquita, Dole, Del Monte, Noboa and Fyffes – control around 75 per cent of the world **banana** trade.[96]
- Retail sales are highly concentrated. In the UK, four supermarkets, (Tesco, Asda/Walmart, Sainsbury's and Morrisons) account for 74 per cent of banana sales.[97]

In sugar:

- Thousands of companies – producers, millers, refiners, wholesalers, traders and retailers – are involved overall, but a few are dominant.
- The largest six sugar traders – Czarnikow, Sucden, Bunge, Louis Dreyfus, Cargill and ED&F Man – account for around two-thirds of world trade.[98]

Damaging subsidies in wealthy countries

Smallholder farmers producing commodities in international supply chains are in effect competing with producers in wealthier countries whose governments often provide **massive subsidies to their farmers**. This is especially the case for commodities such as sugar and cotton. In the nine years since the Doha Development Round was launched, between 2001 and 2010, $47bn was doled out by the United States, the European Union, China and India to its cotton growers. Over 51 per cent of that $47bn went directly to US farmers.[99] Developed countries' agricultural subsidies have tended to depress world food prices and, by encouraging overproduction, also resulted in dumping in developing countries, undermining local producers.

Fernando Calle Orozco picking cocoa, CEPICAFE, Peru

Cane harvesting, Belize Sugar Cane Farmers Association

There are well-documented examples of the impact of subsidies on staple crop production. In 2010, former US President Bill Clinton issued a public apology[100] for the damage to Haitian rice production caused when Haiti lifted import tariffs on subsidised US rice imports.[101]

The former UN special rapporteur on the right to food, Jean Ziegler, noted some years ago – in a view that still holds true – that 'countries of the North, subsidising agriculture and selling products at below the cost of production, are displacing millions of farmers in the South out of agriculture, when agriculture is their only comparative advantage'.[102]

3. REBALANCING THE POWER:

A FIVE POINT AGENDA FOR POWERING UP SMALLHOLDER FARMERS

Stephen Best, a Fairtrade banana farmer and member of WINFA in St Lucia

‘Agricultural policies have primarily benefitted farmers with productive land and access to water, bypassing the majority of small-scale producers who are still locked in a poverty trap of high vulnerability, land degradation and climatic uncertainty.’

FAO, The State of the World’s Land and Water Resources for Food and Agriculture, 2011[103]

Supporting the world's smallholder farmers presents the single biggest opportunity to increase global food security, while also building sustainable livelihoods and ensuring environmental stewardship. The case for investing in smallholders is clear, but the quality of that investment is even more important than the quantity.

Our five point agenda

Fairtrade's experience shows that a critical answer to sustainable food production lies with smallholders themselves, and especially with their organisations, as the key architects of local solutions, as practitioners of improved farming practices and as local investors into poverty eradication.

Drawing from our knowledge and insights, we set out below a five point agenda for those farmers who are trying to sell into local, regional, national and international markets. While these are not meant to be exhaustive or applicable in all circumstances, we believe that five fundamental principles – putting farmers first, ensuring fair share of value and fair access to finance, building future proofed farming, and focussing government funding – should inform the policies and practices of governments, donors, multilateral agencies and private sector actors.

Box 8: Fairtrade: Key facts

The Fairtrade system currently works with 1.24 million farmers and workers – across 66 developing countries organised in 991 producer organisations.

Globally, shoppers spent **€4.9 billion** on Fairtrade products in 2011, 12% more than in 2010.[104]

Box 9: The Fairtrade standards

Fairtrade standards provide a safety net against the unpredictable market, ensuring farmers always get a price that covers their average costs of production. Standards are agreed through multi-stakeholder consultation involving producers, traders and NGOs, as well as desk research.

Fairtrade producer organisations receive:

- A Fairtrade minimum price (except in some commodities, such as sugar) or the market price, if higher, for their produce
- An extra amount for Fairtrade-certified organic produce
- A Fairtrade Premium on top of the minimum price for investment in community social and economic projects, or business development activity
- Producer organisations in most Fairtrade commodities can also request up to 60 per cent of the purchase price as pre-finance enabling the organisation to purchase their members' crop at times when money would otherwise be tight

In some commodities (notably fresh fruit and vegetables), Fairtrade standards also exist for larger farms where the benefits are aimed at improving conditions and livelihoods of the workers.

In the case of smallholder agriculture, Fairtrade certification is open only to small farmer organisations owned and governed by the farmers themselves, in which democratic decision-making, including on the spending of the premium, is required. The Fairtrade system's environmental standards require environmental protection to be part of the organisation's management plan, to restrict the use of agrochemicals and to encourage sustainability.

1. Farmers first: Increase farmers' voice, influence and organisation

Underlying smallholders' lack of access to inputs, land and services is their limited power, and the failure of governments and donors to listen to the voices and insights of farmers and their organisations. National farmers' organisations may tend to represent large businesses rather than smallholders, and the participation of women farmers can be minimal. Too often the wealth of smallholders' existing knowledge on vital issues, such as how to control pests, how to cope with climate change or what crops to grow when, goes unheard.

Recent initiatives by governments and the private sector have seen major efforts to increase smallholder productivity, but these have often been driven through a top down approach, rather than a model that empowers smallholder organisations to develop their own local capacity to deliver farming improvements. Similarly in trade negotiations and policy formulation, the voices of smallholders are rarely sought out or heard.

Fairtrade's experience shows that where smallholder farmers are organised, have control over their resources and visibility and influence over decisions that affect them, results are impressive. The forming and strengthening of co-operatives or producer organisations can go a long way to rebalancing the power for smallholders. Such organisations can enable smallholders to strengthen their collective voice so that they are heard in public policy making and have a stronger hand when negotiating within supply chains.

Producer organisations also offer prospects that smallholder farmers would not be able to achieve individually, such as helping them to secure land rights, run businesses more efficiently and access better market opportunities. Members can usually benefit from increased purchasing power to achieve group discounts on inputs such as fuel, seed and machinery. Co-operative members can call upon advice and support not only from farmers in the same position, but also from agronomists and technical experts.

The Fairtrade system itself has evolved and improved in response to the crucial issue of voice. In order to give equal voice and authority to producers, the system changed in 2012 to ensure Fairtrade producer organisations now have equal representation, with 50 per cent ownership of the system and its decision-making.

A core characteristic of Fairtrade's work is building and strengthening such farmers' organisations. Fairtrade standards encourage farmer organisations to be representative, democratic and participatory and to build individual and collective capacity to becoming effective planning and decision-making bodies.[106] There is strong evidence that such institutional impacts of Fairtrade's work with small farmers are at least as important as economic impacts such as higher prices and incomes for smallholder farmers.[107] A comprehensive literature review of Fairtrade impact studies noted how a significant number of studies identified ways in which individual producers felt more personally empowered as a result of participating in Fairtrade and reported positive impacts in relation to organisational strengthening. Fairtrade principally results in improved individual empowerment in terms of producer self-confidence, improved market and export knowledge and greater access to training. It brings about organisational


Marvin Cascante Lobo, coffee farmer, Costa Rica

strengthening largely through enabling producer organisations to achieve greater influence nationally and locally, by greater democracy in decision making and levels of participation, and better ability to attract other sources of funding.[108]

For example, an assessment of the impact of Fairtrade certification on three tea organisations in Malawi indicated that Fairtrade has contributed to considerable organisational change, both structural and procedural. This has led to greater democracy, transparency and accountability. Both smallholder tea producers and tea estate workers have been given more voice within their organisations. Fairtrade certification has led to access to markets previously unavailable.[109] Similarly, increased income through the Fairtrade Premium has enabled the Belize Sugar Cane Farmers Association (BSCFA) to become a more representative and participatory farmers' organisation by enabling it to hold meetings more regularly (from a few times per year to more than once per month) and improving communication and transparency between farmers. Cane growers are now able to voice their opinions at meetings and are kept informed about how funds are being invested.

An important impact of such efforts to build more bottom-up and participatory producer organisations is their ability to decide democratically how to invest and utilise the income they earn through the Fairtrade Premium. These can be best practice models that stand in marked contrast to some government policy-making processes, tending to impose policies from above. A recent impact evaluation of Fairtrade certification on six producer organisations identified this as a unique and key benefit of Fairtrade. It noted that smallholder farmers and workers have the opportunity to be directly involved in the planning and implementation of development projects in their communities and region as a result of their involvement with Fairtrade.[110]

A longitudinal study of the impact of Fairtrade on smallholder sugar farmers belonging to the Belize Sugar Cane Farmers Association showed that the substantial premium income earned from 2008-2011 had been invested to benefit both households and the wider community. Free inputs such as fertilisers and herbicides had been given to farmers, and jointly determined community projects had been established, including student grants, funeral grants, road improvements, purchase of sports equipments for schools and school and church renovation. Environmental work included soil analysis, a replanting programme and a frog-hopper programme, all of which contributed to an increase in yields in the 2010-11 season.

Deles Gussie, Dominica. Gussie is diversifying into grapefruits, coffee and spices to help sustain his business during difficult times.

Box 10: Benefits of Fairtrade to strengthening producer organisations

The democratic and independent organisation of smallholder producers is a key element of Fairtrade's development focused model of trade. Fairtrade farmer organisations must incorporate co-operative principles including:

- voluntary membership
- democratic control
- economic participation of members
- autonomy and independence
- concern for the community.

Joining together enables farmers to pool resources, benefit from economies of scale and strengthen their market position. By working closer with buyers, Fairtrade co-operatives learn about quality requirements and consumer needs. They can invest in processing and warehouse facilities to increase their share of the export price, in technical assistance to improve yields, in training to improve quality, and in skills training and better business methods to improve the efficiency of their co-ops. All of this investment enables co-ops to negotiate higher prices for their members, allowing them to lift themselves out of poverty through trade.

Co-ops that have contracts with Fairtrade buyers are in a much stronger position to negotiate pre-financing loans which give them the liquidity to purchase produce from members at harvest time when funds are traditionally very low.

Fairtrade also directly supports producers in improving productivity and quality. For example, in coffee, at least 5 cents of every dollar that organisations earn as Fairtrade Premium must be invested in projects that will improve productivity or quality of coffee.[111]

However, the voice of women farmers continues to be heard far less than that of men. This is important because while not all agricultural policies need to be different, many do, since the needs of women farmers are often different. In one survey in Uganda, for example, male farmers said the biggest barriers to increasing farm production were transport and lack of access to markets and credit. But women mentioned the time needed to look after their families, prepare food and work on their husbands' gardens. Thus the policy implications for supporting men and women farmers can be completely different.

Without tailored targeting, women will continue to lose out in terms of access to extension services, subsidy programmes, credit schemes and agricultural research, relative to men. For example, training more women to become extension officers and making sure that services are delivered in appropriate ways, is essential. Within Fairtrade, women cocoa producers in Oro Verde in Peru have reported that technical assistance is the most useful service that they receive from their organisation, providing them with useful and economically empowering new skills.

Governments and donors need to be much more open about their current policies. Transparency in government budgets is crucial to ensure the best use of resources, to prevent corruption and to help citizens hold governments to account for their spending. But according to the Open Budget Index, 74 out of 94 countries surveyed fail to meet basic standards of transparency and accountability. 40 countries fail to provide any meaningful budget information at all.[112] In many countries, it is hard to get hold of detailed agriculture budgets, meaning that farmers do not know what resources or services they are entitled to.

Putting farmers first and listening to their voice requires that governments, donors and private sector actors each do more to encourage the formation and capacity-building of producer groups. These in turn can then influence policy design and implementation, and budget setting and monitoring.

Box 11: Powering up women farmers through co-operatives – Uganda

Oliva Kishero, and her husband Joseph Kishero Keith, own and run their organic certified coffee farm in Gowosi village on the slopes of Mount Elgon in Uganda. They belong to the Gumutindo Co-operative. Oliva has been treasurer of Gumutindo for four years and is one of Buginyanya Co-op's seven committee members. She takes these responsibilities very seriously and is proud that she is setting an example for other women.

'Women have seen me become a successful farmer and a voice in the co-op and many women farmers are interested in joining our co-op. Now they also want to earn their own money, to be independent and support their families financially. And now some of the men are realising that it is better for their home if they treat women more equally.'

Through her work at the Gumutindo office and Buginyanya Co-op, Oliva has learnt about the different grades of coffee and how to improve the yield and quality of her coffee and also how to deal with people: 'I was just a farmer but now I'm a businesswoman'.

2. Fair share of value: Ensure farmers are empowered in value chains and receive fair prices

In the past two decades much agricultural policy has tried to link smallholders to export markets by integrating them into supply chains. It is important to understanding how to link poor producers to markets, and identifying which markets can benefit what kinds of producers, are critical steps for the development community. However, the truth is that there remain too many international supply chains in which companies have little or no traceability back to their primary producers, including smallholder farmers, and no significant programmes to invest in farmer organisation strengthening and sustainable agricultural practices. For smallholders, the norm is still to sell to middlemen, with no knowledge of where their crop may end up.

The question to be asked is who benefits the most in these chains. As noted in the previous section, the global market in most commodities is highly concentrated, with a small number of transnational corporations dominating the trade and securing most of the value from international supply chains. Meanwhile smallholders are generally marginalised and receive low returns for their produce. There is a critical role for governments and aid donors here.

Governments must explore ways to ensure greater transparency and 'fair competition' in international supply chains which create a fairer distribution of value across the supply chain and so enable smallholders to secure a sustainable price for their produce. Tools to achieve this include stronger competition policies and mechanisms such as the UK's Groceries Code Adjudicator (GCA).[113] The GCA Bill was introduced in the House of Lords in May 2012 and examines the practices of large supermarket chains with regard to their suppliers, including farmers and small-scale producers. If the bill is passed an Adjudicator will be responsible for ensuring that retailers deal fairly and lawfully with suppliers, do not vary supply agreements retrospectively and pay suppliers within a reasonable time.

In addition, national government and donor policies could help smallholder farmers increase their power within supply chains by investing in the capacity of producer organisations to organise and advocate for fairer and different supply chains; by supporting independent research into alternative supply chain models that put smallholder farmers first; and by supporting policies to regulate agribusiness corporations and make them more transparent and accountable.

Building fairer trading relationships is central to Fairtrade's work. Tools like the Fairtrade minimum price premium and access to pre-financing enable farmer organisations to invest in moving up the value chain. Equally, Fairtrade's focuses on building direct business partnerships between farmer organisations and large businesses and equipping farmers with information and training to secure better terms of trade. Collectively, these measures bring greater benefit to smallholder farmers and can help them increase productivity, diversify, and move up the value chain.

Importantly, Fairtrade addresses a critical problem facing smallholders – high price volatility – through a guaranteed, minimum price for their produce that covers sustainable costs of production. Research has demonstrated the benefit that such a minimum price can have on farmers' income stability, and their ability to plan and save – and therefore their capacity to invest in their farms and their communities – and that Fairtrade can act as an effective buffer against the effects of price volatility in global markets.

Evidence shows that producers with more assets (such as access to roads, education or larger land holdings) are more likely to participate in, and benefit from, formal value chains. The poorest producers with fewer assets tend to participate in value chains as labourers. Thus value chains are not a magic bullet for pro-poor development. To reduce poverty, and to reach producers with fewer assets, value chains must be complemented by other policies that improve livelihoods.

Fayson Tchale picking tea, Malawi

Box 12: 'Our children are now able to go on to secondary school'

Justino Peck is the chairman of the Toledo Cacao Growers' Association (TCGA) in Belize, an association of over 1000 smallholder farmers. He lives with his wife Christina and six of their children in a three-room house in San Jose village.

For Justino and Christina Fairtrade offers security and tangible benefits. It means they can make much needed home improvements and it provided the opportunity of sending their children to school. Christina Peck explained: 'From the money we get from cacao we have made a concrete floor in our house replacing the dirt floor, and our children are now able to go on to secondary school. We planted more cocoa because of our confidence in Fairtrade.'

Justino added: 'The difference Fairtrade cocoa makes for me is that come January, right through to July, I know I will have a market. I know that I will be able to sell my cocoa. By having that assurance I can make plans. If I want to buy books for the children's studies or we want to take a trip we can plan for that.'

The University of Greenwich study noted earlier found that 29 out of 33 impact studies reviewed showed Fairtrade producers' income benefitting from guaranteed minimum prices and 27 showing benefits in terms of improved economic stability. The study also showed that Fairtrade producers had more stable incomes and that Fairtrade could act as a buffer against the effects of price volatility in global markets. Indeed, in some areas where Fairtrade is practised, it can be the main motor for economic development in the community.[114]

The income stability provided by the guaranteed Fairtrade minimum price, together with long-term contracts and the availability of credit, enables smallholders to invest in their land, the quality of their products, in diversifying income sources, and in children's education. For example, when Fairtrade banana farmers in the Dominican Republic were interviewed as part of a global assessment of the impact of Fairtrade bananas, 75 per cent said they had savings in the bank, 48 per cent said they could use savings not loans to cover unexpected costs, and an additional 75 per cent said their standard of living had improved as a result of membership to the Fairtrade co-operative.[115]

This improved income stability is particularly important when commodity prices fluctuate wildly since price volatility prevents planning ahead or can suddenly wipe out anticipated income. For many commodity farmers, where commodities are their main source of cash income, if prices fall below the costs of production it leaves families unable to meet their basic needs such as schooling and healthcare. Should the prices of commodities fall below the costs of production for too long, smallholders go out of business. A striking example of the impact of Fairtrade on farming livelihoods is in the Windward Islands. More than 20,000 out of 25,000 bananas growers have gone out of business since 1992. Today 85 per cent of the surviving farmers are Fairtrade producers.[116]

Several studies of Fairtrade impacts cite farmers' diversification into projects that reduce vulnerability, such as improving food security through organic gardening or small-stock animal production.[117] Some studies also note that Fairtrade often plays a role not only in supporting individual producers in times of hardship, but of enabling co-operatives to survive economic shocks and stresses.[118]

Collectively, these measures bring greater benefit to smallholder farmers and can help them move up the value chain.

Research by the Fairtrade Foundation (UK) into how to make international supply chains work better for smallholders highlights some of the business interventions needed to add value to the supply chain. These in turn will help to kick start local economies. Areas of good practice that Fairtrade calls on businesses engaging with smallholder organisations to adopt include:

- Building strong and long-term relationships with farmer organisations so that farmers have the economic security to plan for the future.
- Timely year-round cash payments, rather than a one-off payment during harvest season.
- Providing farmers with information on the entire value chain of their products, and other useful information – for example, on commodity prices and global markets.
- Seeing the Fairtrade relationship between farmers and consumers as an asset to add value to products – for example, including producer stories on packaging.[119]

Box 13: Under what conditions can smallholders benefit from supply chains?

A recent report for the Ford Foundation finds that although formal value chains have the potential to benefit the poor, the full benefits – whether provided via a third-party certified chain or based on private company standards and relationships – require targeted investments in producers and communities to compliment private sector initiatives.[120] Investments are typically needed to upgrade producer skills, bolster producer organisations and intermediaries to meet market requirements (such as on quality, consistency, production standards, and processing capacity), and enhance the rewards and/or reduce exposure to risks of participating in the chain (such as by increasing productivity and improving business skills).[121] Various approaches can be used to help small-scale producers access and benefit from markets. They include third-party certification, contract farming, business service hubs, farmer-owned intermediaries, private intermediaries, direct lead firm buyer and lead farmer models.

The trading models of the lead firm and intermediaries must also be adapted when sourcing from smallholders. This often means making sure there are effective and transparent intermediaries, access to services, risk sharing and fair pricing structures. Fair and transparent governance of the supply chain is important in ensuring better quality and consistency of production and more stable benefits for producers. Fair and publicized terms of trade, quality standards and pricing structures (such as premiums for high quality) enable farmers to improve their returns. Clear on-farm management standards and incentives are important for promoting sustainable social and environmental practices on the farm. Dispute-resolution mechanisms – either formal or informal – are also hallmarks of well functioning governance structures.

Additional investments in livelihoods and food security are needed as well. In particular, providing opportunities for women to show economic leadership can reap developmental benefits since women smallholders often produce most of the food and more income held directly in the hands of women usually translates into improved nutrition and educational outcomes, especially for girls.[122]

3. Fair access to finance: Ensure access to timely and affordable credit

Timely and affordable credit is vital if farmers are to invest in their businesses. Without it, smallholder farmers are often unable to buy essential inputs or technologies, to diversify into new varieties or new crops, or to invest in machinery or storage facilities. Likewise, organisations of smallholders often struggle with liquidity problems or historic debt burdens from years of being forced to sell produce below cost of production. But access to credit is often unavailable or unaffordable for smallholders. The majority rely on friends, relatives or small savings and loans clubs, often supported by NGOs. Although numerous initiatives have attempted to close the credit gap, in most countries these reach only a tiny minority of those who could benefit.

Fairtrade increases smallholder farmers' access to credit in a number of ways. Firstly, Fairtrade understands the critical importance of timely access to affordable credit in its pre-financing support for farmers, whereby producer organisations in most Fairtrade commodities are able to request up to 60 per cent of the purchase price of their produce at the start of the season.

Secondly, the forming and developing of co-operatives, which is central to the Fairtrade system, can build farmer organisations' creditworthiness and help insure them against risks such as crop failure. The existence of a co-operative can increase a lender's willingness to lend, for example, by enabling members to borrow on the basis of their contracts, or to get a receipt for their produce when it is being stored (a 'warehouse receipt system') which can then be used as collateral against a loan. Studies suggest that traditional credit sources may view Fairtrade farmers and their organisations as having a better credit rating than their non-certified counterparts as a consequence of their better incomes and long-term contracts, as well as joint initiatives, such as drought mitigation, which reduce the chance of crop failure.[123]

A study of two Fairtrade-certified cocoa co-operatives in Peru suggests that Fairtrade has enabled both co-operatives to access credit and pre-finance for cocoa harvesting and other activities from international organisations like Progreso, Alterfin, Rabobank and Root Capital by using their cocoa contracts. This is a clear advantage over similar non-certified organisations in the region that do not have any access to working capital and are therefore capital-dependent on exporting companies.[124]

Co-operatives can themselves facilitate the provision of credit by setting up community-based finance organisations and group loan guarantees, often using the Fairtrade premium. These lending arrangements cut the risks of default by either covering repayments from a central fund, or sharing default costs across a group.

Smallholders can also access new lines of credit by using Fairtrade contracts as collateral when taking out bank loans. Some Fairtrade-certified producer groups run gender specific programmes that can also provide access to credit, For example, women-only micro-credit schemes run by a co-operative can enable female farmers to acquire assets in their own name, which in turn can be used as collateral to apply for commercial loans.[125]

However, innovations in lending practice are urgently needed to encourage more financial institutions to extend their services to the many smallholders who do not have access to credit. Ethical investment funds support some producer groups, and new initiatives are beginning to address the credit gap. Fairtrade International, in partnership with Incofin Investment Management and the Grameen Foundation, has recently launched the Fairtrade Access Fund to provide farmers' co-peratives and associations with long-term loans.

If governments, donors, and businesses are serious about powering up smallholder farmers, they must rethink their approach to credit. By investing in subsidised credit schemes, for example, or by providing loan guarantees to private banks, timely and accessible credit could transform the opportunities of hundreds of thousands of smallholder farmers. An integrated approach of supplying extension services, such as training, alongside credit or loan guarantees, may prove valuable in some contexts.[126]

Businesses in particular need to look closely at their own practices and the specific needs of the smallholders in their supply chains. Businesses must ensure that any credit they offer (whether money, goods or services) is appropriate for the smallholders in their supply chains. Providing or facilitating access to the right amount of credit, at the right time, holds the potential to reduce smallholders' short term cashflow problems, and allow them to make longer term investments, such as in machinery or storage facilities, which can boost both productivity and the quality of produce. For instance, pre-finance can provide essential support to smallholders at the start of the season when it is most needed, and frequent small payments to contract farmers through a 'revolving fund' can be much more beneficial to financially vulnerable producers than large, widely-spaced payments.

4. Future-proofed farming: Prioritise sustainable agriculture and climate resilience

Smallholders, whatever their context, need to improve their productivity while also adapting their farming to cope with the increasing impact of environmental degradation and climate change. Sustainable agriculture practices offer the prospect of achieving both. Critical practices include soil conservation, using animal and green manure, agro-forestry and intercropping, integrated pest management and water harvesting.[127] Scaling up community-based disaster preparedness, food reserves and social protection schemes is also vital to reduce vulnerability and build people's capacity to cope when weather shocks strike.[128]

Increasing evidence suggests that sustainable agriculture produces good yields. The most comprehensive meta-study examined 286 such projects in 57 countries and found an average yield increase of 79 per cent.[129] Research commissioned by the UK government reviewed 40 sustainable agriculture projects in Africa during the 2000s – involving practices such as agro-forestry, soil conservation and integrated pest management – and showed that yields more than doubled over 3-10 years.[130] The FAO's landmark report on organic agriculture of May 2007 outlined a large number of benefits from organic farming compared to conventional agriculture, stating that 'organic agriculture has the potential to secure a global food supply, just as conventional agriculture today, but with reduced environmental impacts'. It noted that large-scale conversion to organic farming in Africa could increase yields by 50 per cent.[131]

Box 14: Some advantages of sustainable agriculture over conventional farming

Sustainable agriculture provides various advantages over conventional farming, including:

Soil and water management

Sustainable agriculture has a minimum negative impact on the environment and avoids contamination of soil and water resources. It promotes the reduction of waste and pollutants and discourages burning. Organic farming methods can enhance soil fertility and water management by practices such as mulching or water harvesting, thus helping to safeguard water sources in rural areas and improve water-logging, soil drainage and water-holding capacity, with crop yields often higher in times of drought.[132]

Climate change

Sustainable agriculture can help farmers adapt to and mitigate climate change by reducing dependence on fossil fuels and energy requirements, especially by reducing the use of nitrogen fertiliser. The FAO notes that organic agriculture reduces carbon dioxide emissions by 48-60 per cent and energy requirements by 25-50 per cent compared to conventional farming.[133] Composting and agro-forestry also help to sequester carbon dioxide in soils and increase soil organic matter, contributing to increases in productivity, while the forestation and vegetation promoted under sustainable agriculture help mitigate carbon dioxide emissions.

When considering the issue of climate change, it is important to reflect on the carbon footprint associated with the inputs, production and transportation of produce grown and exported by smallholders. Fairtrade members have contributed to debate in this area, and continue to monitor the (relatively low) carbon footprint associated with transportation of key products. The majority of Fairtrade produce is transported by sea. We believe the impact to be at an acceptable level, when considered alongside the benefit that market access provides to smallholders.[134] Smallholders also play an important role in minimising their own carbon emissions associated with production, as discussed at length elsewhere in this section, and of course have a very low carbon footprint by comparison with per capita emissions in high income countries. Nevertheless, further study on this issue will continue.

Resilience and diversity

Many smallholder farmers have been made more vulnerable to shocks as a result of mono-cropping (growing a single crop). Practices such as crop rotation, inter-cropping and polyculture (multiple cropping) increase the availability of food throughout the year, encourage diversity in food production and have preferences for seeds and breeds with higher tolerance to climate extremes, pests and diseases. These can lessen the risks of income losses associated with seasonal variations or crop failures, compared to conventional farming.[135] Sustainable agriculture protects agro-biodiversity, including traditional seed varieties, and promotes the use of crops that are adapted to local conditions which farmers can improve, breed, and freely save and exchange. It also allows for participatory improvement and breeding of local seed varieties as well as public research.

Health improvements

Farmers' health can be improved in a number of ways – for example by having a more diversified diet through producing varied food items, by using fewer pesticides, and by improving the availability of clean water. Some studies suggest that crops grown by organic farming methods can improve diets since they contain significantly more vitamin C, iron, magnesium and phosphates and fewer nitrates than conventional crops.[136]

Fairtrade environmental standards promote sustainable development and the implementation of good agricultural practices, such as sustainable water use, responsible waste management, integrated pest management, improving soil fertility and reducing energy use. These are helping farmers adapt to and mitigate the impacts of climate change. These includes measures such as banning the use of listed pesticides, safe use of permitted pesticides and ensuring that farmers are trained in the disposal of hazardous waste that helps protect farmers' health and the environment.

For instance, research shows that in Guatemala, Fairtrade certified farmers are less likely to use agro-chemicals than those who are not certified. Mexican Fairtrade coffee production is now almost synonymous with organic production, leading to clear environmental benefits. In Mexico, for example, the Fairtrade minimum price and, perhaps just as important, price stability, has enabled farmers to resist the temptation to adopt higher yielding, but less ecologically sound, practices such as 'sun-grown' coffee which has spread rapidly across Latin America, Africa, India and Vietnam. Mexican farmers have also cleaned up their processing of coffee from the highly polluting wet processing that left rivers bereft of oxygen. Fairtrade has helped them to sustain critical ecosystem-protecting services of shade grown and organic coffee during a harsh price crisis which led coffee growers to switch to cattle grazing and drug crops, which are environmentally damaging.[137]

Fairtrade farmers are trained by producer organisations in water protection, soil conservation, disposal of hazardous waste and ways to minimise their use of pesticides. Producers are required to protect existing natural resources and encouraged to reduce their energy consumption over time. They are also asked to keep records on energy consumption in their processing facilities and report on what is being done to reduce their greenhouse gas emissions and to increase carbon sequestration.[138]

Fairtrade also provides training and access to finance and know-how to help farmer organisations combat climate change through adaptive techniques and technologies. Fairtrade's own research indicates that some producers are using the income they receive through the Fairtrade Premium to invest in technologies that help them adapt to climate change. Some coffee farmers have, for example, used the premium for purposes such as planting trees in order to avoid soil erosion, planting shade trees to protect coffee trees from higher temperatures or to counteract higher temperatures, constructing dams to capture water and investing in methods to use less water.[139]

Box 15: Improving coffee production in Vietnam with sustainable practices

Dao Tich thi Tuyen is a member of the Hop Tac coffee co-operative in Vietnam. He has been working in the coffee fields as an employee since 1988 and then bought the right to use one hectare of land to grow his own coffee in 1995.

Since joining, Dao now uses organic fertiliser, and no longer uses pesticides. The co-op has used its Fairtrade Premuim to provide both fertiliser and equipment like tractors and grass cutters to their members. The result has been improved yields and better quality coffee beans.

Importantly, belonging to the co-op means Dao has access to training in more sustainable farming practices. Before joining he had only 30 minutes of training on how to grow coffee. Now he can join day-long training sessions and he can get individual advice from the internal control system. He better understands how to monitor his farm.

'Since I joined Fairtrade, I have changed the way we grow coffee to maintain the environment. In training I also learned how to improve cultivation,' said Dao.

'Since we use less chemical fertiliser, the soil is richer and we have increased yields.'

FLO-CERT, Fairtrade's certification body, is also beginning to help producers work towards carbon footprinting so that they can identify carbon 'hotspots' – areas where they might best be able to reduce their energy use and climate impact. This programme includes developing regional and product-specific projects to support farmers in adapting to climate change.[140]

Box 16: Fairtrade powering up smallholder cocoa farmers in Ghana

There are now 62 Fairtrade-certified cocoa producer organisations representing more than 120,000 farmers across 18 countries. The Kuapa Kokoo cocoa co-operative in Ghana has 63,000 members who are smallholder growers in 1,400 village societies. It has been Fairtrade certified since 1995, and is the only farmer-owned organisation among the private companies in Ghana granted licences to trade cocoa - most farmers have to sell their crop individually to licensed buying companies. Kuapa's members produced 35,000 tonnes of cocoa in 2009, of which 27 per cent was sold as Fairtrade, to be used in hundreds of products, notably Divine chocolate. Kuapa are now supplying cocoa to Cadbury as part of the company's conversion of Dairy Milk to Fairtrade.

Isaac Frimpong, member of Kuapa Kokoo, Ghana

Most Kuapa farmers grow cocoa alongside food on 3-4 hectares of land, with cocoa sales providing almost all their income. Few have access to adequate health care, clean drinking water or electricity, and children are taught in only basic schools. The extra income from the Fairtrade Premium has helped build hundreds of water boreholes, public toilets, and two day-care centres as well as helping to fund a mobile health programme which visits the villages. Warehousing has been constructed at Tema port, farmers have been paid end of year bonuses and development officers have been employed to advise on agricultural practices, set up training programmes in management and leadership skills, and organise HIV/AIDS workshops.

An assessment of the impact of Fairtrade at Kuapa found women's participation in Kuapa has been actively promoted; each co-operative society elects a seven-strong Management Committee of which two must be women. Alternative income generating schemes for women have been set up as well, including tie-dye textiles, soap making, palm nut production and palm oil extraction, corn milling and snail farming for local and export markets.

The Fairtrade Premium has had an impact beyond Kuapa members. Over 100,000 people have benefitted from free medical attention and prescriptions and the construction of a school building. Interviews in 2002 with parents, children and teachers indicated that the school building project had 'emphatically' improved school attendance, health and the quality of education. A greater entrepreneurial spirit has emerged amongst women supported to engage in income-generating activities, with indications of better wellbeing amongst women, despite increases in their workload. Participation in Kuapa Kokoo, and the establishment of the Divine chocolate company in which the producers have a significant ownership stake, has provided member farmers with a higher sense of control.

5. Focus in government funding: Increase and target national and donor government spending on agriculture

> **'G20 governments should commit to invest in sustainable approaches to productivity growth in their domestic agriculture sectors with particular attention to smallholder farmers'.**
>
> ***Inter-agency Report to Mexican G20 Presidency, June 2012*[141]**

Agriculture contributes a large proportion of national income to many developing countries, but developing country governments currently allocate an average of just 5 per cent of their national budgets to agriculture.[142] Much more needs to be invested to support farming effectively. This is despite a pledge made by African governments in 2003 (the 'Maputo Declaration') to spend 10 per cent of their budgets on agriculture within 10 years. Only eight African countries have reached this target.[143]

A recent analysis by the FAO calculates that an *additional* $42.7 billion per year globally needs to be spent on agriculture up to 2025 in order to end hunger. This includes an extra $14.6 billion per year in South Asia and $10.4 billion in sub-Saharan Africa. The major investments are needed in: rural infrastructure; agricultural research; extension services; storage, marketing and processing; conservation of natural resources; and expanding rural institutions to promote rural finance and land tenure security.[144] International aid is currently falling well short of these sums.

In 2010 (the latest available figures), aid to agriculture stood at $9.6 billion, amounting to only 5.8 per cent of all aid.[145] Current aid pledges are also very low. Food and agriculture have risen up the global agenda since 2008, prompted by the food crisis and increased food price volatility since then.

Amongst other initiatives, the G8 in 2012 threw their weight behind the 'New Alliance for Food and Nutrition Security' – which 'aims to improve food security, farming and agribusiness across Africa in order to help pull 50 million people out of chronic poverty over the next 10 years through agriculture sector growth'.[146] The initiative involves 45 international companies, including Unilever, Monsanto and Kraft, who have committed to invest over $3 billion to develop agriculture in Africa alongside signing up to a new code of responsible investment.[147] The initiative includes measures aimed at smallholders, including investment in rural roads, and provision of crop insurance. The New Alliance has however been criticised for providing very limited new finance (only $1.3 billion of new money[148] over 10 years – just $130 a million a year).

Much agriculture spending and research currently focuses on 'high-tech' processes such as intensive farming approaches or GMO seed varieties. What smallholders need is often much simpler (and cheaper). Basic processing equipment such as milling machines or small rice harvesters or (for larger plots) draught animals can be much more beneficial to smallholder farmers. Reducing labour time with such equipment is especially important for women, who face major time constraints with also looking after children and the household. Yet national governments and donors often give little money or attention to such straightforward 'quick win' investments.

If increased investment is planned where should it be focussed? There is a vital need in most countries to widen farmers' access to extension services and to improve agricultural research. Currently, many governments have skewed agriculture budgets that spend little on extension services. In Nigeria, for example, around 80 per cent of capital spending goes to just three programmes: the fertiliser subsidy programme; a national food security programme; and a silos construction programme for the grain reserve.[149] This spending can benefit the poor, but very little is left over for critical services such as extension. Indeed, it is estimated that a miniscule 1.3 per cent of Nigerian farmers have access to extension services.[150] There is an urgent need for more widespread and better quality extension services which address the right gaps in knowledge. Farmer training must be a priority. Studies show that involvement in Fairtrade leads to an increase in the number of education and training programmes in producer organisations. For smallholder farmers these are often centred on market knowledge and topics relating to the strengthening of producer organisations.[151] In contrast, governments and private sector investment tend to concentrate narrowly on increasing farm production. Marketing, food safety or integrated crop management approaches have been given relatively low priority.

Ramigia Moya is a 68-year-old cocoa farmer member of CONACADO co-operative in the Dominican Republic. She is a widow with five grown-up children and lives with her daughter and son-in-law, who helps on the farm.

Spending on agricultural research should address what smallholders need most, such as methods to improve crop farming to adapt to climate change, studies of organic and other sustainable farming practices, research into seeds for poor farmers in marginal areas and research on labour-saving technologies to improve productivity and save time.

Above all, smallholders themselves need to be involved in decisions as to where investment should be focused. With the right terms of trade, smallholder organisations can become powerful co-investors in local community development. The CONACADO co-operative of cocoa producers in the Dominican Republic has used its Fairtrade Premium to pay half the cost of an aqueduct system. This has made a huge difference to the community. They've installed pipes to pump water from a protected spring to standpipes outside 150 houses. People no longer have to fetch and carry water from a river a kilometre away to use domestically for washing clothes. This leaves members more time to work on their farms. Any discussion about targeting investment must pay particular reference to the needs of women farmers. It is estimated that even if women simply had the *same* access to productive resources such as land and seed as men, they could increase yields on their farms by 25-30 per cent; this would raise agricultural output in developing countries by 2.5-4 per cent and reduce the number of hungry people in the world by 12–17 per cent.[152]

Improving land tenure security, whether of individuals or communities, is likely to vastly increase food security since it encourages farmers to invest more in their land and enables them to access services such as finance. It can also prevent smallholders from being displaced from their land in the current wave of land grabs. Many countries need to undergo extensive land reform, but this is often a highly sensitive political issue. In many countries, unequal land holdings are a main reason for millions of smallholder farmers working on small plots of unfertile, rainfed land, which can barely feed their family even with improved access to inputs and technology. Neglecting the question of control over land is a serious failure of policymakers and development experts: discussions on agricultural productivity and adaptation to climate change are often irrelevant if improved land tenure is not addressed.[153]

Finally, while much can be done to improve the livelihoods of smallholders, some may choose to leave farming altogether. Investment in smallholder agriculture need not be at odds with investment which promotes non-farm jobs in rural areas. Some smallholders, especially those lacking assets and skills, may not be able to participate effectively in markets even with appropriate support. Promoting non-farm jobs in rural areas will help to develop local economies, providing jobs for surplus farming labour. Policies that improve nutrition, health and education levels in rural areas can improve employment opportunities in sectors other than agriculture where there is demand for semi-skilled labour.[154]

Water pump funded by Fairtrade cocoa sales, CONACADO, Dominican Republic

RECOMMENDATIONS

With the Fairtrade system already delivering impact against many of the challenges faced by smallholder farmers, we urge decision makers to recognise that Fairtrade's values and driving principles justify much wider adoption in policies and initiatives involving smallholder farmers.

1. Farmers first: Increase farmers' voice, influence and organisation

To increase farmers' voice, influence and organisation…

Governments and international donors should:

- Strengthen policies and increase investment to build the operational and advocacy capacity of producer organisations, especially women farmer groups, so that they are able to influence policy design and implementation.
- Transform the agriculture and trade policy-making culture, to make it transparent and participatory. In particular, actively consult with smallholders on the extent to which they feel able to participate in policy-making and set targets for year-on-year improvement.

Low and middle income governments should:

- Ensure national and local agriculture budgets are transparent and comprehensible to the public and smallholders, and commit to participatory approaches that include smallholder farmers in agreeing priorities, involving farmers' organisations and civil society groups.

Business should:

- Recognise the value and power of smallholder organisations as wider social and environmental actors, and therefore key partners in achieving sustainability.
- Develop focussed programmes to better support the specific context, needs, and priorities of smallholders' organisations in their supply chains, and build joint business partnerships to invest in smallholder-led solutions that go beyond productivity.

2. Fair share of value: Ensure farmers are empowered in value chains and receive fair prices

To ensure that farmers are empowered in value chains and receive fair prices…

Governments should:

- Champion fairer supply chains for their smallholders and help build the capacity of producer organisations to capture more value from their production.
- Include within their export promotion strategies measures to support initiatives, such as Fairtrade, which enable smallholders to capture more value, over the long term, in international markets.
- Ensure inward investment policies include a focus on enabling smallholders to capture more value from their produce.
- Explore ways to ensure greater transparency and 'fair competition' in supply chains and so enable smallholders to secure a sustainable price for their produce
- Set an example by ensuring public procurement strategies encourage sourcing from value chains that provide market access on fair terms for smallholders.

Businesses should:

- Adopt mechanisms to ensure the sustainable cost of production for the food products in their supply chains and commit to paying this price as a minimum.
- Build strong and long term relationships with the farmer organisations in their supply chains in order to build economic security for smallholders.

The public should:

- Actively seek out and purchase products which ensure a better deal is passed on to smallholder organisations, such as Fairtrade products.
- Support campaigns that spotlight the uneven distribution of value and the need for fair competition in the global commodities trade.

3. Fair access to finance: Enhance access to timely and affordable credit

To ensure access to timely and affordable credit…

Governments and international donors should:

- Explore government- and donor-backed schemes to increase the provision of rural credit to smallholder farmers – such as providing subsidies to credit schemes or loan guarantees to banks.

Businesses should:

- Ensure that any credit they offer (whether money, goods or services) is appropriate for the smallholders in their supply chains in terms of its scale, timeliness and means of access.

4. Future-proofed farming: Prioritise sustainable agriculture and climate resilience

To prioritise sustainable agriculture and climate resilience…

Governments, international donors and multilateral institutions should:

- Greatly increase investment in promoting sustainable agriculture and helping farmers adapt to climate change, especially by re-orienting extension services to provide training and support. Importantly, these investments should be developed in close consultation with smallholder farmer groups so that their needs and priorities are kept central.

Businesses should:

- Adopt and publicly report on compliance with environmental standards that promote both sustainable development and good agricultural practices.
- Increase investment in climate adaptation techniques and technologies for the smallholder farmers with which they work.

5. Focus in government funding: Increase and target national and donor government spending on agriculture

To increase and target national and donor government spending on agriculture…

Governments in producing countries should:

- Re-commit to allocating 10 per cent of their national budgets to agriculture with clear timetables to reach this figure, and annual public reports on progress.
- Revitalise investment in agricultural extension services for smallholders, including strengthening the agronomist capacity of farmer organisations themselves.
- Respond to the specific challenges that women farmers face through orienting spending and policy towards targeted programmes including extension, finance, research and subsidy programmes.
- Enshrine into law and implement policies to promote secure land tenure for all, including integration of policies to promote women's land rights and tenure security into national land legislation and agricultural development policy, and incorporate the recently-formulated Voluntary Guidelines on governance of land tenure[155] into national legislation.

International donors should:

- Increase aid to agriculture to help meet the US$42.7[156] billion FAO target in support of developing country agriculture strategies, targeted in line with the priorities identified in this report.
- Improve transparency and reporting on aid commitments and development outcomes for small-scale agricultural communities.

Recommendation to the G8 members for the G8 meeting in June 2013

At the 2013 meeting, G8 members should champion and lead the way for global investment in sustainable small-scale agriculture, in line with our Five Point Agenda.

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