CHAPTER 3

PARTICIPATION OF SMALLHOLDERS IN INTERNATIONAL TRADE

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Abstract. In many developing countries, the production and trade in agricultural products plays a crucial role for economic growth and development. It enables countries to earn foreign exchange, to create employment and to invest in sustainable utilization of resources. However, developing countries are often faced with a number of constraints that limit local farmers to develop. First of all, the agricultural sector often remains underdeveloped as a result of inadequate and unbalanced investments compared to the industrial sector. At the same time, farmers have insufficient access to market information and (as a result) have poor bargaining power. Most farmers own small plots of land, and as a result are unable to invest in meeting the stringent international standards to which they need comply. Finally, it is felt that, also at WTO level, trade rules favour multinationals and the developed countries, and not small farmers in developing countries. For these farmers to participate in international trade, KENFAP identified three strategies. The first is to build institutional capacity and self-organization; these will enable farmers to be better informed, improve bargaining power and learn from international best practices. The development of partnerships and networks will further contribute to preparing for market access. Finally it recommends the active support through enabling incentives (policies and regulations) from national and international policymakers.
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THE IMPORTANCE OF AGRICULTURE IN DEVELOPING COUNTRIES' ECONOMIES

The agricultural sector plays a crucial role in most of the developing countries' economies. In Kenya's economy for instance, agriculture is still the dominant sector. The sector contributes 25% of GDP directly to the economy and is estimated to contribute another 27% indirectly through linkages with other sectors. It also contributes about 45% of government recurrent revenue and 75% of industrial raw materials, while contributing employment opportunities to about 77% of the population.

R. Ruben, M. Slingerland and H. Nijhoff (eds.), Agro-food chains and networks for development,41-48.

From a gender perspective, women dominate agricultural activities and therefore any effects on the agricultural sector would have direct impact on livelihood of women and children who depend on them. In Kenya, there is a direct positive relationship between growth in the agricultural sector and that of the entire economy.

Figure 1 illustrates that whenever the agricultural sector has performed well, the national economy also performs well and vice versa. Key factors that affect growth of the agricultural sector will thus affect the growth of the overall economy and would have an impact on the poverty levels in the country.

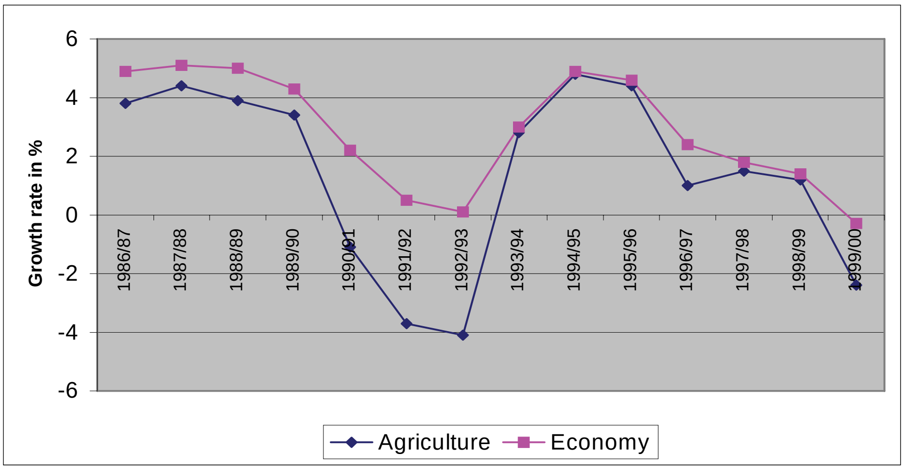

Figure 1. *Comparison of agricultural and overall economic growth rates (%) (Source: Omiti and Obunde 2002)*

Trade at local and international level plays a crucial role in economic development of a country. Many countries vigorously pursue international trade opportunities, since this is the best way to economic development. Indeed, some Southeast Asian countries that embraced free-market policies early have made great strides in economic development, although state controls and interventions backed these resounding successes.

Most countries of the world have implemented a series of economic reform measures since the mid 1980's. Sweeping reforms were undertaken in the early 1990's aimed at encouraging participation of the private sector in production, marketing, processing and trading of agricultural commodities.

THE ROLE OF TRADE IN POVERTY ALLEVIATION IN DEVELOPING COUNTRIES

The five major roles of trade in reducing poverty in developing countries are the relation to: economic development; food security and sovereignty, foreign-exchange earnings; creation of employment; and effective utilization of resources.

Trade and economic development

Countries worldwide have achieved various levels of development through various forms of trade, both internal and international. Trade at local and international level plays a crucial role in income generation, which could be ploughed back into various forms of development initiatives, aimed at wealth creation and therefore poverty alleviation. Many countries vigorously pursue international trade opportunities, since the gains through this form of exchange lead to faster wealth generation and therefore increased income to the players. This turns out to be the best way or strategy to faster economic development.

Trade and food security / sovereignty

Productivity in developing countries will continue to be low as long as the producers do not have value for their product. Food security will be an issue of the developing world so long as the products do not access good markets in terms as of their value. It will remain increasingly difficult to enhance sufficiency in food production if there are no markets for the produced goods.

The achievement of food security has however been misinterpreted in certain circles as producing enough food to be self-sufficient. It has been argued that once a country is able to produce enough food for its own use it can then embark on the next step of producing for export or industrialization. This belief has prompted debate of whether developing countries should not emphasize on food production for food self-sufficiency instead of production for export. Such are the paradoxes abound in the developing world.

This theory may be true only under certain circumstances, which may include:

- export earns too little to be able to support importation of food
- a country has other trading resources, e.g., petroleum, minerals or service industries.

All this is however possible where there is vigorous trade that allows the farmers to market their produce easily and profitably and allows them to obtain their other requirements such as inputs, personal and other support requirements including food. The contra-argument is that a country needs not to produce the food it requires to be food-secure.

Trade allows a country that produces little of its staple food to maximize on producing whatever it does best, and use the money to buy the food it requires. The prime consideration in this case is: where does a country or a region have a relative advantage? Is it in producing food for consumption or producing for export? Trade therefore gives countries or regions the right to choose, which is generally food security as it is regarded as food sovereignty.

Trade and foreign-exchange earning

In most developing countries international agricultural trade is the major source of foreign exchange. For instance, over the year 2003, Kenya exported 61,000 tons of cut flowers, over 23,675 tons of fruits and 48,674 tons of fresh vegetables, capturing a total of export revenue form horticulture of over US $ 350 million. This is about 10% of the total national budget for one year. In nominal terms, Kenya has more than quadrupled export revenues from horticulture since 1995.

Trade and employment creation

Trade allows for establishment of industries at local levels either on the basis of on-farm processing, small-scale rural industries or medium-scale agro-processing. These industries offer employment to the communities. The industries act as outlets for increased agricultural products, therefore encouraging uptake of farming as a livelihood support mechanism and therefore on-farm employment. In most developing countries over 70% of the population is engaged in one form of agricultural-related employment or the other. A vibrant farming sector is one backed up by a reliable market, a situation that encourages more entrants into production.

Trade and effective utilization of resources

Trade enables the small-scale producers to utilize the locally available resources such as land effectively. Agricultural trade is essential for the conservation of the world's natural resources such as farmland, forests and water for economic development of rural communities. Such utilization is indirectly fuelled through increased value for the resources, out of the value for the products. In retrospect, a lack of trade leads to redundancy and underutilization of available land and related resources.

CONSTRAINTS TO INTERNATIONAL TRADE BY SMALLHOLDERS FROM DEVELOPING COUNTRIES

We can identify six types of constraints that limit smallholders to enter international markets. These are an underdeveloped sector, insufficient market information, poor bargaining power, stringent market conditions, WTO regulations, and a lack of institutional capacity.

Underdeveloped agricultural sector

The underdevelopment of an agricultural sector is often the result of inadequate allocation of resources to this sector. In Kenya for example, 80% of the population live in rural areas with 60% of this population living below the poverty line. However, traditionally there has been preference for an industrial and manufacturing sector from the fiscal resource allocation, as opposed to the agricultural sector, especially during the import-substitution policy regime. The rural areas are still predominantly non-commercial and budgetary allocations are a testimony show for bias against agriculture by the government. This trend has consistently fostered marginalizing farmers, leading to low participation in trade both at domestic and international levels.

Inadequate investment in all-round agricultural activities is a major cause of the underdeveloped agricultural sector. The investors tend to focus on the commodities doing well in the international market at the nick of the moment, hence ignoring the other enterprises. Farmers under the circumstances therefore cannot participate in international trade. In most of the developing countries, there has been over-reliance on supply-driven services. Producers do not demand for such services as extension and market information.

Insufficient market information to farmers

Market information is the key to influencing the decisions at the farm level as concerns the choice of enterprise. Most smallholder farmers in developing countries lack timely, relevant and reliable information about the market possibilities that exist including:

- type and quality of product demanded
- market regulations
- seasons of demands and fluctuations
- price or price fluctuations.

Poor bargaining power

Due to their weak positioning at the international market place, smallholder farmers in developing countries almost always suffer poor bargaining power. This is occasioned by inadequate involvement of farmers in the decision-making processes. Farmers in developing countries have borne the full brunt of economic reforms beginning with structural adjustment programmes that culminated into liberalization and globalization, whose climax was the signing of the World Trade Organization’s agreements. The direct effects of these on farmers are the collapse of marketing boards and cooperative societies that used to cushion farmers against exploitation. Smallholder farmers therefore have consequently become price takers.

Stringent market conditions

Most farmers in developing countries fail to meet the required standards on production and primary processing, which involves packaging, labelling and transportation of products. The farmers do not have the opportunities for harmonizing existing local standards with required international market standards. Such standards include:

- Sanitary and Phytosanitary Standards (SPS)
- European Retailers Code of Good Agricultural Practices (EUREPGAP), which demands traceability of produce from the retail shelf back to the farm gate through a complicated and costly certification process by accredited companies.

For instance, while some of EUREPGAP provisions constitute a progressive approach that will in the long run contribute to upgrading the supply chain of produce exported by developing countries, some of the provisions are not realistic enough with respect to local conditions. Smallholder farmers in many developing countries have very small parcels of land ranging from half an acre to 2 acres. It would easily require such a farmer 2 to 3 years of production to pay for one annual EUREPGAP audit, making participation of smallholders simply impossible.

WTO regulations

Rules of agricultural trade create imbalances that favour multinationals and developed countries. Key elements here include:

- export subsidization which is clearly trade distorting.
- production subsidies through domestic support, which are by and large also trade distorting
- import barriers, e.g. EUREPGAP and SPS.

Lack of institutional capacity

There are three main institutional elements that hamper inclusion of smallholders in international trade: contract farming; underdeveloped entrepreneurial skills; and the inability of farmers to influence policy-making.

- Contract farming: smallholder farmers in developing countries are inadequately supported by organizations (e.g. NGOs), leading to their weak capacity and knowledge on contracts. Some farmers sell to exporters under stringent contracts and depend on the exporters' willingness to share information on the demand in international markets. They lack information such as: who is willing and able to enter into contract; repercussions of failure to adhere to the contract; and occasionally premature withdrawal of contactors.
- Low entrepreneurial skills: the majority of smallholder producers in the developing world practise farming as a way of life and not necessarily as a business. Even where they have been given technical skills and knowledge to enhance profitable productivity, no business training is given for them to

transform such skills into businesses. There is little knowledge of matters such as production planning, marketing, contracts, business units, financing and bookkeeping, and negotiating skills.

- Regulatory framework and inability of farmers to influence policy: in many African countries farmers form the majority of the population and in many instances contribute the bulk of national wealth, yet they are the least vocal and least influential when it comes to policy formulation on matters affecting them. This is due to lack of organized forums, and where they exist as individuals, they are terribly weak and lack capacity to voice their concerns effectively.

STRATEGIES AND INCENTIVES TO GUARANTEE BETTER PARTICIPATION IN INTERNATIONAL TRADE

The three main strategies and incentives that have been identified to guarantee better participation of smallholders in international trade are: building institutional capacity; establishing local, national and international networks; and long-term policies and regulations.

Building institutional capacity

Capacity building among farmers through training in entrepreneurial skills is believed to be an important tool towards revitalizing the lost power. This will enhance awareness on the potential that exists in agri-business, realizing and appreciating the problems in achieving this potential and prepare them to be an effective force for lobbying and advocacy on issues that contribute to the problems.

Producers need to be facilitated in self-organization beyond out-grower schemes to achieve an independent professional organization at national level. Such an organization would help in giving smallholder farmers the capacity to:

- access information on markets
- negotiate prices
- learn from international best practices.

Creating partnerships

Partnerships and networks can be created at local, national and international level.

Local networks

At local levels there are persons and institutions that separately hold assets and skills that individually can only lay idle while, when being combined and made complimentary to one another, they can form viable production and marketing units for the benefit of all contributors:

- the land owner, with idle or underutilized land
- the agricultural graduate, unemployed but a potential resource person
- the local marketing expert, to organize marketing strategies

- the transporter, with an idle transport vehicle
- the asset owner, with idle agricultural machinery.

Partnerships between these parties could create a formidable force. However, training and motivation is required to put these resources together, with few institutions available to do so.

National and international networks

National-level partnerships are required between:

- producers organized into viable groups
- marketers, both for the local and export markets
- processors
- suppliers of inputs
- financiers.

Whereas such institutions are already in place, they often work independently and unfortunately their aim is to get the largest possible share of the cake from the sale of the product, at the expense of the smallholder farmers. The weakest member of the chain is usually the small-scale farmer who, due to many factors, finds himself exploited by all the other members of the chain. Thus the importance of farmers' organizations is to take up the task of capacity building for the producers, with a clear focus on negotiation skills and capability enhancement.

Policies and regulations

Finally, national policies of the developing countries as well as policies from the international community should take seriously into account the participation of smallholders in the international trade:

- respective governments should put in place policies and recommendations for enhancing the long-term competitiveness of smallholder farm
- WTO agriculture issues must be addressed, such that export subsidies will be eliminated, production subsidies will be cut substantially, and barriers hindering market access will be addressed.

CONCLUSION

Smallholder farmers' participation in international trade (by themselves) is far from being regarded as development. A lot more needs to be done to enhance the necessary capacity to participate effectively in international trade. Smallholder farmers only participate in international trade by proxy as such; there is need to enhance smallholder farmers' participation in international trade through development of the relevant capacities.