

# Think big. Go small.

Adapting business models to incorporate  
smallholders into supply chains.

- ▶ What are the benefits for companies sourcing from smallholders?
- ▶ How does sourcing from smallholders contribute to poverty reduction?
- ▶ How have some companies incorporated smallholders into their supply chains?
- ▶ What principles should guide companies to develop a smallholder sourcing programme?



SUSTAINABLE FOOD LABORATORY

**Integrating smallholders into supply chains can help companies attract customers and manage supply risks. Has your business recognised the opportunity?**

Consumers everywhere are growing more knowledgeable and concerned about the ethics of where and how their food and drink are produced. And food and beverage companies are facing a rapidly changing world. Global demand is rising as the world's population grows. Yet the planet's ability to meet this demand is threatened – by factors such as droughts and other expected consequences of climate change, together with land degradation and biofuel production.

For as long as international supply chains have existed, companies in the food and drink sector have tried to improve efficiency and minimise costs by simplifying and standardising their supply bases. But now is the time for a rethink. Smallholder farms have relatively low production costs and can manage labour-intensive crops. For domestic and global companies, connecting with smallholder suppliers offers a competitive opportunity to increase production while contributing to rural development. The Fair Trade movement grew out of the recognition that most large-scale food supply chains were bypassing smallholders. Certifying products and adopting standards have enabled some integration of smallholders, but the need is for change on a larger scale.

While many companies are starting to realise the sourcing potential of smallholder-based supply chains, Oxfam and the Sustainable Food Lab (SFL) recognise that these companies also struggle with the challenges of linking diverse smallholders to formal markets. Development agencies and governments are willing to support companies who take up this challenge, because approximately two-thirds of the world's rural households – the majority of whom live in poverty – depend on smallholder agriculture for their food and incomes.<sup>1</sup> This briefing paper therefore aims to show how domestic and global companies in the food and drinks sector can deliver value for their business so that smallholder suppliers gain value too.

There are real barriers and risks that must be addressed when linking the worlds of small-scale, diverse producers and dynamic markets. But recent experiences have shown that, when properly organised, smallholder farmers can participate effectively in formal supply chains and are able to manage their risks better, even in highly demanding markets.



Jeremy Hobbs



Hal Hamilton

# 1. The business case: why source from smallholder farmers?

**Consumers are holding food and drink companies to account for their purchasing and sourcing decisions. Sourcing from smallholders, in the right way, can help companies to reach and retain more consumers, generating positive brand or corporate value, and achieving greater corporate sustainability.**

## **Capturing and keeping consumers**

Incorporating smallholders into the supply chain allows a company to tell consumers how their purchasing choices can improve the lives of men and women farmers. Companies that incorporate smallholders equitably into their supply chains – and communicate their action through their brands – can capture new customers and gain greater loyalty from existing ones.

Delivering social and environmental benefits through agricultural production has long been a way of developing ethical markets, as growing consumer demand for Fairtrade – and other certified goods – has demonstrated:

- Companies sourcing Fairtrade products from the global south (where most suppliers are smallholders) have built retail sales worth over €2.9bn;<sup>2</sup>
- The Rainforest Alliance certification programme, working with mainstream tea companies such as Lipton and Tetley, has seen a range of 5–11 per cent increase in sales in one year;
- In 2008, 51 per cent of UK shoppers said that they had made at least one purchase primarily on ethical grounds during the previous year, compared with 47 per cent in 2007 – and this despite a recession.<sup>3</sup>

In emerging markets too, such as India and Brazil, an estimated 2 billion more urban, middle-class consumers by 2030, with higher disposable incomes, will boost demand for higher-value processed food and drink.<sup>4</sup> Sourcing from smallholders will also expand the consumer base in these markets over time.

## **Managing reputational risk**

In developed countries, brands matter: brand value can account for as much as 50 per cent of market capitalisation.<sup>5</sup> But consumers do not only care about price and value.

More than ever, customers are holding companies to account for their treatment of the environment, for working conditions all along their supply chain, and practices such as limiting their investment to a small number of export zones or sophisticated farmer-suppliers. Increasingly, shareholders and institutional investors also require accountability for a company's social and environmental performance.

**‘To be a company of the future, you need visibility and management of the farm – to understand risks and to create good supply stories grounded in real, positive change for rural communities.’**

Jan-Kees Vis, Unilever<sup>7</sup>

Public revelations about exploitation in the supply chain can significantly damage brand value. Increasingly, consumers want to trust a brand's production process and feel comfortable with its ethical credentials. In 2009 in the UK, for example, 64 per cent of consumers said that they had actively avoided a certain product or service due to the company's behaviour.<sup>6</sup>

**Global and domestic companies need to find new sources of supply, including investment in primary production.**

Brands also matter in developing countries. A corporation's approach to suppliers informs how the public perceives its trustworthiness and legitimacy – it is largely this perception that determines whether companies have a 'social licence' to operate. When corporations in developing countries make changes in food supply systems that harm local communities, they can suffer a civil or political backlash. In Peru, the increased production of asparagus for UK and US supermarkets is facing criticism from local communities and NGOs. Research has shown that groundwater levels have fallen by between one metre and five metres per annum over the past eight years, in direct relation to increased asparagus cultivation. In India, when supermarket giant Metro proposed to enter the food sector, its move provoked rioting by small retailers<sup>8</sup>

**New sources of efficient supply**

By 2050, the world will have to feed 9 billion people, and this will require an estimated 70 per cent rise in agricultural production.<sup>9</sup> But with shrinking resources, this increased production must be less carbon-centric and more efficient. The International Food Policy Research Institute (IFPRI) predicts that climate change will reduce global agricultural productivity by 10–25 per cent by 2080.<sup>10</sup> Water shortages and the use of agricultural land to produce animal feed or biofuels are already threatening security of supply, particularly for high-value or specialist crops.

In the past, food and drink manufacturers and retailers have generally relied upon oversupply in agricultural markets and have divested out of primary production. Now, both global and domestic companies need to find new sources of supply, including investment in primary production.

The estimated 500 million smallholders with access to less than 2 hectares of land present an opportunity for companies to diversify their portfolio of suppliers in order to meet this challenge. Small-scale farmers' indigenous knowledge and ability to adapt can provide solutions to the required increases in yield. Sourcing locally from smallholders can also help corporations to reduce their carbon footprints. In smallholder agriculture, risks such as child labour exist, but these can be managed by investing at farm level.

Sourcing from local smallholders can reduce costs. For instance, at a mining concession in Madagascar, in the remote south of the island, food and facilities management group Sodexo sourced local supplies for its canteens. Overall, the cost of using small, local producers was no higher than using larger, more established domestic suppliers (partly due to transport costs), and cheaper than buying imported goods.

**The estimated 500 million smallholders with access to less than 2 hectares of land present an opportunity for companies to diversify their portfolio of suppliers.**

# 2. The development case: why source from smallholder farmers?

**The investment by a company can be relatively modest if the company collaborates with farmers' organisations, government, and other non-commercial actors. This approach to investment can have broader impacts on the rural sector, ensuring that trade benefits farmers who are normally marginalised from wealth creation.**

## **Investing in smallholder agriculture can reduce poverty and hunger**

Agriculture remains the best opportunity for the estimated 1.5 to 2 billion people worldwide living in smallholder households to work and trade their way out of poverty.<sup>13</sup> Studies show that growth generated by agriculture is up to four times more effective in reducing poverty than growth in other sectors.<sup>14</sup>

Oxfam and Unilever have worked together to analyse value chains and identify where companies can have the biggest impact on poverty reduction.<sup>15</sup> It is clear that linking smallholders with well-functioning local or global markets – ranging from local street markets to formal global value chains – plays a critical part in long-term strategies to reduce rural poverty and hunger.

Investing in independent smallholder organisations, such as farmers' associations or co-operatives that can meet the requirements of large companies, is important. Farmer organisation enables wealth-creating trade to reach poor and remote communities and assists them to find other markets. They can also reduce the costs of seeds and other raw materials, and provide access to better-value services, credit, or higher-quality inputs.

Smallholders, therefore, can benefit in numerous ways from linking with companies and participating in new markets, including:

- investment in the rural sector;
- improved productivity;
- increased income;
- access to technical services and training;
- improved infrastructure – for example, by building paved roads to transport crops through rainy seasons.

**'Helping the poorest smallholder farmers grow more crops and get them to market is the world's single most powerful lever for reducing hunger and poverty.'**

Bill Gates, World Food Prize speech, 15 October 2009.

While companies trading in countries that are experiencing hunger or food insecurity should be aware of the sensitivity of purchasing foodstuffs, hunger today is primarily an issue of poverty, not of global shortfalls in production. At the same time, it is important to ensure that investment in trade in order to improve incomes does not undermine the production, or local availability, of staple foods such as grains.

**'Smallholder agriculture is a driver of economic growth and poverty reduction, and has strong potential to contribute to political stability.'**

2008 World Development Report.

## Investing in women

Agricultural production depends heavily on women's labour; therefore, ensuring that women can overcome gender-based constraints, such as access to training, will increase productivity and the overall efficiency of supply chains. Addressing the challenges of land and crop ownership for women can create new or increased sources of production. In Tanzania, reducing women's domestic workload has been shown to increase income and productivity, and in Zambia enabling women to invest in agriculture in the same way as men – for example, through enabling equal access to high-quality fertiliser – has increased overall outputs by an estimated 15 per cent.<sup>16</sup>



### Leveraging impact

**For companies investing in smallholders, it is not simply about brand value or poverty reduction. Other benefits do exist, and all reinforce one another. This enables any investment to be leveraged to increase both commercial and development impact.**

More income directly in the hands of women usually translates into improved nutrition and educational outcomes, especially for girls.<sup>17</sup> Broader studies have also concluded that equalising women's status with that of men could cut rates of child malnutrition, benefiting millions of children under three years old.<sup>18</sup> Numerous studies show that female small producers are engaged disproportionately in local markets and in domestic food production, compared with men.<sup>19</sup> Investing in sectors where women can gain and maintain decent returns will boost development overall.

For example, Oxfam has supported work on organic and Fairtrade cotton production in southern Mali, supplying prominent UK retailer Marks & Spencer. Women have been trained and given subsidised access to carts to transport organic fertiliser. As a result, they now account for nearly 40 per cent of all organic and Fairtrade cotton producers. This contrasts with the conventional cotton sector, where women have traditionally worked as family labour but constitute fewer than 10 per cent of the members of producer organisations.

## **Collaboration brings wider benefits**

Structural challenges such as transport difficulties due to a lack of paved roads, or inadequate or unreliable power supplies, can appear to undermine the justification of a company's independent investment. However, there is increasing recognition by donors that the desired rural transformation will not be delivered solely through market forces. Development agencies and many governments around the world are therefore keen to support businesses investing in trade with smallholder farmers. For instance, in Africa, donors have committed \$22bn for food security and agriculture through the Maputo Declaration and Comprehensive Africa Agricultural Development Programme (CAADP) compacts.<sup>20</sup>

Financial commitment from a company can parallel state investment in rural infrastructure, such as electricity, and can attract service providers, such as financial institutions, to rural areas. In addition to supporting smallholder families' basic needs through trade, a company's initial investment can thus leverage long-term social benefits.

Many of these investments can be achieved by working with governments, including lobbying for positive policy support. As David Croft of Cadbury says, 'There are a number of issues that support the business agenda, that only Government policy can enable, such as supporting land rights for women to enable them to invest in improved production.'<sup>21</sup>

Selecting the right partners is a crucial challenge. Partners can include farmer organisations, NGOs, or other non-commercial actors who understand the local context and who can help a company to invest in a way that gradually establishes independent and sustainable smallholder operations.

# 3. How new business models can support effective supply-chain development

**Lead FMCG and retail companies have the power to influence the way that trading relationships within their supply chains are structured. Achieving the goals of durable and beneficial trading relationships for smallholders and consistent, quality, cost-competitive supplies for buyers requires putting the ‘partnership’ back into supply chain management, with these partnerships operating in accordance with the five principles set out below.**

## **The challenge**

While smallholder farmers can supply primary and processed produce into local and global supply chains, ensuring that investment in the supply chain delivers both commercially viable products and value to the smallholder presents several structural challenges. Decades of under-investment mean that small-scale producers in developing countries often operate in areas with inadequate infrastructure (roads, electricity, and irrigation). They lack access to skills and services (training, credit, inputs), and are highly dependent on favourable weather. Their lack of uniformity and scattered locations require creative solutions to aggregating production.

Low incomes mean that many smallholders lack education, have poor health, and have limited capacity to deal with ‘shocks’, e.g. sickness or extreme weather events. If contracts are not adaptable to changing market conditions, offer less than adequate returns, or don’t work within farmers’ income needs at key times, problems of ‘side selling’ – i.e. selling contracted crops to a third party – may arise.

Specific barriers for women, together with on-farm issues such as management of waste, safe use and storage of chemicals, water quality, soil management, and the treatment of farm labour, often need to be addressed to make supply chains socially and environmentally responsible. Without investment to overcome common barriers, supply problems may arise, reinforcing the impression that smallholder involvement inevitably raises costs and leads to variations in product quality and problems with integrity and traceability.

## **The solution**

There is, however, clear evidence that smallholders can be successfully incorporated into domestic and global supply chains, with positive impacts on development. Global companies that have successfully done this include:<sup>22</sup>

**Unilever; Cadbury; Costco; Coca-Cola; Marks & Spencer; SABMiller; Sodexo Sysco; Tate & Lyle; and The Body Shop.**

Learning from successes – and failures – increases the chance of creating successful and durable sourcing arrangements. The Sustainable Food Lab, through its ‘New Business Models for Sustainable Trading Relationships’ partnership project, and Oxfam, through various smallholder value chain and agricultural market programmes, have identified five principles to underpin sustainable trading relationships that ensure both corporate and smallholder value.



## Linking small-scale producers to formal markets: the five principles<sup>23</sup>

### 1.Chain-wide collaboration and innovation

Chain-wide collaboration, with shared goals on developing sustainable commercial trading relationships, with fair returns agreed by all actors, lies at the heart of the approach. Lead companies, through identified ‘champions’, need to ensure collaboration and transparency across the supply chain. This enables problems in both commercial and social performance to be identified and resolved.

Close collaboration is particularly vital when perishable commodities are involved, which require traceability and management of food-safety risks. Collaboration can also stimulate innovation between actors in the chain as they grow to understand their interdependencies and adapt to changing markets. For example, in Ghana, Unilever buys a fruit from the Allanblackia tree for oil production, but the length of time needed for the seeds to germinate was causing supply constraints. By listening to farmers, Unilever’s supplier, Novel Corporation, has discovered two innovations that have been combined to reduce germination times.

Collaboration with a range of stakeholders beyond the supply chain – not just government – can leverage the impact of the investment and attract further co-investment. A third party ‘facilitator’, who understands the separate worlds of commerce and development, can often support the creation of new trade relationships, reducing risks for all parties and gradually building up mutual trust between them. Collaboration enables issues that companies are less well equipped to deal with – such as access to shared resources (for example, land) between households, opportunities for women, issues of education and health, such as HIV – to be addressed through co-investment.

**‘We behave as if we know nothing, and we ask farmers to tell us stories.’**

Samuel Henneh of Novel Corporation, a supplier of Allanblackia seeds to Unilever<sup>24</sup>

#### Case Study: Chain-wide reviews

**Del Cabo, a US-based organic vegetable wholesaler, holds annual chain-wide meetings in Mexico to analyse market trends, plan planting and harvest schedules, and develop support strategies for organic production. This network works proactively to solve problems and includes internal funding mechanisms to offset losses due to changes in market conditions or field crop losses.**

#### Case Study: Creating partnerships and co-investment

**In Ghana, Cadbury faced supply challenges due to deteriorating soil quality, declining productivity, and smallholders finding alternative employment. The company needed to make a substantial investment in the cocoa sector. This investment has catalysed support and further investment from the United Nations Development Programme (UNDP), the Ghana Cocoa Board (COCOBOD), local government, farmers, and communities.**

### Case Study: New farmer business models

**Alpina Foundation is working with Oxfam in Colombia to develop efficient small-scale dairies that can each process milk from up to 200 smallholder dairy farmers. If the pilot project proves commercially and socially successful, the aim is to scale it up to integrate thousands of small dairy farmers into the company's supply chain.**

### Case Study: Bridging the last mile

**Hariyali Kisaan Bazaar of India is a chain of over 300 collection and distribution centres that provide small-scale farmers with a local 'hub' for affordable inputs and a link to the market through its buy-back scheme. To meet the needs of small-scale producers, these centres provide access to agronomists, insurance services, and targeted collection services, and use mobile phone technology to announce prices and special deals.**

## 2. Market linkages

Market linkages are common weak points between the informal world of smallholders and formal supply chains. Intermediaries are required not only to aggregate production from small-scale growers, but also to provide support and services to ensure the quality and consistency of production. Lead firms need to recognise and support these services.

Intermediaries who deal in multiple products can help smallholders spread their risks by diversifying into other markets for different quality grades or rotational crops.

If smallholder farmers have a stake in the ownership or profitability of these intermediaries, it can build loyalty and increase impact. Along with more traditional co-operative structures, there are many models emerging today of intermediaries who can combine commercial and development goals.<sup>25</sup>



### Linking worlds

**Specialised intermediaries are critical to link the world of diverse and dispersed producers with that of the global buyer. Buyers want a supply base where large volumes, standardised procedures, and minimal management requirements combine to minimise the cost of raw materials. Farmers, on the other hand, need fair returns and a variety of services.**

### 3. Fair and transparent governance

Fair and transparent governance of the supply chain is important in ensuring better quality and consistency of production, and more stable benefits for producers. The agreed terms of trade, quality standards, and pricing structure (such as premiums for high quality and penalties for poor quality) must be clear throughout the chain from the outset. Clear on-farm management standards and incentives are important in promoting sustainable social and environmental practices on the farm.

When farmers are hindered by a lack of business expertise, organisation, and market information, they are highly susceptible to exploitative contracts or trade. Contracting with organised groups of farmers is one way to bring about transparent governance, as groups of smallholders are better able to negotiate prices and the terms under which both parties should operate. They can also use their contracts as collateral for obtaining further financing. Finally, dispute resolution mechanisms – either formal or informal – are hallmarks of well-functioning governance structures. As understanding and knowledge improves, supply chains tend to work better.

#### **Case Study: Confidence about prices**

**Cuatro Pinos, a Guatemala-based co-operative, offers non-member producers a 'turn-key' advanced fixed-price contract and provides inputs on credit and technical assistance. This fixed price contract has been shown to consistently return 7–10 per cent above the spot price market.**

#### **Case Study: When times are hard**

**Sodexo factored in the effects of smallholders' fluctuating household incomes over the year when purchasing supplies for its canteens in Madagascar. The company offered advance payments and created a 'buffer fund' to enable smallholders to maintain production when household incomes were low, and sourced from alternative regional suppliers at times when smallholders could get higher prices in local 'wet' markets.**

#### **Case Study: Reducing the risks**

**Cuatro Pinos of Guatemala and LA Salad of the USA jointly manage an innovative risk-management mechanism. By taking a fixed percentage of all sales, this allows the companies to guarantee payment to farmers, even when they do not receive the goods ordered due, for example, to logistical or weather problems.**

#### **Case Study: More than one**

**Unilever is investigating securing supplies of dried vegetables from smallholders, with Oxfam. This initiative will give parallel support to local market development and reduce farmers' risks from trading in a single market. Unilever's custom will provide guaranteed income and value-added services to farmers, farm workers, and local communities.**

#### **Case Study: Delivering training**

**Equator Kenya Ltd, an exporter of processed fruit and vegetables in Kenya, understands the importance of technical support. The company dedicates a portion of its earnings to a training fund to cover the costs of producer group facilitators and producer network activities.**

#### **Case Study: Technology transfer**

**Ambrosia, a honey processing company in Ethiopia, has invested in a training school that has given local women access to new skills and technology. With the help of loans from a micro-finance institution, women have been able to invest in new types of beehive, boosting productivity and increasing household incomes.**

## **4. Equitable sharing of costs and risks**

The conventional pattern is that lead firms, which have the market advantage of access to customers, typically take much of the profit, while much of the risk – what crop to grow, when to plant, and the cost of investment – is borne by the smallholder and the intermediary. Strategies to share risks (such as bad weather, transport losses, and last-minute changes in customer demand) more equitably throughout the chain include better communication about supply and demand and financial risk management schemes. These include micro-insurance schemes against bad weather, supply chain risk-management funds, and shared investments to improve the functioning of the chain. Constant monitoring and reporting ensure that risks are identified early.

## **5. Equitable access to services**

Ensuring that there is equitable access to services is an essential component of a successful trading relationship between food and drink companies and small-scale producers, particularly where public infrastructure is weak. Smallholders need access to technical expertise, business training, inputs such as fertilisers and high-germinating seed, and appropriate financing.

Financing is a particular problem, and a gap that micro-finance has not filled. Smallholders need assistance to develop best practices for soil, water, chemical, and labour management for their farms. Buyers cannot be expected to provide all these services, but they must at least identify and address them.

Partnerships with other companies, NGOs, and governments can often provide additional financial and technical resources to support producers. It is essential for long-term success that services are embedded in the day-to-day functioning of the chain through the intermediary, the producer organisation, a service provider, or government provider, and not simply left to NGOs providing temporary solutions through specific projects.

# 4. Emerging examples of how business models adapt

**The chances of success in realising the sourcing potential and development benefits of working with small-scale producers can be maximised when the company ensures that purchasing practices, the structure of the supply chain, marketing strategy, and company operations are examined and adapted where necessary.**

A range of global consumer goods businesses have invested to bring smallholders into their supply chains. Examples include:

- global brands, such as Unilever;
- domestic food businesses, such as Sri Lankan cereal maker Plenty Foods;
- wholesale suppliers, such as Superior Foods US;
- smaller European or US brands, such as UK-based smoothie-maker Innocent.

These projects are not marginal. Plenty Foods increased yields of soya grown by smallholders by 50 per cent over a period of nine years by making relatively small but consistent investments through forward contracts, sharing technology, and paying quality premiums to farmers. All the companies have adapted the way they do business – ranging from purchasing and sourcing practices to marketing strategies and corporate operations and culture – to deliver commercial value and development benefit.

Even where such companies are not trading directly with smallholder farmers, they are ‘reaching’ across the entire chain to work with intermediary suppliers and engage with farmers. Companies’ motivations to invest in new trade relationships vary:

- Cadbury launched its Cocoa Partnership in Ghana to counter threats to the viability of cocoa production at the smallholder level;
- Marks & Spencer converted 100 per cent of its tea and coffee (and subsequently other) sourcing to Fairtrade-certified products in response to growing consumer demand;
- SABMiller has invested in a South African sourcing model to meet the South African government’s policy requirements for black empowerment.



## Adapting the business model

**The critical change for a company is to adapt its practices for sourcing and purchasing and to work with key partners in the supply chain to restructure trading relationships or develop new chains. However, to enable change of this kind to happen, companies also need to adapt their:**

- **corporate culture – from a competitive mindset to a partnership-oriented outlook;**
- **operations – to create incentives for buyers to invest in creating long-term stability and development benefits in supply chains;**
- **corporate or brand communications – to integrate verified commercial and development benefits delivered through these changes.**

A strong motivation has been the value of third-party certification programmes such as Fairtrade, which have built principles into their standards, setting out how to work with producers and offering a clear way to communicate with consumers. For instance, the Rainforest Alliance provides a way for companies to facilitate and target investment into smallholder farming. Each programme is different in the field practices it requires and in the structure of the trade it promotes. But to get the most benefit, any such programme needs to be integrated within the business model and supported with co-investments.

Companies have also started to seek specialist training or advice for their purchasing teams,<sup>26</sup> to ensure that demands for faster, more flexible, and cheaper production do not undermine investments in new trade relationships. Some companies, such as Cafédirect, The Body Shop, and SABMiller, have built internal teams to develop new sources of supply from smallholders.

## Starting the process

The investment required will vary, depending on the specific geography and the structure of the supply chain. The company's capacity, corporate strategy, the strengths and capabilities of the men and women farmers involved, the regional context and geography, and the availability of supporting organisations will all influence the actions required to adapt the company's business model.

Typically, however, a programme will involve five major elements:

- the product value proposition;
- adapting the purchasing and supply chain relationships;
- investing in upgrading performance at the farm, trader, and/or aggregation and processing levels;
- creating a supportive 'investor/partnership' network;
- a community or household investment plan.

Equally important is the process of engaging stakeholders in the value chain to make informed decisions about their participation.

**'Making the impact of our Community Trade programme sustainable over time has required close collaboration between our purchasing, R&D and brand marketing teams, and of course our suppliers. This wasn't easy – it didn't happen overnight – but in addition to the benefits for smallholders and artisans the result generates corporate and brand value too.'**

Graham Clewer, Ethical Trade Manager, The Body Shop International <sup>27</sup>

**In our experience, we have found the following process framework for companies is effective:**

<p><b>1</b> Identify the opportunity – existing or new supply chain</p>	<ul style="list-style-type: none"> <li>• Improved quality and security of supply</li> <li>• Supply chain efficiencies</li> <li>• Improved and expanded supply chains that incorporate small-scale producers</li> <li>• New marketing/product opportunities</li> <li>• An improved social 'licence to operate'</li> </ul>
<p><b>2</b> Feasibility analysis – testing the business and development case</p>	<ul style="list-style-type: none"> <li>• Is the offer attractive to men and women smallholders?</li> <li>• Can the crop be grown efficiently and cost-competitively?</li> <li>• What investment is needed to overcome structural barriers and performance issues at farm and processing levels to meet required volumes and standards?</li> <li>• How do costs compare with current suppliers?</li> </ul>
<p><b>3</b> Engage stakeholders and investors</p>	<ul style="list-style-type: none"> <li>• What benefits are available for smallholders and the wider stakeholders in the supply chain?</li> <li>• How are governments, NGOs, smallholder organisations, community groups, and commercial organisations in the supply chain prepared to support you?</li> </ul>
<p><b>4</b> Design smallholder sourcing programme</p>	<ul style="list-style-type: none"> <li>• Establish the value proposition and test it across internal marketing, operations, and supply chain management teams</li> <li>• Adapt practices for sourcing and purchasing to include smallholders, against the five principles outlined in section three</li> <li>• Upgrade the enterprises along the chain, based on the identified needs, to improve productivity and meet requirements for production and post-harvest handling</li> <li>• Manage partnerships and attract co-investment to overcome structural barriers and performance issues, enabling smallholder's interests to be represented and improving the social/environmental performance of the chain</li> <li>• Ensure that the corporate culture supports partnership, with incentives for buyers that are aligned with creating long-term stability in supply chains</li> </ul>
<p><b>5</b> Measuring outcomes and managing risks through implementation</p>	<ul style="list-style-type: none"> <li>• Analyse risks to the company, smallholders, and other affected parties, such as climate change, changing consumer preferences, and currency movements</li> <li>• Assess progress regularly: reporting back, discussions across the supply chain, and a collaborative approach to identifying and solving problems</li> <li>• Draw up an exit plan and ensure the exit of NGOs and donors: prepare a plan to move out of the market without damaging smallholders in the event that market forces change</li> </ul>

Risk Management, Monitoring, Evaluation and Learning

# 5. Conclusion

By incorporating smallholders into their supply chains, companies can improve corporate sustainability, brand development, and customer loyalty. We know that the characteristics typical of small-scale farmers – diverse and dispersed farms, as well as needs for infrastructure and capacity-building – can make this a challenge. But as we look ahead, we can see that the context continues to change, creating even more complexity, because of the increasing importance of issues such as:

- the need to integrate into the supply chain sustainable agricultural practices that can mitigate and adapt to climate change;
- increases in local food insecurity and growth in competition for scarce natural resources e.g. water;
- shifting production areas, as the climate changes and rural populations migrate;
- the flow of new funds to encourage carbon sequestration or improved watershed services;
- increases in demand and changes in consumption patterns in local and regional markets as the disposable income of urban populations increases.

These new trends make the case for co-investment in smallholder chains even more urgent.

Companies can make agriculture work for small-scale producers by adapting their business model – their purchasing and sourcing practices, branding strategy, and enabling corporate culture. The principles set out in this briefing paper – collaboration and innovation in the supply chain, market linkages, fair and transparent governance, sharing of costs and risk, and equitable access to services – offer a guide to creating trading relationships that return more value to small-scale producers whilst delivering sustainable and commercially viable products.

Co-investment with non-commercial partners is a critical strategy for leveraging corporate efforts, tackling barriers, and increasing development benefit. Optimising these investments requires proactive measures to ensure that women are included in smallholder sourcing programmes.

The picture is changing all the time, and contains both challenges and opportunities. What is clear is that companies, NGOs, and governments must increase their collective capacity to share what they have learned. Together we must build on our successes, learn from our failures, and begin to engage more companies, NGOs, and governments throughout the global trading system.



# Notes

1 'Poverty' in this document refers to people living on less than \$2 per day, the UN's definition. The importance of smallholder farming to food and income security is set out in UN Food and Agriculture Organization (2008) 'The State of Food Insecurity in the World 2008'.

2 Fairtrade Labelling Organisation Annual Report, 2008-9.

3 Co-Op Ethical Consumerism Report 2008, <http://www.co-operative.coop/ethicsinaction/sustainabilityreport/Ethical-Consumerism-Report/>

4 <http://docs.google.com/viewer?url=http://www2.goldmansachs.com/ideas/brics/nifty-50-doc.pdf>, p.13.

5 Michael Conroy, (2007) *Branded: How the 'Certification Revolution' is Transforming Global Corporations*, Gabriola Island, Canada: New Society Publishers.

6 Co-Op, 'Ten Years of Ethical Consumerism, 1999-2008' report, available at: [www.co-operativebank.co.uk/corp/pdf/Ethical\\_Consumerism\\_Report.pdf](http://www.co-operativebank.co.uk/corp/pdf/Ethical_Consumerism_Report.pdf)

7 Comment from email correspondence with the author.

8 G.R.N. Somashekar, <http://www.thehindubusinessline.com/2003/10/23/stories/2003102300791700.htm>

9 [www.fao.org/fileadmin/templates/wsfs/docs/Issues\\_papers/HLEF2050\\_Global\\_Agriculture.pdf](http://www.fao.org/fileadmin/templates/wsfs/docs/Issues_papers/HLEF2050_Global_Agriculture.pdf)

10 <http://www.ifad.org/climate/roundtable/index.htm>

11 FAO (2008) 'State of Food insecurity in the World'.

12 Although some current practices, such as slash-and-burn agriculture and clearing of primary forest, are problematic, smallholder agriculture also has the potential to reduce carbon footprints because of its lower inputs and levels of emissions and its high potential to absorb carbon in crops and grazing lands. For example, degraded lands containing lower levels of organic matter have more capacity to sink carbon if they are properly managed with practices that build soil quality and productivity.

13 WDR (2008) 'Agriculture for Development' (p.3) states that there are 1.5 billion people in smallholder households; P. Hazell, C. Poulton, S. Wiggins, and A. Dorward (2006) 'The Future of Small Farms' (Synthesis Paper) states over 2 billion. These smallholders include half of the world's undernourished people, three-quarters of Africa's malnourished children, and the majority of people living in absolute poverty (IFPRI, 2005).

14 [www.ifad.org/events/op/2008/g8.htm](http://www.ifad.org/events/op/2008/g8.htm)

15 [www.oxfam.org.uk/resources/issues/trade/unilever\\_foreuni.html](http://www.oxfam.org.uk/resources/issues/trade/unilever_foreuni.html)

16 Gates, gender portfolio white paper, 14 November 2008, p.7.

17 J. Hoddinott and L. Haddad (1995) 'Does Female Income Share Influence Household Expenditure Patterns?'

18 L. Smith, U. Ramakrishnan, A. Ndiaye, L. Haddad, and R. Martorell (2003) 'The Importance of Women's Status for Child Nutrition in Developing Countries', International Food Policy Research Institute (IFPRI) Research Report 131, Washington DC: International Food Policy Research Institute; Guha-Khasnobis and Hazarika (2006) 'Women's Status and Children's Food Security in Pakistan', World Institute for Development Economics Research, Discussion Paper 2006/03, United Nations University; A. Quisumbing and J. Maluccio (2000) 'Intrahousehold Allocation and Gender Relations', FCND Briefs 84, IFPRI.

19 Studies include C. Deere (2005) 'The Feminization of Agriculture? Economic Restructuring in Rural Latin America', Occasional Paper 1. Geneva: United Nations Research Institute for Social Development; C. Dolan and K. Sorby (2003), 'Gender and Employment in High-Value Agriculture Industries', World Bank, Washington, Agriculture and Rural Development Working Paper 7; S. Garikipati (2006) 'Feminization of Agricultural Labor and Women's Domestic Status: Evidence from Labor Households in India', SSRN, University of Liverpool; Zhang et. al. (2006) 'Feminization of Agriculture in China: Debunking the Myth and Measuring the Consequence of Women Participation in Agriculture' (RIMISF).

20 CAADP is the agricultural programme of the New Partnership for Africa's Development (NEPAD), which in turn is a programme of the African Union (AU). Established by the AU assembly in 2003, CAADP focuses on improving food security, nutrition, and increasing incomes in Africa's largely farming-based economies. See: [www.caadp.net](http://www.caadp.net).

21 Comment from email correspondence with the author.

22 For these and other case studies see the Oxfam and Sustainable Food Laboratory (SFL) websites <http://www.sustainablefood.org/images/stories/pdf/hvcn%20innovations%20master%20document%20v15.pdf>; and <http://www.oxfam.org.uk/resources/issues/privatesector/business-models/index.html?ito=1940&itc=0>; go to case studies icon.

23 Adapted from: B. Vorley (IIED), S. Ferris (CRS), D. Seville (SFL), and M. Lundy (CIAT) (2009) 'Linking Worlds: New Business Models for Sustainable Trading Relations between Smallholders and Formalized Markets', Sustainable Food Lab white paper: <http://www.sustainablefood.org/images/stories/pdf/nbm%20linking%20worlds%20.pdf>

24 Comment from email correspondence with the author.

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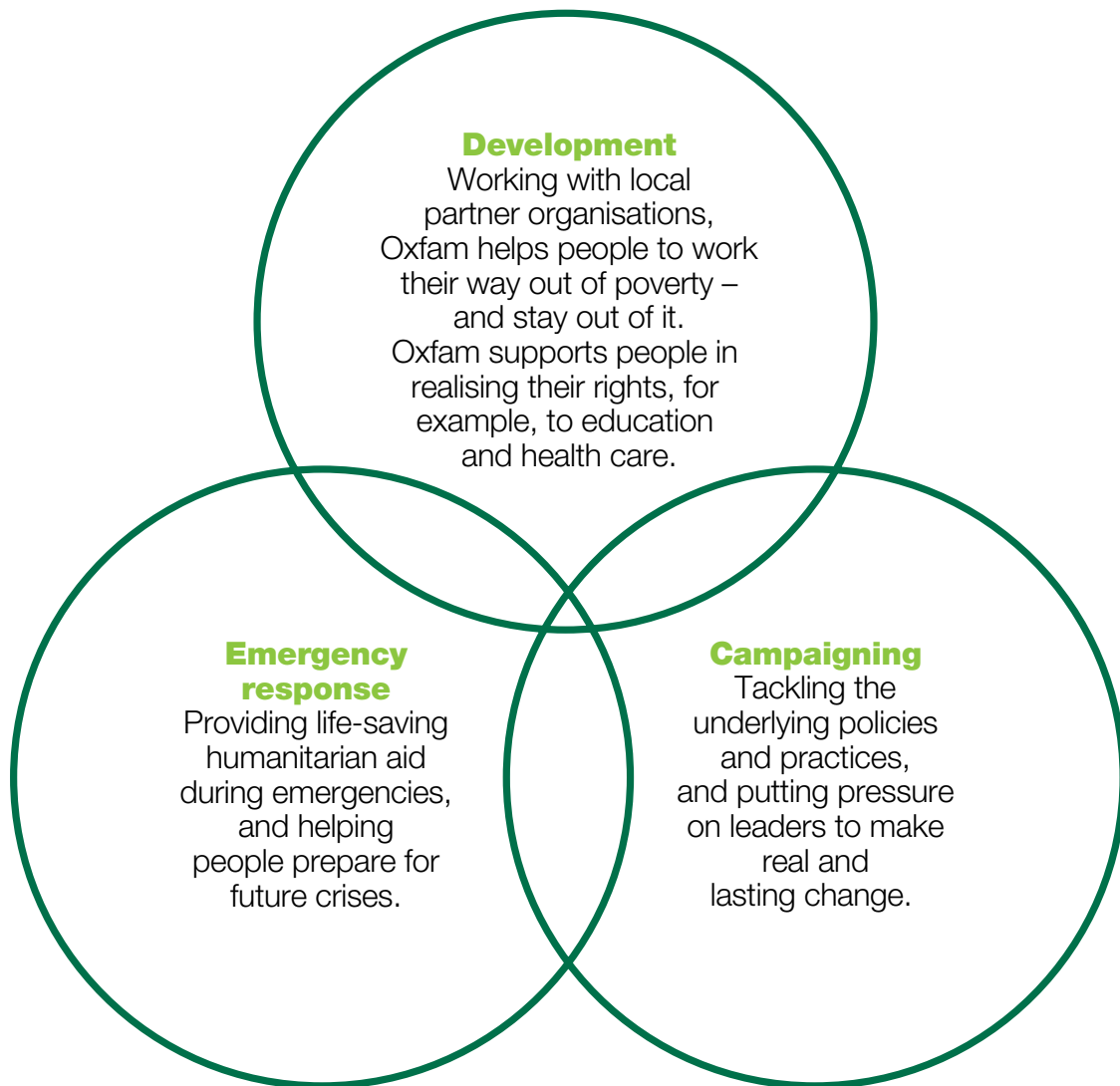
26 Purchasing for People Training: <http://www.impacttlimited.com/resources/purchasing-for-people-training-materials-taster-available-for-download/>; Chartered Institute of Purchasing and Supply and Traidcraft Exchange (2008) 'Taking the Lead, A guide to more responsible procurement practices', available at: [http://www.traidcraft.co.uk/Resources/Traidcraft/Documents/PDF/tx/policy\\_reports\\_taking\\_lead.pdf](http://www.traidcraft.co.uk/Resources/Traidcraft/Documents/PDF/tx/policy_reports_taking_lead.pdf)

27 Comment from email correspondence with the author.

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This paper is published by Oxfam International in the 'Briefings for Business' series, which aims to help develop the debate on the role of the private sector in poverty reduction by offering ideas and insights into topical poverty issues and what they mean for business.

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© Oxfam International May 2010  
Published by Oxfam International, Oxfam International Secretariat,  
Suite 20, 266 Banbury Road, Oxford OX2 7DL, United Kingdom.

Online ISBN: 978-1-84814-105-6

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