

# A LIVING INCOME FOR SMALL-SCALE FARMERS

## Tackling unequal risks and market power

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**The ability of small-scale farmers to earn a living income is critical to ensure their viability and economic success. This paper argues that closing the living income gap for small-scale farmers requires tackling the underlying imbalance in risk and market power that many of them face when engaging in global food value chains. This imbalance is not accidental, but reinforced by the way individual supply chains, commodity sectors, and public policy agendas are set up and operate. The paper identifies entry points for lead buyers to help close income gaps for small-scale farmers.**

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# SUMMARY

The ability of small-scale farmers to earn a living income is critical to ensure their viability and economic success. Small-scale farmers play a critical role in the global food system. Their success depends on having adequate resources to manage the risks of growing food crops, engaging with profitable and equitable markets, and a governance environment that supports small-scale farmers.

This paper argues that at the core of the living income challenge for small-scale farmers lies a significant imbalance between the risks of agriculture shouldered by farmers and their power to shape their own market participation. This imbalance is not accidental, but reinforced by structural barriers at the level of individual supply chains, commodity sectors, and national public policy agendas. Based on the framework of risk, power, and structural barriers, this paper offers input for discussions and interventions that aim to close income gaps for small-scale farmers participating in global food value chains.

**Disproportionate risk** can represent a key deterrent for farmers to invest in their farms to try and grow their incomes. Small-scale farmers in particular are limited in their capacity to ensure predictable conditions and to buffer against potential shocks. The risks that these farmers face are diverse, and include issues related to price, inputs, climate, and land.

**Unequal market power** is the second key barrier that prevents small-scale farmers from enhancing their incomes. The proliferation of global value chains has come with significant power asymmetries between global buyers and local farmers, thus restricting farmers' ability to reliably access profitable markets, effectively bargain with their trading partners, and diversify and upgrade their income-earning activities. By engaging in markets on more equal footing, small-scale farmers could play a more active role in fulfilling their economic potential.

Underlying the inequality in risks and market power are **structural barriers** that disadvantage small-scale farmers. At the level of the **supply chain**, inequities in risk and power are manifested in the captive relationships between a large and fragmented group of farmers and a concentrated group of buyers in many commodity sectors.

At the level of the **commodity sector**, the income prospects of farmers are significantly shaped by the way that decisions on how commodity production and trade are set up and coordinated (e.g. in terms of pricing and quality) are made collectively by powerful actors (traders, buyers, governments); often with little consideration of farmer preferences.

At the level of **public policy**, the imbalance between risk and market power faced by small-scale farmers is reinforced by a diverse set of policy areas ranging from land rights to access to inputs, market infrastructure, export policies, taxation, and investment.

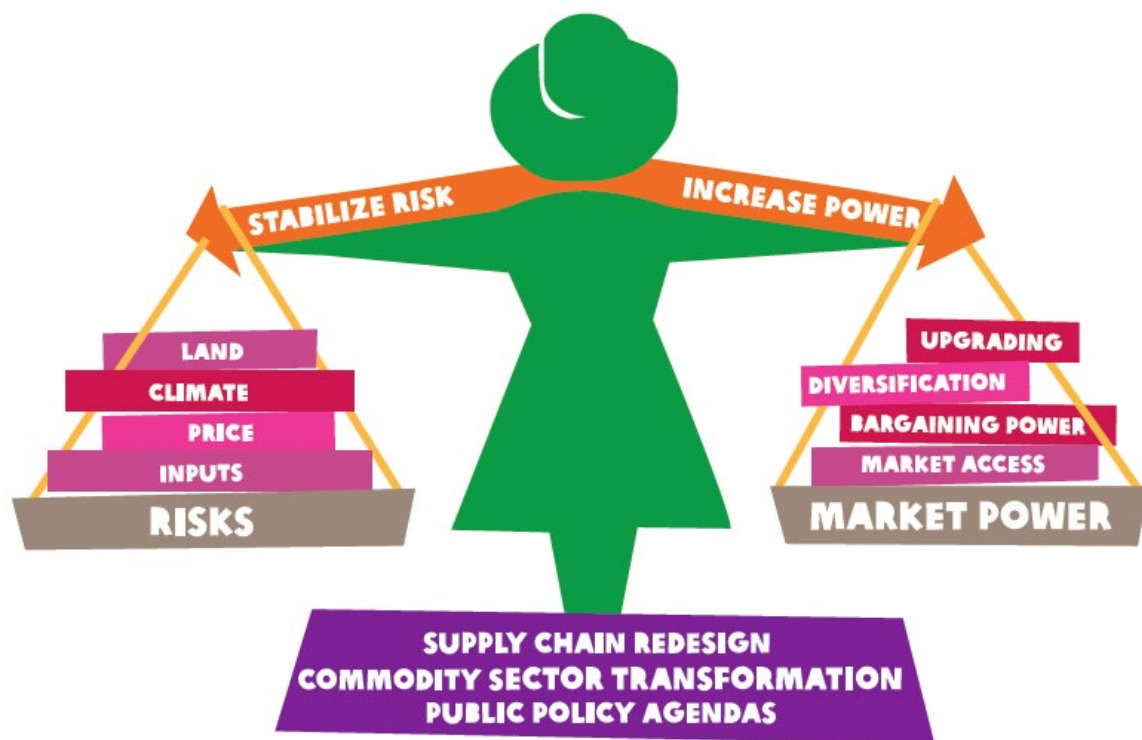
Women farmers face gender-specific income barriers, including restricted access to resources and services and discriminatory social norms. At the same time, however, women farmers represent a key investment for raising farmer incomes, given their expanding role in global agriculture. This is especially true for women who are divorced or widowed or who are responsible for their farms when other family members are working elsewhere.

Entry points for overcoming these income barriers exist, and global buyers have a responsibility to address their contributions to farmers' income challenges under the UN Guiding Principles on Business and Human Rights. Their incentives to do so are to ensure a future supply of commodities for their final products and to build sustainable production models and global reach.

Oxfam recommends four strategic shifts:

- Shift from productivity to income as the benchmark for farmer-oriented support.
- Shift from focusing solely on farmers' participation in exports towards a more holistic, household-wide perspective on farm incomes.
- Shift from undertaking predominantly resource-intensive interventions targeted at small groups of farmers to also exploring system-oriented strategies to achieve scalable and sustainable income change for entire communities.
- Shift from only 'creating' change unilaterally to also 'contributing' to change in collaboration with and through others.

**Figure 1: Summary of barriers to raising farmer incomes**



# 1 THE CHALLENGE OF ADDRESSING FARMER INCOMES

Perpetually low income levels are one of the key reasons why farmers remain stuck in poverty and under-invest in their farms, and why young people are leaving rural areas. For many small-scale farmers,<sup>1</sup> significant gaps exist between their actual income and income levels sufficient to ensure a decent standard of living (also called a **living income**).<sup>2</sup>

The barriers that farmers face to rising incomes are diverse and vary across farms, sectors, and contexts. This paper focuses on small-scale farmers participating in global food value chains, and also on the role of lead buyers in contributing to the continual challenge of low incomes in small-scale farming in particular. It also offers recommendations to improve the status quo and encourages bolder and more creative ways to address the barriers described.

The paper proposes a framework for analyzing the barriers to rising incomes faced by small-scale farmers in order to facilitate further dialogue and engagement. It aims to build on the growing momentum around living income discussions and methodologies to affect change, and address some of the tough and underlying questions that should be part of ongoing interventions.

The ambition of a living income implies targeting meaningful transformation for farmers, especially women. This requires addressing systemic barriers that stand in the way of farmers investing in their own productive capacity and their ability to thrive.

## WHY FOCUS ON FARMER INCOME?

Since the 2008 world food crisis, the global development community—including business—has ramped up its investment in support of small-scale farmers, to ensure a long-term supply of commodities and to help feed the world, but also to keep rural communities in a mode of productive growth.<sup>3</sup> Yet despite these efforts, the livelihoods of many small-scale farmers have remained precarious.

Recent research commissioned by Oxfam across 12 commodity chains from a range of producing countries has highlighted that average earnings of small-scale farmers were not enough for them to attain a decent standard of living (and the situation is even worse for women farmers).<sup>4</sup> Global hunger is also on the rise for the third consecutive year after a period of decline.<sup>5</sup> Taking these trends together, the world's ability to achieve Sustainable Development Goal (SDG) 1 (poverty) and SDG 2 (hunger) are both in significant jeopardy.

Reversing these trends requires a new commitment to support small-scale farmers, who are one of the primary groups affected by current trends and as a key agent to help the world tackle the intertwined challenges of food security, agricultural sustainability and rural poverty.<sup>6</sup> Addressing farmer income should be a central part of this effort.

The complexity and magnitude of the farmer income challenge requires new approaches. Research accompanying this paper has shown that even successful interventions are insufficient to increase the incomes of men and women farmers at sufficient magnitude and scale.<sup>7</sup> Tackling the farmer income challenge requires moving beyond easy fixes and recognizing that small-scale farmers are influenced by a broad range of contributing factors that shape their ability to grow, sell, save, and invest.

Approaches that are purely production-focused tend to ignore the need for an enabling environment and the role and influence of other value chain actors in shaping farmers' income prospects. In a globalizing food system, the motivations underlying participating farmers' behaviors are as much tied to factors related to local farming conditions as to market signals coming out of global value chains.<sup>8</sup>

An ambition for a living income shifts the end goal from incrementally raising the incomes of individual groups of farmers to more sustained progress for all farmers, regardless of differences. Living income can thus serve as a catalyst for new, farmer-centered conversations about how best to support farmers living in poverty and ancillary issues like food security, nutrition, health, and gender equity.

This paper offers input for discussions and interventions that aim to close income gaps for small-scale farmers participating in global food value chains. It is aimed at the community working on farmer income issues and particularly the global buyers sourcing from small-scale farmers. It is intended as a starting point for dialogue and engagement, particularly around issues not yet raised or dealt with by global buyers and other commercial entities.

Some of Oxfam's key assumptions are outlined below.

**Small-scale farmers are diverse**—both in terms of their level of commercialization, their farms' characteristics and the conditions under which they grow food. Viable pathways towards a living income vary considerably across farmers, including both on-farm and off-farm income strategies. The opportunities for them to engage in a greater way throughout various value chains are increasing, however.

**The manifestation of income barriers is context- and commodity-specific**—requiring specialized analyses and focused interventions. The focus of this paper is on binding constraints faced by small-scale farmers broadly, and it by no means claims to present solutions to all the challenges that exist. While laying out a general set of income barriers, this paper recognizes that contexts are just as complex as the make-up of smallholder farming communities worldwide. This is true across gender, race, ethnicity, and culture.

**Lead buyers in global food value chains are key actors in shaping farmers' incomes.** However, there is a gap in agreement about the exact responsibility and capacity of companies in tackling farmer income. Oxfam believes that the inability of small-scale farmers to earn sufficient incomes for a decent standard of living represents a human rights issue.

**Women farmers play an important but often under-valued role in global agriculture.** Concentrated in the lowest-paid roles across global food value chains,<sup>9</sup> women make up more than 40% of the labor force in agriculture, and produce the majority of food in many countries.<sup>10</sup> Given their expanding role in agriculture,<sup>11</sup> women represent an untapped opportunity for raising farmer income.

**The significant transformations necessary to achieve living income levels for farmers at scale require systemic barriers to be addressed** that stand in the way of farmers investing in their own productive capacity. Instead of only tackling farmers' immediate productivity constraints, which is often where most resources are heading, addressing farmer income requires a more holistic approach that considers the costs of agricultural practices and the role of other farm and non-farm income sources.

### Box 1: The problem with productivity

Many efforts to support small-scale farmers have focused on tackling farmers' immediate productivity constraints. The rationale for tackling yields is the opportunity to help to simultaneously address the twin challenge of farmer livelihoods and global food security. While productivity is a key element in the farmer income equation, the rationale of a singular approach focused on productivity is being challenged on two fronts. First, food scarcity is not the primary food security challenge, since the world is currently producing enough food to feed everyone, yet 815 million people go hungry.<sup>12</sup> This is in large part due to challenges in distribution and market inequalities that prevent people from growing and/or buying the food they need for their families' consumption and nutrition.<sup>13</sup> Second, productivity enhancements have not reliably delivered on raising farmer income. There are myriad reasons for this, including the challenge of increasing production costs<sup>14</sup> and the risk of a resulting oversupply depressing market prices.<sup>15</sup>

## 2 BARRIERS TO RAISING SMALL-SCALE FARMER INCOMES

**The global food system is marked by a significant imbalance between risk and power. Underlying this imbalance are structural inequities in the way that supply chains, commodity sectors, and policy environments are designed and operate.**

The global food system is marked by a significant imbalance between risk and power, and farmers suffer as a result. Left to their own devices to manage a complex set of risks—including price volatility, input barriers, impacts of climate change, and land risks—they often do not possess the appropriate market access, bargaining power, or capacity to profitably grow their businesses. As a result, many farmers' incomes remain volatile and limited in size. This applies across commodities and countries. Table 1 highlights the main barriers to increasing farmers' living income.

**Table 1: Summary of farmer income barriers<sup>16</sup>**

| Farmer living income barriers |                           |                            |
|-------------------------------|---------------------------|----------------------------|
| <i>Risks</i>                  | <i>Power</i>              | <i>Structural barriers</i> |
| Inputs                        | Market access             | Supply chain               |
| Price                         | Bargaining power          | Commodity sector           |
| Climate                       | Upgrading/diversification | Public policy              |
| Land                          |                           |                            |

### Barrier 1: Risks

**Exposure to risks and volatility is inherent in all market systems. Risks disproportionately affect small-scale farmers' ability and willingness to invest in their farms, and thus lower their income prospects.**

- Price risks strongly affect farmers' income growth. Most small-scale farmers have little capacity either to hedge against or take advantage of extreme price unpredictability. Additionally, most farmers have little cushion to manage low prices over time. With critical needs for farm investments in productivity, quality, and sustainability, price risks constitute a barrier for farmers in reaching a living income.<sup>17</sup>

- Small-scale farmers face significant risks when pursuing a high-input strategy to enhance agricultural productivity and potentially incomes. These risks include increasing costs of production, insufficient capacity, and threats to sustainability.
- A changing climate is affecting the prospects of small-scale farmers to earn higher incomes. Adaptation to climate change is key to protecting farmer incomes, but it can be a significant challenge due to farmers' vulnerability to droughts and extreme weather and their lack of access to protective technologies, skills, and resources.<sup>18</sup>
- Insecure land tenure is a growing challenge for raising farmer incomes, particularly women farmers, and is exacerbated by constant shifts in global demand for land.

### Price risks

Price risks in the form of volatility and low prices are one of the biggest concerns for a viable living income for farmers. Price volatility is three to five times lower at the consumer end of the chain than at the import stage, highlighting a disparity in risk sharing between upstream and downstream participants in value chains.<sup>19</sup> While buyers often quickly increase retail prices when commodity prices are high, they are generally more reluctant to decrease prices again when market prices drop (so-called rocket and feather dynamics in pricing).<sup>20</sup> Small-scale farmers are the actors least able to manage price volatility, yet they bear the weight of any change. While tools and mechanisms exist to cope with price volatility at the farm level (e.g. price guarantees, storage facilities) many of them are out of reach for farmers who cannot wait to sell, either to avoid loss of quality (due to lack of storage facilities) or because income is needed for basic necessities.<sup>21</sup>

Declines in export prices is the other challenge putting the viability of small-scale farmers' livelihoods in question across commodity sectors. For example, there has been a 74% decline between the mid-1990s and mid-2010s in the price of Kenyan green beans, and around 70% in the case of Brazilian orange juice.<sup>22</sup> The world market price for cocoa saw a 30% decrease between September 2016 February 2017, overpowering the price stabilization mechanisms in one of key producing countries (Côte d'Ivoire). Similarly, world coffee prices have declined significantly over the past year.

The absence of long-term horizons combined with the risk of low prices dissuade farmers from investing, and eventually can encourage their departure from farming. Women farmers are even more vulnerable to price risks, often facing a lack of access to information and exclusion from commercial negotiations.

Price risks can have an impact on how farmers commit towards buyers, and it is not uncommon to see opportunistic behavior ensue (e.g. side selling for higher prices, even in the short term), which affects trust in market relationships and hinders long-term trends of growing incomes.<sup>23</sup> A short-term mentality also creates challenges around harvest timing and volumes, as farmers look to intermediaries with faster access to market channels or information.

Higher prices can be disadvantageous for farmers if they are part of a volatile price regime. Often, higher prices are captured by intermediaries who have better access to market channels and information about market prices.<sup>24</sup> They can also give rise to a short-term focus on harvesting in anticipation of declining prices.<sup>25</sup> In addition, higher commodity prices mean lower margins for processing and trading companies, incentivizing higher-volume trading and industry concentration.<sup>26</sup>

Even if other key income variables such as crop diversity, productivity, and farm size were to improve, many farmers (e.g. in cocoa or coffee) would still be unlikely to escape poverty if farm gate prices remain at current levels. Productivity-focused interventions might benefit some farmers, but they might also exacerbate price problems for many due to oversupply.<sup>27</sup>



## **Input risks**

Prices are only one part of the income equation. Farmer incomes are also shaped by costs of production, production volume and quality to sustain and grow their businesses. Production inputs (which can be broadly defined as the tools and technologies used for farming and harvesting an agricultural commodity including labor, irrigation, plowing, fertilizer, compost, seeds and other necessary materials) play a key role in affecting these income factors.

The contemporary model of industrial agriculture promotion, which is heavily reliant on agrochemical inputs, is creating significant risks for small-scale farmers and is not delivering consistently and sustainably on raising their incomes. Despite their widespread implementation, the demonstrated income impacts of interventions targeted at farmers' input access and use have been modest.<sup>28</sup> One reason for this finding is that higher input use does not necessarily drive farm profitability because of the potential for increasing costs of production. Recent research commissioned by Oxfam found that, across 12 commodities, input costs increased by over 70% between 1996–98 and 2015.<sup>29</sup>

Pursuing an intensive input strategy can also exacerbate power imbalances between farmers and their corporate counterparts, particularly input providers. Being dependent on chemical-based agricultural inputs provided by a limited number of companies can trap farmers into captive commercial relationships and limit their options for accessing seeds in a way that meets their needs. Since farmers are often forced to buy expensive inputs on credit, they are more vulnerable to indebtedness if hit by an unforeseen decline in production or farm gate prices.<sup>30</sup>

The most fundamental risk associated with a high-input agricultural model concerns its sustainability. The intensive use of inorganic inputs is depleting the natural resources of many agricultural systems and is contributing to greenhouse gas emissions, and thus climate change.<sup>31</sup> Intensive input use can have negative effects on farmer productivity and incomes in the long term.

More sustainable approaches to raising productivity in smallholder agriculture, such as agroecological models, are available and proliferating but face the challenge of requiring long-term investments, commitments and policy support.<sup>32</sup> Small-scale farmers' relatively lower reliance on industrial inputs not only makes them stewards of a more sustainable food system but also gives them a competitive advantage in that system.

## **Climate risks**

Climate change is disrupting the lives of small-scale farmers. Given their dependence on climate-related factors for growing and harvesting crops, farmers are particularly vulnerable to warming temperatures and changing weather patterns. As the impacts of a changing climate continue to accelerate, agricultural yields are expected to further decline, primarily in already hot climates, with severe impacts on farmer incomes. Many of the key tools to adapt to a changing climate (from public agricultural investment to crop insurance) do not reach small-scale farmers.<sup>33</sup>

Climate risks are even more challenging for women. Managing limited access to land, information, and adaptive capacity, women are more vulnerable to the adverse impacts of climate change. Gender imbalances also create significant obstacles for women to participate in and benefit from local climate adaptation initiatives.<sup>34</sup> In turn, climate change will exacerbate existing gender inequalities.<sup>35</sup>

Adaptation to climate change is key to protecting farmer incomes, but it can be a significant challenge due to farmers' lack of access to the necessary technologies, skills, and resources.<sup>36</sup> Increasing farmers' adaptive capacity and resilience to a changing climate requires investment and support, both of which are lacking at significant scale, particularly

for women farmers.<sup>37</sup> Too often, farmers are left to shoulder the burden of transitioning towards more sustainable models of agriculture.

Lead buyers place a strong emphasis on hedging against supply risks. Farmers do not have this option and are thus forced to deal with the risks associated with a changing climate, including warming temperatures, rising sea levels, shifts in precipitation patterns, and extreme weather (e.g. droughts, floods and storms).<sup>38</sup> This unequal distribution of climate risks presents a key barrier to farmers' income growth prospects.

Lead buyers can play a more active role in helping farmers to manage climate risks. As demonstrated by a recent review, most climate resiliency interventions to date have been undertaken by governments, donors, and NGOs, not by the private sector. Similarly, most risk assessments conducted by buyers focus on identifying supply risks (and alternative sources for raw materials), not on farmer livelihood risks.

### **Land-related risks**

Land is one of the most important productive assets for farmers. It is also one of the starkest examples of the inequality in risk and market power faced by small-scale farmers. While the vast majority of farms worldwide are small-scale, 1% of large farms control 65% of the world's agricultural land.<sup>39</sup>

Land size, quality, and tenure are all key income factors for small-scale farmers that affect how much they can produce, of what quality, and under what conditions. The success of income-enhancing strategies is thus often contingent on equality of land-related factors.

The ubiquity of small farms in global agriculture means that they will continue to be the backbone of food production around the world.<sup>40</sup> The relationship between land size, productivity, and farmer income is complex.<sup>41</sup> Small farms can outperform large farms in terms of productivity.<sup>42</sup> Similarly, productivity growth has been shown to be higher in countries where smallholder farming dominates agricultural production.<sup>43</sup> However, large farms hold an advantage over small farms in terms of economies of scale. Aggregation is thus a key limitation for raising farmer incomes (more so than farm size alone).

Insecure land tenure is another significant challenge for increasing farmer income, as it negatively affects farmers' propensity to make longer-term investments to enhance productivity.<sup>44</sup> Research has found a strong correlation between insecure land tenure arrangements and reduced farm productivity.<sup>45</sup> Insecure land tenure can also impede farmers' access to finance and to government programs.<sup>46</sup>

Land tenure issues have been exacerbated by changes in global demand. Rising demand for monoculture crops, such as sugar or palm oil, has changed cultivation patterns in many countries, putting pressure on both small-scale farmers and the environment.<sup>47</sup> In addition, the rise of investment in natural assets such as land over the past decade has exacerbated land conflicts involving small-scale farmers around the world.<sup>48</sup> Disputes around tenure and the equal distribution of land have represented a continuing source of political instability and have prevented more inclusive development processes.<sup>49</sup>

The challenge of managing land ownership is even more pronounced for women, particularly those who are single, divorced, or widowed. Not only do these women face the barriers to access, but also barriers of societal pressure that limit their role in decision making. Women are also less likely to be in positions of leadership within governance bodies that make decisions related to land use and commercial agriculture, creating inequality scenarios.

## Barrier 2: Market power

**Barriers to raising farmer income are rooted in the skewed distribution of market power between farmers and other value chain actors. For farmers to earn a living income, they must be able to access, compete in, and flourish in a balanced and fair market environment.**

- Market access that is reliable, inclusive, and viable represents a key precondition for farmers' ability to invest in their own productive capacity. Despite many efforts to create inclusive value chains, the number of small-scale farmers participating in them has remained relatively small, due to high entry barriers and a lack of incentives.
- Bargaining power is a key determinant of farmer income, as it affects farmers' ability to form beneficial trading relationships and to negotiate terms of exchange (e.g. volumes, prices, payment modalities, contract length). Market concentration at the buyer level represents a key obstacle to increasing the bargaining power of farmers.
- Farmers can increase their income by upgrading to higher value-added activities. Similarly, where small-scale farmers are able to diversify their income sources (on-farm and off-farm) they lower their vulnerability to fluctuations in price and productivity and thus grow their income opportunities. Yet, growing vertical integration by midstream actors and significant capital requirements impede farmers' opportunities for diversification and upgrading.

Despite growing global demand for food and booming urban food markets around the world, many small-scale farmers are struggling to take advantage of greater market opportunities, which include local market outlets, national urban centers, and global food value chains. Without the ability to access markets or engage in them in a productive manner, substantial increases in farmer incomes are neither achievable nor sustainable. Instead, increases will require continuous subsidizing and/or will depend on voluntary decisions made by more powerful actors (e.g. to pay higher prices).

Small-scale farmers are more likely to thrive when they possess market power. For instance, in commodity sectors where farmers are organized up to the point of export, they have been able to garner a much higher share of the end consumer price (around 26%, vs 4% in unorganized sectors).<sup>50</sup> Similarly, farmers supplying to recently expanding end markets (e.g. coconut) have garnered significant market power.<sup>51</sup>

Value chain coordination by global buyers and retailers has fundamentally altered market power in global agriculture and has changed the focus from what farmers can produce to what buyers require, based on their analysis of consumer demand.<sup>52</sup> By trading concentrated volumes and moving towards more consolidated supply bases, buyers' sourcing systems can give advantage to large-scale producers. Concentration of market power at the buyer level can thus trickle down through the value chain, trapping small-scale farmers in captive trading relationships and exacerbating the competition with large-scale producers.

The unequal distribution of power across value chains has also contributed to an increasingly skewed distribution of value in different commodity sectors, with more and more value-added being captured by pre- and post-farming segments (86% in 2011).<sup>53</sup> As a result, many small-scale farmers are not earning enough to achieve a decent standard of living (and the situation is even worse for women farmers).<sup>54</sup>

We identify three key dimensions through which global food value chains can create a competitive disadvantage for small-scale farmers and impede their income opportunities: market access, bargaining power, and ability to diversify and upgrade.

## Market access

Unleashing the productive potential of small-scale farmers requires stable and inclusive connections with profitable markets. These are a precondition for farmers' ability and willingness to invest in the productivity and sustainability of their farms and a key condition for them to generate the surplus needed for higher incomes.

While evidence exists that interventions targeting **market access** can lead to increases in farmer incomes (e.g. through contract farming arrangements),<sup>55</sup> the number of small-scale farmers who are able to take advantage of global market opportunities is small relative to the total number of small-scale farmers. A key question remains as to how to get beyond the 2–10% of small-scale farmers who are currently reached by global value chains, and whether this market is the most lucrative one for them anyway.<sup>56</sup>

Factors that limit market accessibility include farm location, farm size and economies of scale, market information, availability of infrastructure and agricultural services, and levels of skill, capacity, and organization of farmers.<sup>57</sup> These barriers vary significantly across geographies and contexts. Additionally, small-scale farmers face significant entry barriers due to requirements set by buyers (e.g. food safety or quality standards, volume requirements), which give advantage to larger producers.<sup>58</sup>

Gender-specific access barriers also exist. These are the result of time constraints and unpaid work, the concentration of women in subsistence production, and their lack of access to other productive assets and services.<sup>59</sup> Instead of focusing on market access for farmers in general, the question should be what strategies and market channels are the most profitable and most conducive to raising smallholder incomes for women farmers alongside their male counterparts.

For global buyers, market access for small-scale farmers is increasingly becoming a two-way street. As global market opportunities are becoming increasingly risky and local market outlets are becoming more diverse, (e.g. growing urban centers and regional value chains) 'going local' can become a more attractive prospect for farmers.<sup>60</sup> This forces global buyers to offer farmers a better value proposition to ensure that they continue to supply raw materials into global food value chains.

## Bargaining power

Negotiating favorable terms of exchange (e.g. volumes, prices, supporting services, compliance with standards, payment modalities, contract length, etc.) can significantly shape the income prospects of farmers. Unlike what the free market ideal suggests, exchange transactions in global value chains are negotiated, and the terms of those transactions reflect power asymmetries within the chain. In many global value chains, there is a significant imbalance between small-scale farmers and the actors they must deal with when buying inputs or marketing their final products.<sup>61</sup>

Lead buyers, in turn, have access to a large number of potential suppliers, and are in a strong position to dictate the terms of supply contracts, especially when they face very low costs. While buyers can respond to changing market conditions (e.g. shifts in consumer demands, fluctuating market prices, environmental shocks, etc.) by taking advantage of their diversified sourcing systems, farmers often depend on a single buyer and a single crop to access global food value chains, thus making them price takers with little or no market power.<sup>62</sup>

Limited access to reliable market information also impedes farmers' decisions as to when to sell (and to whom), and their ability to negotiate prices and meet market requirements. Often small-scale farmers rely upon their local farmers' organization to bargain on their behalf, which may or may not be successful, since not all farmers' organizations are able to fulfill this role.<sup>63</sup> Some are struggling to engage with a more competitive and fast-moving market

environment while creating long-term value for their members. Others have struggled due to a high level of dependency on external support and a lack of rooting in community structures.<sup>64</sup>

Women are particularly affected by limitations of bargaining power, as they are less likely to participate in or lead farmers' organizations, and thus have less access to training, certification, and other supporting services.<sup>65</sup> Women make up more than 40% of the labor force in agriculture, and produce the majority of food in many countries.<sup>66</sup> A 2011 study estimated that levelling the playing field by addressing the productivity deficit of women could increase yields on female-run farms by 20–30% and significantly boost agricultural growth in developing countries.<sup>67</sup>

### **Upgrading and diversification**

While accessing markets and bargaining within them are both critical, **upgrading** into higher value-added activities and investing in income **diversification** activities are two key pathways to raise farmer incomes that reduce farmers' dependence on a single income stream and open up new sources of revenue.

Upgrading can take many forms. Farmers can forge more direct links with companies in international markets (e.g. by organizing production up to the export stage).<sup>68</sup> Or they can upgrade production processes to access higher-quality segments to take advantage of higher-income opportunities.<sup>69</sup> Moving from on-the-spot transactions with buyers towards longer-term relations can be a key stepping stone to facilitate upgrading.<sup>70</sup>

Upgrading opportunities are difficult to realize, however, because the power lies with intermediaries, and farmers are not always able to compete with or circumvent them. This becomes more challenging with the consolidation of actors along value chains through buy-outs, mergers, etc. Upgrading efforts by farmers can thus be costly and can sometimes backfire. A recent study by the Specialty Coffee Association (SCA) found that upgrading investments is not necessarily the best pathway to greater farm profitability, due to the rise in costs.<sup>71</sup> Similarly, several analyses of farmers investing in sustainability certification as an upgrading strategy have found that the costs might not match the benefits.<sup>72</sup>

As a growing proportion of the value-added activities of global food value chains are taking place at the consumer level (think marketing or branding), farmers are left to fulfil low-value activities of supplying commodities for the wholesale market. Farmers face a number of obstacles in entering activities such as branding their own products, including the need to understand and generate consumer interest and the need to meet quality standards or requirements for sufficient volume.<sup>73</sup> Successful examples of brands (co-)owned by farmers, such as Divine Chocolate, or initiatives such as the Small Producer Symbol, have remained the exception in global commodity markets.

Diversification into non-farm income sources can represent another key income growth strategy, since many small-scale farmers don't earn a living income from farming activities alone. Furthermore, for farmers who rely predominantly on a single export crop, fluctuations in price and productivity can have a major impact on incomes.<sup>74</sup> This is why—as a general rule—better-off households have more diversified sources of income.<sup>75</sup> Opportunities for diversification into the non-farm economy are also expanding and now account for 35–50% of rural household income across the developing world, though with significant variation between regions.<sup>76</sup> This represents an important opportunity for small-scale farmers in the face of economic and environmental uncertainty.

## Barrier 3: Structural barriers

**Addressing the farmer income challenge will not be achieved by technical interventions at the farm level alone. Tackling the underlying imbalances in risk and market power requires a change in the ‘rules of the game’ that govern agricultural production and trade, including the operation of supply chains, commodity sectors, and public policy.**

- Global supply chains are not set up to deliver on farmer incomes, as their incentive structures and coordination mechanisms aim to achieve buyers’ preferences of large-volume trading, high flexibility, and standardized quality/safety standards.
- Commodity sectors also reflect the preference of their most powerful participants (i.e. corporate buyers and traders), including on price mechanisms and standard setting. Farmers’ voices are often marginalized in the institutional set-up of commodity sectors.
- Public policy environments in many countries are not conducive to farmers earning higher incomes, with obstacles including declining rates of public investment in agriculture and a policy bias towards large-scale agriculture.

Behind the key determinants of farmer income (i.e. quantity, quality, price, and costs) stands an architecture that to date has been designed to deliver for lead brands and global consumers—not for farmers and their ability to generate a living income. Tackling the huge scale of income barriers faced by small-scale farmers requires addressing these **structural factors** that determine whose interests are prioritized, whose voices are heard, and who makes decisions.

### Supply chains

Buyer-led supply chains have become the backbone of a globalizing food system that connects farmers to consumer markets. These supply chains are set up with the goal of minimizing supply risks and volatility for buyers and their consumers. Supply chain risks are outsourced to intermediaries—particularly large suppliers and certification organizations—and ultimately shouldered by farmers in terms of costs, production, and price.

One of the biggest structural challenges in global supply chains is the imbalance between a fragmented farmer base and consolidated buyers. As buyers have taken a hands-off approach to engaging with their supply chains and instead rely on intermediaries to manage trading and processing or coordinating linkages with farmers, the results do not deliver increases in farmer income.

Fragmented and opaque supply chains prevent more direct engagement and information exchange between supply chain actors. The likelihood of unfavorable trading practices (e.g. unilateral changes in contract terms, abrupt termination of trading relationships, shifting of costs and charges, or late payments) is increased when buyer–farmer relationships are short-term and contact points are infrequent. The lack of market information has also prevented consumers from playing a more active role in helping to channel additional resources to the farm level.

### Commodity sectors

Working towards higher farmer incomes at scale cannot be addressed solely by working through individual supply chains. It also requires tackling the workings of commodity sectors as a whole in order to address the systemic barriers outlined in this paper, and to develop more holistic pathways involving the collective capabilities of commodity sector actors for improving the situation of small-scale farmers.<sup>77</sup>

For commodity sectors to operate in a way that is more beneficial for farmers will require coordination and agreement on rules and mechanisms for managing key issues.

Pricing is a prime example of the key role that commodity sectors play in affecting farmer income. The ongoing interplay between market-based pricing mechanisms, state-led interventions targeted at stabilization and support, and private sector efforts through certification has not delivered on farmer incomes.<sup>78</sup> Indeed, such efforts face a number of challenges including their politicization, a delayed response to changes in supply and demand, their inability to account for the true cost of commodity production, and the non-transparent transmission of prices from the consumer to the farm level.

Tackling sector-wide challenges requires the active participation of farmers. Yet in reality farmers' voices are often constrained. Many sector platforms—while offering open membership—struggle to ensure adequate representation for farmers.<sup>79</sup> Similarly, standard setting initiatives in the agriculture sector have been found to have significant governance deficits with regards to farmers' participation in decision making.

### **Public policy**

Public policy affects farmers through its impact on key issues that influence their incomes—from extension services to price setting, land regulation and labor laws. Proactive local, regional, and national government policies have played a key role in increasing the productivity of small-scale farmers over the past two decades, which should aid with income challenges<sup>80</sup> while also improving access to inputs, supporting market infrastructure (e.g. transport, land tenure, logistics, communications), and finance.<sup>81</sup>

More recently, public policy support for small-scale farmers has been curtailed in many countries by declining rates of public investment in agriculture.<sup>82</sup> While investment in farming has been back on the agenda of many governments in predominantly agricultural countries since the 2008 world food crisis, this agenda has often been biased towards plantation-based farming. In many countries, policy measures are lacking that would strengthen local control over land and natural resources, promote farmers' organizations, and support the inclusion of small-scale farmers in value chains.<sup>83</sup>

The promotion of export-friendly policy environments has, in many instances, been agnostic about the role of large-scale as opposed to small-scale farming. Exports of commodities will likely benefit large farmers, as small-scale farmers face the constraints already described, and cannot be viewed as scaled-down versions of large farmers. In turn, a lack of appropriate policy support for small-scale farmers can affect the strategies of global buyers in terms of raising farmer incomes.<sup>84</sup>

The promotion of participation in global value chains through public policy has had an ambivalent effect on small-scale farmers. While the promotion of export-friendly environments is on paper agnostic with regards to large vs. small farmers, in practice these policy frameworks benefit large farmers, as smaller-scale farmers face more diverse constraints and needs in accessing global markets. Treating small-scale farmers as scaled-down versions of large (and male) farmers amplifies this biased policy impact. Similarly, in some cases commercial policies can be a barrier to raising farmer incomes, such as the role played by competition law in preventing companies from more proactively engaging on pricing issues.

Public policies have also often been blind to the gender dimension of farmers' income barriers. For instance, agricultural commercialization and growth strategies do not automatically benefit women, and thus the promotion of more commercial agriculture may backfire for women. An orientation towards cash crops can potentially rob women of control of their household income stream, given the role that they frequently play in managing subsistence plots.

### 3 ENTRY POINTS FOR CHANGE

**Global lead buyers play an influential role in shaping farmer incomes on account of their size, position, and reach.** Global buyers play a unique role in food value chains due to their dominant position. Their direct impact on farmers' income levels is significant due to their market power. Buyers also have a unique position in exerting influence on a range of other powerful actors affecting small-scale farmers, including suppliers, governments, and end consumers. Lead buyers' impact and leverage implies that they have a responsibility to address their contributions to farmers' income challenges under the UN Guiding Principles on Business and Human Rights.<sup>85</sup>

Lead buyers also have a vested interest in the future of small-scale farmers. Not only do some commodity sectors depend on them (e.g. cocoa or coffee). But thriving small-scale farmers are also critical elements of a sustainable food system that is resilient to climate change and supports rural economies. Buyers who want to encourage young farmers to stay in commodity production rather than move to the cities must pay attention to how much small-scale farmers feel invested in their own future.

This does not mean that buyers should shoulder sole responsibility for shifting the paradigm for small-scale farmers. A first limitation is the relative remoteness of buyers from the farm level, due to the fragmentation of food value chains and the growing role played by intermediaries. Additionally, most farmers' incomes rely only in part on export crops sold to an individual buyer, and thus there may be other income sources to evaluate. This makes farmers' income prospects contingent on a variety of factors that lie outside of buyers' direct control (e.g. local market conditions, local infrastructure, weather patterns, policy environment).

Human rights due diligence processes are a key first step for buyers to get to the bottom of income issues within their supply chains and to understand their own responsibility and pathways for change.

These pathways vary according to commodity and context. There is no 'one size fits all' approach to raising farmer incomes. Isolated interventions targeted at specific groups of farmers will be insufficient to create lasting change at scale. Instead, buyers are required to think in a more systematic and strategic manner about how to effectively help increase farmer incomes and test new strategies for improving their value chains by investing in their farmers. Oxfam recommends four strategic shifts:

- Shift from productivity to income as the benchmark for farmer-oriented support, given no clear, lasting evidence across multiple commodities that productivity alone improves farmer incomes.
- Shift from focusing solely on farmers' participation in exports towards a more holistic, household-wide perspective on farm incomes.
- Shift from predominantly undertaking resource-intensive interventions targeted at a small group of farmers to also exploring system-oriented strategies to achieve scalable and sustainable income change for entire communities.
- Shift from 'creating' change unilaterally to 'contributing' to change in collaboration with and through others.

Lead firms can implement these shifts by moving beyond an intervention-based model towards a more holistic approach that encompasses the following pathways: 1) investing in farmers; 2) transforming their supply chains; 3) working towards sector-level change; and 4) tailoring strategies to commodity sectors.



## **Investing in farmers**

The focus of buyers on branding and marketing as key business functions has removed many of them from their own supply chains, leaving the task of ensuring efficient, stable, and high-quality supply to their suppliers and supporting organizations (e.g. certification).

Despite being a key part of lucrative supply chains, small-scale farmers continue to be viewed more as suppliers of raw commodities than as essential business partners. As a result, many buyer–farmer relationships have remained indirect and transactional, which significantly limits the ability of lead firms to engage with farmers around their incomes.

Engaging with small-scale farmers more holistically starts by investing in understanding their situation. It requires recognizing the diversity of rural smallholder worlds, including their economic realities at a household level. It also requires paying attention to the unique needs and constraints of small-scale farmers and going beyond approaching farmers as uniform groups or scaled-down versions of large farmers.

Human rights due diligence processes play a key role to understand the human rights risks faced by farmers in their supply chains and identify adverse human rights impacts of companies' activities (or their business relationships) on farmers' income prospects.

Supporting women farmers should be a key priority for buyers' strategies on farmer incomes. Engagement should go beyond ensuring equal access and should be tailored to meeting women farmers' needs, taking into account not only their farm-level activities but also constraints external to farming (e.g. unpaid care work) and the social norms underpinning these constraints.

Interventions targeted at increasing women's economic empowerment entail a broader investment in challenging deeply ingrained gender norms. This requires broadening the reach of interventions to include complementary investments in areas such as women's collective voice and influence, unpaid care work, control over income and assets, and combating sexual violence.<sup>86</sup>

It also means expanding the focus of engagement towards the communities that buyers are sourcing from. For lead firms to guarantee long-term engagement with farmers, investments should help build thriving farming communities to ensure the existence of shared services and a wider network of productive farmers that can serve as a supply base.

## **Transforming supply chains**

Engaging with and understanding the situation of farmers and their communities is only the first step of a more system-oriented farmer income strategy. The next key step concerns addressing lead buyers' direct contributions to the income struggles of small-scale farmers. This requires lead buyers to actively rethink the design of their supply chains and their impact on farmers' ability to earn higher incomes.

Transforming supply chains to deliver on farmer income involves several elements. First, it requires redefining the goals and incentive structures of sourcing systems to elevate farmer income (e.g. introducing key performance indicators (KPIs)). Basing sourcing decisions on benchmarks of farmer income could help create a pricing mechanism that more accurately reflects the costs of production.

Second, lead firms should build supply chain structures that are based on long-term trading relationships. Long-term contracts with farmers are essential in order for them to invest in their farms.<sup>87</sup> Establishing favorable trading terms with small-scale farmers, including pre-finance, quick payments, and the flexibility to access other buyers, are all practices that have been explored by some forward-looking lead firms.<sup>88</sup> Trading terms should also consider gender-specific barriers that women farmers face.

Third, lead firms should create opportunities and provide support for farmers, particularly women, to upgrade into higher value-added activities. Supporting farmers' organizations can be a key pathway to achieving this, and lead firms' supply chains should support such organizations as a primary means to aggregate small-scale farmers.<sup>89</sup> Related to this, lead firms should promote and facilitate the growth of new business models that are able to channel more resources to farmers (e.g. cooperatives, women-owned enterprises, social enterprises).<sup>90</sup>

Fourth, supply chains that deliver on farmer income should be based on radical levels of transparency. This includes facilitating the provision of market information to farmers but also improving information flow vis-à-vis consumers in order to enable them to take a more proactive role in supporting farmers.

Fifth, lead firms should proactively engage in designing price-setting mechanisms that account for the costs of production and enable farmers to work towards a living income. Paying flexible premiums is one potential approach to overcome existing limitations in company-led price mechanisms.<sup>91</sup>

### **Working towards sector-level change**

Once a company is addressing its direct contributions to farmers' income challenges, it should focus on its influence at a sector level (i.e. vis-à-vis other lead firms and suppliers). Lead buyers can help to mobilize more ambitious collective change initiatives that aim to raise farmer incomes at scale. It is at the sector level where barriers to raising farmer income can be addressed more systemically.

Changing the supply chains of individual companies will prove futile as long as they operate without supporting clear policy and institutional environments, and ensuring the right investment in political, social and economic infrastructure.

One key avenue concerns pre-competitive collaboration with peers in order to overcome the risk of competitive disadvantages arising from unilateral actions geared towards supporting farmers. An unprofitable strategy for an individual company (e.g. paying farmers higher prices) can become profitable when it is undertaken collectively by a sector.

To date, many lead firms have tended to take an inward-looking approach to engaging with their supply chains, as part of their internal sustainability strategy. As the stakes are getting higher, firms are becoming more inclined to publicly highlight the urgency of the issues at hand in order to help rally support from other constituents. Adopting a more public advocacy role can be key to shaping the debate and mobilizing support for the issue of farmer income.

### **Engaging with governments**

Addressing the structural barriers to farmer income will require coordinated action that leverages the comparative advantages of different groups. Voluntary actions by individual buyers are likely to fail to address the fundamental power imbalances at the heart of the farmer income challenge. The ability of governments to set binding rules and regulations and to allocate resources can not only have a significant impact on small-scale farmers' income prospects but is also more likely to reach them at scale.

Buyers' purchasing power can be a key leverage mechanism to support governments' efforts in introducing support mechanisms targeted at small-scale farmers, including minimum commodity prices, farmer training, and investments in public goods (e.g. rural roads, electrification, market spaces, extension services) that can provide particular support to small-scale farmers to increase their incomes.<sup>92</sup>

## **Tailoring strategies to contexts and sectors**

This paper has purposefully looked across contexts and commodities in an effort to identify cross-cutting patterns and dynamics that affect farmers' income. Identifying the precise entry points for change requires greater attention to local context and to differences in the composition and level of development of local agricultural economies, social and cultural factors, and the political environment.

Differences in the characteristics of the commodity sectors and food value chains that connect lead firms with farmers are also important. There are several characteristics of commodity sectors and the food value chains they encompass that shape lead firms' opportunities and constraints in tackling the issue of farmer incomes.

These characteristics include the position and competitive strategy of lead firms (i.e. food brand vs. retailer, premium vs. bulk); commodity characteristics, such as a commodity's level of differentiation, durability, and its characteristics as a cash or staple crop; the degree of geographic concentration and supply chain fragmentation; and characteristics of the farmer base (i.e. commodities dominated by small-scale farmers vs. plantation agriculture). Similarly, the presence and contributions of women farmers, and the barriers that they face, differ across sectors and contexts, and thus require tailored analyses and approaches.

## NOTES

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