

## Linking Smallholder Farmers to Markets

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### Introduction

In terms of creating income growth to reduce poverty, agriculture is up to four times more effective than other sectors (Growth Commission, 2008). This is leading many development agencies to invest in the agriculture sector by providing support services to farmers and helping link them to markets. With over 1.5 billion small-scale farmers in the world, and 75 percent of the world's poor among them, linking disadvantaged farmers to markets goes a long way towards helping them escape poverty and hunger.



**Figure 1:** Fruit market in Burma with both tropical and temperate fruits. Source: Brian Flanagan.

Recent growth in global commodity prices, as well as expansion of domestic (Fig. 1) and export markets among emerging economies, translates to new and better opportunities for smallholder farmers in the developing world to access these markets. Increased production of

high value horticulture crops in developing countries is also creating opportunities for small-scale farmers. Large corporations realize that farmers in developing countries, with both large and small land holdings, are potential suppliers in international, domestic and regional supply chains. Though there are risks in emerging markets, these trends could bring increased support services for farmers such as improved technology, extension, finance and insurance.

For the rural poor to take advantage of market opportunities there is a need for governments to invest in local infrastructure. There is also a need to reinforce business services, train and equip farmers with new skills and develop extension systems that can improve production and market performance. This document, drawn from the MEAS / USAID [Brief #4](#) and [Discussion Paper #4 \(Linking Smallholder Farmers to Markets and the Implications for Extension and Advisory Services\)](#), will provide an overview of the markets, factors to consider when developing projects that link smallholders to trade options, and common approaches to strengthening smallholders' access to markets.

## Types of Markets and Marketing Systems

One must understand the available markets to help farmers create linkages to them. Appropriate markets are those that match farmers' needs and production capacity. This section presents three types of markets available to farmers and briefly discusses ways in which agriculture development workers can help smallholder farmers have better access to them.

### Informal Markets

In developing countries, 80-90 percent of agriculture goods are sold through informal markets. These include trade at the farm gate, roadside sales, local markets (rural and urban), and urban wholesale and retail (Fig. 2) markets. Prices are often decided by a mix of supply and demand, trader cartels and client loyalties. The informal market is the most accessible to smallholder



**Figure 2:** Street vendor in Port-au-Prince, Haiti selling fruit to by-passers. Source: Brian Flanagan.

farmers because it has few regulations and often no taxation. With no regulations there are often no grades and standards on commodities. This allows for flexibility in meeting the amount of produce desired by the trader, so often the amount of postharvest loss is low.

However, cartels of traders often control informal markets by limiting competition, enforcing arbitrary stall fees, and making choices that favor their allies and relatives. Also a lack of investments and enforced rules leads to overcrowded and unsanitary market conditions that are not conducive to food safety.

A country's government will need to take the lead to improve the informal market system. Local governments must work to improve the conditions and set regulations to uphold clean storage conditions. But both the private and public sector can work with the government to improve infrastructure such as roads and market facilities. While basic grades and standards (weights, measures, and moisture of content of goods) should be developed and enforced by the government, agriculture development projects can also help promote more standardization.

Agriculture development projects can also support informal markets by helping to provide market information using information and communication technology (ICT). ICT can be used to monitor and share information on the quality and pricing of produce and the volumes of transactions of specific commodities.

### Formal Markets



**Figure 3:** Mangoes being graded and packaged in Haiti for export to the United States. Source: Brian Flanagan.

Formal markets are more regulated than informal markets and transactions are based on defined legal frameworks. Buyers in the formal market need regular and large volumes of product. To meet the required standards, small-scale farmers must be well organized and apply best practices in production and post-harvest handling

(Fig. 3) of goods. Depending on the buyers, they may also require traceability of the produce from farms.

### *Challenges with the formal market for rural small-scale farmers:*

- As traders often provide credit (e.g., a cash prepayment) to growers, the size of a deal may be limited to the trader's access and willingness to carry large amounts of cash.
- Given that buyers and farmers often do not meet in person, trust in dealings is based on written standards and certifications.
- Most advanced formal market systems count on banks to provide credit, which does not work well in countries where banks do not operate under necessary regulatory frameworks.
- Middle- to large-scale farmers can crowd out small-scale farmers as they produce more than their smaller counterparts.
- The standards of buyers may be difficult for poorer small-scale farmers to meet, excluding them from the market.

Though there are challenges for smallholder farmers when accessing the formal markets, buyers in these markets can link farmers to a regular source of income and, in some cases, support services (i.e., technology, extension, finance, and insurance).

Agriculture development workers must understand the standards that small-scale farmers have to meet to access formal markets, and then inform them of these requirements. Development workers should also evaluate all benefits for smallholder farmers linking with a formal market (i.e., more support and social services, greater income security) and inform them of the assets and risks involved.

### *Study in Kenya of informal markets vs. formal markets*

A study in Kenya surveyed 115 coffee growers, 66 of whom supplied coffee to the traditional markets and 49 who supplied supermarkets. Those who sold their coffee to the traditional market had very limited marketing costs. However, selling to brokers at a low farm gate price only allowed them to break even at best. The farmers who accessed the supermarket channel had transport costs but also received a price that was more than three times the farm gate price, providing a gross profit of nearly 40 percent.

### **Formal Public Markets**

Formal public markets are organized by governments and the food aid sector. It is a method for agencies to purchase agricultural goods in order to provide locally or regionally procured food aid or to meet a government's own needs for institutions such as schools, military, police, prisons, and hospitals. This practice is growing in developing countries where farmers who have surplus produce and can meet high market standards are contracted to produce the desired commodity. For example, the United Nations World Food Program's (WFP) Purchase for Progress (P4P) program buys staple food crops for food aid. In 2013, 10 percent of the P4P grain

came from small-scale producers who have surplus production. However, WFP has high standards for grain quality which can be difficult for poorer small-scale farmers to meet. Additionally, the process of agreeing on contracts and payments being paid can be lengthy with formal public markets compared to informal market; this is because of the amount of bureaucracy governments and agencies have to follow. Development workers can work with farmers to ascertain whether programs such as P4P are viable options. Such contracting can provide partial payment at harvest and offer access to insurance to reduce possible risks (i.e. in rain-fed production systems).

## **Matching Farmers and Markets**

To develop long term markets for smallholders there is a need for integrating market linkage work with strong farmer organizations, sustainable production methods and access to business services. Development workers addressing market linkages must determine the best way to intervene based on the types of farmers and community dynamics as well as the farmers' interests and circumstances. When working with resource-poor, small-scale farmers the projects should focus on linkages that improve food and nutritional security along with livelihoods.

In linking smallholder farmers to markets, project planners should:

- Identify and understand the numerous types of markets and farmer segments in the project area;
- Know the issues that influence market access and farmers' prospects (e.g., location, land size, water resources, and access to roads and transport);
- Decide whether to develop a project that targets individual farmers or farmer groups;
- Insure that the project has the resources and capacity required to make market linkages;
- Consider farmers' goals and desires and classify age, gender and skills;
- Consider the local political situation as well as food security, wealth, and environmental status;
- Assess local farm production, market options, and the interest of traders to work with organized smallholders;
- Advise smallholders on what commodities to invest in and which markets to target;
- Identify appropriate strategies for each farmer or group of farmer;
- Decide how directly involved the project will be in the value chain.

Available assets and natural resources, land size, level of expertise and access to markets and agricultural services can all vary significantly from farmer to farmer. Therefore, not all farmers should have the goal of trading with formal or formal public markets. Linking vulnerable farmers to the highest value or most dynamic markets would be a mistake. Likewise, smallholders in remote rural areas are unlikely to connect to formal markets and may even have difficulty linking regularly to local informal markets.

Farmland size also impacts the potential for commercialization. Interventions should be tailored to the size of farmer land holdings. Farmers with land constraints often do not have enough products to sell in the marketplace and, in many cases, must buy staple crops to supplement their own household needs. Farmers who are unable to supply large amounts of produce often have limited prospects in gaining access to formal markets, as these venues require substantial quantities and a steady flow of products. Often poor rural smallholder farmers need to diversify their income by including non-farm options. They may also need to focus on strengthening their links to informal markets. Projects to support land-constrained farmers should encourage improving basic education, strengthening organizations and diversifying incomes. Farmers with at least two hectares of land located near markets can receive good returns from formal markets; those with at least three or four hectares often receive even better returns. Farmers with more land can improve their prospects when they are able to access more stable markets and improved technologies, as this allows them to expand production and productivity.

## **Market Linkage Approaches**

There are many ways to develop projects that strengthen market linkages. The approaches and interventions used will depend on the needs of individual farmers or farmer groups being targeted. This section discusses three methods that agriculture development projects may consider when helping smallholder farmers link to markets.

### **Investment in value chains**

This is a systematic approach of linking smallholder farmers to markets. A program's structure and amount of investment may vary, but the process often follows these steps:

1. Recruit support staff and become acquainted with the community.
2. Pinpoint crops that have economic value and that farmers are interested in producing.
3. Develop relationships with buyers in formal markets so as to stay abreast on information pertaining to current demand, market requirements, existing services, and trading mechanisms.
4. Gather information on production, marketing and finance for a business plan.
5. Develop a group business plan and prepare timelines for farmers to implement.

6. Assess the enterprise performance of the group.
7. Evaluate, improve, and scale up the process.

### Contract Farming

Contracting farming is becoming increasingly common in developing countries. Firms will contract smallholders to grow a specific product for a target market. It is often done by an intermediary firm as a way to secure the produce in a region and control the quality. The contracts often detail the price, quality standards and amount of product that will be bought. The firms typically provide loans and technology (Fig. 4) and help to lessen the risks for farmers. Contract farming insures that the farmers sell their product, but often the farmers receive lower prices than on the open market. There are cases where contracts initially offered to smallholders are then given to larger and more competitive farming operations. Also there is often no insurance protection for smallholders in developing countries. There have been cases of farmers taking out large loans to meet production quotas and then being unable to repay the debt due to crop failure.



**Figure 4:** A grower showing fruit-fly protected mangoes; the bags used to protect the mangoes were provided by a firm that contracted the purchase of the mangoes. Source: Brian Flanagan.

## Certification schemes

For over twenty years, certification schemes that support smallholder production and marketing have been on the rise. Major companies in food processing and retail are looking to link with sustainable supply chains, as ethically-minded consumers have strengthened certified markets (Fig. 5). Farmers must follow both production and trade specifications to sell to a certified market. In turn, there is a limit on the minimum that can be paid to the farmer and often a range of social benefits. Recent, less attractive prices in these markets have led many farmers to return to conventional venues. This shows the need for more incentives so that farmers will see the economic value of participating in certification schemes. Fair trade, Organic, Utz, and RainForest Alliance are some of the leading certification agencies.



**Figure 5:** Haitian fair trade mangoes, priced two for \$5 USD at Whole Foods. Source: Brian Flanagan.

## Public-private approaches to value chain investments

Major food companies are seeking new sources of product as formal markets increase because of globalization and market consolidation. This is leading companies and development agencies to collaborate to improve small-scale farmers' access to the world of corporate business.

## Supporting Farmers Organizations for Collective Marketing

In addition to making farmers aware of marketing opportunities, and equipping them with the necessary business and management skills, it is also important to help smallholder farmers organize themselves so that they can increase their bargaining power and provide the scale of produce required by traders. By working with farmer groups, development workers can help improve farmers' management, business, and financial skills. There are various types of organizational structures that have been tested to improve the collective marketing of smallholder farmers.

## Savings and loans groups

These groups are best for the most vulnerable farmers. They provide an opportunity for farmers to learn basic financial literacy and organizational skills. Once these basic skills are mastered, farmer savings and loans groups can then evolve into producer and marketing groups.

## Producer groups

Producing groups (Fig. 6) have traditionally brought farmers together to test new production systems. Such groups are a good option for farmers who can readily gain access to markets, provided they are able to adapt to the business and production challenges that arise.



**Figure 6:** Vegetable producer group holding a meeting. Source: Brian Flanagan.

## Collective marketing groups

Farmers interested in learning new technologies and producing a surplus for sale may wish to organize themselves into collective marketing groups. Through collective marketing, these groups have more negotiating power at the time of sale than an individual farmer acting alone. When smaller collective marketing groups start to grow and collectively market their produce with other farmer groups (i.e. form farmer associations), effective and transparent management becomes more challenging. As the group grows, then, it is important to have a transparent system for group representation and timely feedback to all members.

## Cooperatives

Cooperatives frequently develop from associated producer groups. Cooperatives collectively provide more produce, offer more services and in turn develop trading relations in specific value chains. Market linkage mechanisms, such as certification schemes, can strengthen cooperatives. Though cooperatives have many benefits, they may also suffer from corruption, extortion, poor management and political manipulation; all of which can discourage farmers from participating in them.

## Value chain support within the chain

Some farmers may not want to work with cooperatives, or available cooperatives are not active in key value chains. In these instances, alternative methods are needed to support collective

action among smallholder farmers. Some temporary structures that NGOs use to encourage market coordination amongst farmers, including the following:

- Making agricultural inputs available to farmers;
- NGO staff members playing coordinating roles in the chain;
- And managing packing house operations.

### **Facilitated value chain support**

To keep from becoming overly involved in the chain, external agencies will often facilitate the roles of chain actors rather than engage directly. The actors are provided technical advice and training to improve the process. This method is used to reduce dependency and encourage greater sustainability of the value chain when the assistance ends.

### **Agri-dealer networks**

The goal of the agri-dealer network is to encourage projects in which market linkages are supported rather than directly managed. For example, the NGO Care in Zambia has worked with input suppliers by strengthening their capacity to provide technology to farmers rather than bypassing agri-dealers to provide inputs directly to the farmers. This project is demonstrating the value of new technologies and building relationships between both farmers and agri-dealers so that farmers can continue to access the technologies once the project is complete.

### **Agent networks**

In this approach, extension workers serve as agents who facilitate linkages between farmers and agriculture input dealers. This model is structured so that both buyers of commodities and sellers of agriculture inputs pay a fee to the agent for the linkage the agent creates between them and the farmers. The fee supports the sustainability of the model. This method has been used in Zambia with a USAID-funded project managed by the Cooperative League of the United States of America (CLUSA).

### **Community fee-based service providers**

Many development organizations are establishing fee-based service delivery systems. This involves training a team of market-supported service providers. These trained providers then work in a specific marketing zone and are linked to farmers through a local support network (e.g., collective marketing group or cooperative). For this system to work, farmers must value the services and be willing to pay for them. Often the types of services provided are the business components of extension services.

## Conclusion

Linking smallholder farmers to appropriate markets has been shown to be an effective method of improving farmers' incomes. Agriculture development organizations can increase smallholder farmers' access to various markets through proper project design and implementation while improving food security and livelihoods. It is important that projects linking smallholder farmers to markets encourage strong farmer organizations, promote sustainable production methods and connect farmers to business services.

## References

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Growth Commission. 2008. [The growth report: Strategies for sustained growth and inclusive development](#). Washington, DC.: World Bank

## Further Reading

### MEAS Documents:

Cho, Khin Mar, and Donald Tobias. 2011. [Assessing the Requirements for Electronically Linking Farmers with Markets](#). Modernizing Extension and Advisory Services

Macia, Florence. 2015. [Evaluation of the Experience of Small-Scale Producers with Multiple Public-Private Partnerships in Produce Production and Marketing Organizations in Kenya](#). Modernizing Extension and Advisory Services.

### ECHO Documents:

ECHO Development Notes, [Issue 127](#): Separate articles on Private Service Providers and Farmer Co-operatives

