Markets for the many rather than the few

A development policy opting exclusively for value chain development and the integration of producers in modern markets overlooks the reality for the majority of smallholders, our author maintains. Policy should pay greater attention to addressing the area most small-scale producers are active in: the informal sector.

Rural development is full of dilemmas, no more so than the position of small-scale farmers in emerging and globalising markets. What makes the situation so hotly debated is the fact that there are two contradictory forces at work. One is the process of modernisation of food manufacturing, distribution and retailing in emerging markets, ushered in by globalisation, foreign and domestic investment, a rising middle class and the drive for improved food safety and quality.

Another is the resilience – and in many countries, growth – of informal markets, driven by producer and consumer poverty, poor employment prospects in formal sectors (themselves a possible effect of globalisation), and regulations that punish formalisation.

Both of these forces can make their mark on rural areas and influence farmers' choices of markets. The outcome has huge implications for social cohesion and food security of emerging economies. As clearly spelled out in the 2008 World Development Report, a much greater proportion of the world's rural poor live in emerging markets compared to more agriculture-based economies. Whether those rural poor are part of economic success stories or have been left behind is one of the big questions of the early 21st century.

Adapt or die?

The development community has a recent history of rather dogmatically seeing only one side of the story – that of the inevitable march of modernisation. In this world view, smallholders must adapt to the strictures of modern value chains – whether for export or domestic markets – and rise to the challenge of higher market standards for quality, safety, and reliability. That view has been backed by large donor investments into value chain development, and calls to global agribusiness to apply inclusive business models in their procurement so that small-scale farmers can be partners in this new world of 'high value' markets.

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In the Regoverning Markets programme (2004–2008) we looked across developing and emerging markets at the implications of modernisation and restructuring for smallholder production. We did indeed find some countries and sectors where smallholders were successfully linking to modern food sectors via a new generation of market intermediaries.

But we also found cases, for example in Chinese horticulture, where despite a massive transformation in the retail sector, farming was largely unchanged. The modern food sector had grown fast but, for reasons of cost, kept its roots in a structure of unorganised small-scale farmers selling to numerous petty traders. And in sub-Saharan Africa, it was difficult to fit the theory of value chain modernisation to a reality dominated by informal trade. Even in South Africa, where modern retail has captured a large market share, small-scale farmers were selling to informal markets and hawkers, in what is effectively a two-tier economy.

A recent partnership between the Netherlands-based international development organisation Hivos, the International Institute for Environment and Development – IIED and a global learning network led by the Bolivia-based research centre Mainumby looked at the dilemmas of smallholders in the globalised market, and concluded that when we understand where smallholder farmers are, rather than where we want them to be, we find them making logical choices that often involve selling to informal or semi-formal trade. Their agency leads them in directions that challenge current theories of change.

In sub-Saharan Africa, most goods are traded in the informal sector.

Photo: J. Boethling

Informal trade has a number of advantages for small-scale producers. It absorbs risk by buying what producers have to sell rather than demanding regular deliveries of fixed quantities and qualities. It buys from the farm gate. And what used to be the banes of trade with middlemen – poor competition and lack of price transparency – are being challenged by the presence of more traders in the countryside competing for farmers' produce (in response to urbanisation, economic growth and south-south trade) and the rapid spread of mobile phones. For consumers, the informal sector is often more accessible, more flexible in responding to new opportunities, and may better satisfy traditional tastes than the formal sector. Robert Neuwirth has observed that the global informal economy has evolved into the 'economy of aspiration'; informality is often where entrepreneurial attitudes are strongest.

We are inclined to forget that rural areas are highly differentiated places, with wide variations in access to capital, organisation, technology and infrastructure, and wide variations in entrepreneurial attitudes. Only a small subset of producers – perhaps 2 to 10 per cent – can easily step up to commercial sales in modern value chains. Bringing a larger pool of smaller-scale and poorer farmers into the game requires a rare combination of institutions: effective producers' organisations, receptive buyers, a facilitating policy and effective brokering. Without such an arrangement, efforts to link smallholders to modern markets can remain stuck in the pilot stage and dependent on project funds.

Market institutions for the majority

What does this mix of challenges and opportunities mean for policy? Refocusing policy attention on improving the performance of markets for the many rather than the few is going to be the main priority for inclusive rural development and urban food security. In rural worlds dominated by informal trade, where domestic markets are dynamic and south-south trade is opening up, it seems imprudent to hang all our hopes on chain-based interventions, despite the many opportunities in 'high value' markets. Those informal and grey markets have for too long been ignored or seen as an impediment to modernity and the development of a formal private sector.

The informal sector for one has to deal with a record of poor performance in food safety and environment. The situation in China, home to perhaps five times as many small farms as the whole of Africa, shows just how drastic state and business interventions must be when consumers lose confidence in the integrity of the food system. Attempts at market formalisation can be highly exclusionary and push large numbers of producers, small and medium enterprises (SMEs), traders and hawkers to the economic margins. Over coming years IIED and Hivos will be having a close look at what 'inclusive formalisation' really means for policy and for small-scale producers. Special attention will be drawn to identifying the benefits of informality – market access, flexibility and resilience – that can be built into policy and business frameworks that overcome its dark side of corruption and criminality, monopoles and cartels, poor traceability and food safety, a poor environmental record and poor worker welfare.

Policy that ensures markets for the majority is first and foremost about getting the basics right – the provision of public goods of infrastructure (roads, market spaces) and the rule of law, control over land and natural resources, and the voice of small-scale farmers and women in policy design and programming. It will mean supporting a diversity of market outlets that serve all sectors of the population.

But there are also institutional arrangements that take a more aggressive approach to managing markets in support of small-scale farmers and their share of value through improved market liquidity, improved product quality and reputation in national and export markets, and especially reduced exposure to price risk. These institutions – such as the Ghanaian Cocoa Marketing Board, the Kenya Tea Development Agency, the Colombian Coffee Growers Federation and the Ethiopian Commodity Exchange – all have their weaknesses as well as strengths. But they deserve a close look if policy is to 'raise all boats' and work for the majority.