

The global food crisis and Fairtrade: Small farmers, big solutions?



Executive summary

A Fairtrade Foundation report
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Executive Summary

Around the world, tens of millions of people are suffering from increased and volatile food and fuel prices. Among them are the world's 450 million smallholder farming households who cultivate two hectares or less and are home to around two billion people, a third of humanity. These farms are also home to half of the world's hungry people.

During 2008, we have witnessed extreme price rises in the global food system as a result of production shortfalls, unstable oil prices, use of agricultural land for biofuel production and changing consumption patterns.

According to the World Bank, food prices rose 83% between February 2005 and February 2008, led by large increases for maize and wheat, as well as rice and oilseeds. This presents a massive new challenge to smallholder farmers, as well as the urban poor and the landless around the world.

“*The food situation is really bad. Apart from times of calamities such as drought, this is the most difficult time we've known with these high food prices. I don't see them reducing soon. It will last another 10 years.*”

Joseph Mbusa, Mubuku Moringa Vanilla Farmers Association, Uganda

Even though food prices have been falling more recently, prices in October 2008 were still 28% above the October 2006 level. Experts suggest that real prices of food commodities (cereals, rice and oilseeds) for the next decade will be 10%-35% higher than during the past decade. This is partly due to structural shifts that have taken place (such as changed consumption patterns, migration to the cities and extreme climatic events), partly due to trade policies which have exacerbated the underlying trends, and partly due to the turmoil in the financial markets.

For those commodities that are traded internationally but are not staple foodstuffs in the South – including typical Fairtrade products such as coffee, tea, sugar and cocoa – the longer-term picture is less clear. Another recent estimate suggests that **while prices for wheat, maize and rice will rise over the next decade by 2%, 27% and 9% respectively, the price of sugar will fall by 3%.**

Even if prices do fall in the future, **119 million more people have already been pushed into poverty by the global food crisis** and it has exposed an unacceptable level of vulnerability among the world's poor.

Amongst those affected are 450 million small farms, home to around two billion people – one third of all humanity. They are a crucial constituency in any strategy to mitigate the current crisis. This report considers the challenges they face and the policies needed to overcome them. Through research from India, Africa and Latin America with Fairtrade producers – who are also overwhelmingly small farmers producing food for their families – the report also considers how small farmers are being affected by the rise in food staple and commodity prices and whether, as a result of being part of the Fairtrade system, they are in a better position to cope with the price volatility and global recession predicted in the months ahead.

Smallholders – already struggling

Things were bad enough for small farmers before the food price crisis. They tend to work on ever-smaller plots of often degraded land with poor irrigation, few farming inputs, having to cope with climate change and, for many, the impact of HIV/AIDS.

They have also had to cope with a prolonged slump in the real prices they received for their commodities between the 1960s and 1990s, with steep declines for example in coffee, cotton, sugar and bananas during the late 1990s.

These structural problems have been compounded by the failure of both Northern and Southern governments and global multilateral institutions like the World Bank to provide appropriate or sufficient investment to agriculture.

Donor agricultural support has been cut

Rich countries' agricultural aid has barely helped poor farmers:

- Levels of aid to agriculture collapsed from \$7.6bn in 1980 to \$3.9bn in 2006 though have risen to \$5.3bn in 2007
- EU countries spend 56 times more on subsidies to their own farmers than on aid to agriculture in developing countries
- Much aid has been poor quality – around half has been spent to support structural adjustment while aid devoted to providing inputs such as seeds and fertiliser, or access to credit, is virtually invisible.

Lack of investment by governments in the South

Southern government policies have also failed to invest sufficiently in agriculture and to promote key inputs and support to farmers:

- Public spending has declined or remained stagnant compared to other sectors – African governments spend only 4%-5% of their national budget on agriculture
- State intervention policies have failed to proactively develop the emerging private sector or to shape it in a way that benefits smallholders
- There has been insufficient focus on infrastructure, access to credit and inputs for small farmers.

Liberalisation has failed small farmers

These problems are exacerbated by the impact of far-reaching economic liberalisation reforms promoted by the World Bank and other Northern donors. Many agreed reform was needed and some large producer groups have been able to capitalise on new market opportunities. However, structural adjustment programmes that have reduced the role of the state in agriculture have often also reduced poor farmers' access to key inputs such as fertiliser (through higher prices) and technical support. For the smallest and most vulnerable producers, access to markets on sustainable terms has been severely undermined as states withdrew their traditional role as guaranteed buyers of farmers' produce. This is especially damaging in more remote areas lacking the infrastructure } to attract private companies.

Unequal agricultural liberalisation has also often worsened other trends harming poor smallholders:

- The cutting of import tariffs has often resulted in import surges that have undermined local producers and eliminated jobs
- The preservation of developed countries' agricultural subsidies has often resulted in 'dumping' of surpluses in developing countries, again undercutting local producers.

Market power overly concentrated

Meanwhile, the power of agribusinesses and global retail chains in supply chains has increased:

- The 10 leading food retailers control around a quarter of the \$3.5 trillion world food market
- Just three companies (Cargill, Bunge and Archer Daniels Midland) control 90% of the world's grain trade
- Smallholders are unable to capture a fair share from the value chains in markets for agricultural products like fruits, vegetables and meat without companies' commitment to sourcing plans which specifically target them.

Higher prices – the losers and winners

Many countries where small farmers are already struggling to earn a decent livelihood are among those considered by the UN's Food and Agriculture Organization (FAO) as 'especially vulnerable', such as Ethiopia, Tanzania and Kenya, which import 22%, 14% and 20% of their grains respectively. Across the developing world, some people are eating only once a day while others might eat twice but are cutting out more costly, but more nutritious, food items such as meat, fish, eggs and milk, in the struggle to maintain calorific intake. The impacts on children can persist into adulthood, affecting their life-long productive capacity.

The vast majority of households in developing countries, including small farmers, are net buyers of food (they spend more on food than they earn from selling it) who spend 60%-80% of their income on food. Thus price rises

for foods for consumption will tend to make most poor farmers poorer. A 10% increase in the price of the staple, maize, in Zambia is likely to increase poverty by 0.5%; in Nicaragua a 10% increase in the price of staple foods increases poverty by 2%.

Only a minority of small farmers are net sellers of food and they are only likely to benefit from higher world market prices if that price trickles down to the farm gate where they sell. However, farm gate prices are usually modest compared to the world market price and the price paid by consumers in urban areas. This will only change if there are specific policies in place to ensure that small farmers can capture their share of the benefits.

The primary beneficiaries of increased food prices so far are larger-scale commercial farmers, hoarders of food stocks (who can wait to sell when prices are high), and also the big international traders, many of which have made billions of dollars of profits in 2007 and 2008. In the middle of the food crisis, Bunge, one of the world's largest fertiliser and oilseed processing corporations, recorded quadrupled second-quarter profits of \$751m in 2008.

Why we must support small farmers

A focus on small farmers must be at the centre of any serious strategy to tackle poverty and increase food security and productivity because:

- Such a focus would **reduce poverty**. Small farms are home to two billion poor people and they play major social roles, providing safety nets or subsistence living for the rural poor. Small farmers tend to spend their income on local goods and services, boosting local economies, and are more likely to employ people than adopt capital-intensive technologies.
- A focus on smallholders would also **increase food production**. Small farms produce the bulk of many developing countries' food: up to 80% of Zambia's food, for example, and 45% of Chile's vegetables, corn and rice. A considerable body of evidence also suggests that small integrated farming systems can also yield more per hectare in the long-term than large-scale monoculture farms.
- A focus on small farmers would also **help the environment** – smallholders manage a large share of the world's water and vegetation cover and farm far more sustainably – reducing soil erosion, using water more efficiently, increasing biodiversity and preserving soil fertility. This is enhanced when small farmers are part of a sustainability programme such as Fairtrade or organic certification.

Historically, as economic transformation in developing countries proceeds, small farms have tended to play a shrinking role, but for poorer countries where agriculture is the key sector with a large number of poor farmers, a focus on small farms makes clear economic sense.

Fairtrade and the food crisis

World prices for many of the agricultural commodities produced by Fairtrade farmers have yet again been extremely volatile. Some crops saw significant increases in the first half of 2008 (for example cocoa hit a 28-year high in June 2008). However these rises were only temporary and in the second half of 2008 they experienced a sharp decline, in part because of the global recession. For these farmers their experience has been a continuation of the usual cycle of extreme volatility that Fairtrade was conceived to help them cope with. Fairtrade farmers, like most smallholders, are net food buyers and as only a minority have gained from increased commodity prices,

the majority now face severe challenges in the current climate. They are also doubly hit by the rise in fuel and input costs which makes them even more vulnerable.

The following table summarises research with some Fairtrade producer organisations. It shows that those who are net buyers of food are worse off even though the conventional market price for the commodities they produce may have risen. In this situation, the Fairtrade system is vital in providing better and more stable commodity prices to farmers through the Fairtrade minimum price, as well as a Fairtrade premium to support business or community development projects.

Table 1. Summary of impact of price changes on selected Fairtrade producers

	Are farmers net buyers or sellers of food?	Effect of food price rises	Change in global commodity price	Better or worse off?
FTAK, India, cashew nuts	Net buyers	Negative. Families spend around 40% of income on food, compared to 25% a year ago	Extremely volatile. On average no change	Worse off
PRODECOOP, Nicaragua, coffee	Mixed – some net buyers, some self-sufficient	Negative. Cost of food basket increased by 66% in 2006-08	Slight increase (but costs of production have also risen)	Worse off
WINFA, Windward Islands, bananas	Net buyers	Negative. Average food bill around 25% higher than year ago	Slight decrease	Worse off
Kasinthula Cane Growers, Malawi, sugar	Net buyers	Negative. Families spend around 80% of income on food, compared to 50% a year ago	Significant increase	Worse off
COINACAPA, Bolivia, brazil nuts	Marginal net buyers	Mixed. Increased costs of food offset by home production	Significant increase in early 2008 but falling in late 2008	No change
NASFAM, Malawi, nut producers	Net sellers	Positive	Significant increase	Better off
Agrocel, India, cotton	Self-sufficient or net sellers	Positive	Increase	Better off
Oromia, Ethiopia, coffee	Net buyers	Negative. Price of grain has tripled	Increase	Worse off
Mabale, Uganda, tea	Net buyers	Negative	Slight increase	Worse off
Ankole, Uganda, coffee	Net sellers	Positive	Increased but extremely volatile	Better off
Mubuku Moringa, Uganda, vanilla	Net buyers	Negative	Decrease	Worse off

It is clear from our research that Fairtrade is needed in the current economic climate more than ever. Fairtrade was originally conceived largely as a response to the long-term trend of declining world prices and the evidence from around the world shows it is just as vital now. Its advantages include:

Extra income

The extra income provided by Fairtrade is more vital now for Fairtrade farmers' livelihoods since most are net buyers of food and therefore suffering from increased food prices. This extra income can provide the difference between survival or destitution.

Sri Lanka – organic and Fairtrade help increase productivity

The Small Organic Farmers' Association (SOFA) in Sri Lanka, whose 2,000 organic-certified farmers produce Fairtrade tea and spices, reports that food prices have risen. But SOFA's farmers receive a Fairtrade organic tea price that is 20%-30% above their cost of production, meaning increased income for families and improved investment in their farming plots. SOFA's President, Bernard Ranaweera, states that 'the Fairtrade concept is the only existing way to develop the small farmer producer. Using the Fairtrade premium effectively and efficiently is the key to sustainability of the small farmer producers, for example by using this to support organic farming methods. Since we have been able to utilise the Fairtrade premium, we have increased the productivity of the land and uplifted peoples' livelihoods. We are now very happy because of the development that our farmers have achieved through the Fairtrade premium.'

A stable, minimum Fairtrade price



“ The coffee price is high at the moment yes, but very volatile. It can easily fall and usually does...Fairtrade gives us a guaranteed price whatever happens. This means more consistent income. Farmers can conduct their business better by planning ahead. ”

John Nuwagaba, Ankole Coffee Producers Cooperative Union, Uganda

The Fairtrade guarantee of a minimum price is more critical than ever as a safety net mechanism in a situation of highly volatile, unpredictable prices. Without this, growers might be forced out of business altogether, and lose their main source of cash income.

Windward Islands – no higher prices for bananas

The Windward Islands Farmers' Association (WINFA) reports that the conventional market price received by its 3,300 banana farmers has slightly decreased in the past year. At 20%-25% higher, the Fairtrade minimum price is ever-important. The banana growers also produce food on their plots, such as sweet potatoes and cassava, and sell some produce in local markets, but almost all buy more food than they sell. Increased prices of all the basics, such as rice, flour and cereals have left them worse off. With average earnings of around \$240 a month, families spend at least 25% more on food now than a year ago. Some families are eating less, with many consuming less nutritious food.

Support to cooperatives

The fact that farmers are organised in associations or cooperatives in the Fairtrade system is crucial at a time of high commodity prices where middlemen can enter markets and try to take advantage of individual farmers by buying low and selling high, securing most of the benefits for themselves. Farmers can take a larger share of the rise in prices when they are better organised and working together than they can on their own.

Uganda – Fairtrade supporting cooperatives

Ankole Coffee Producers Cooperative Union comprises 10 cooperative societies all of them Fairtrade certified. Farmers selling in the conventional, non-Fairtrade market means contending with exploitative, private traders. They are regularly accused of using faulty scales and of adding stones to coffee bags to pay less for farmers' output. Union officials and farmers all complain that one of the adverse impacts of coffee liberalisation has been the emergence of a plethora of middlemen who are unregulated, using their power to cheat farmers.

The Fairtrade premium

With volatile food and commodity prices, the Fairtrade premium for investment in business or community improvements takes on even greater importance: farmers' groups are able to use the premium to mitigate the effects of higher prices or diversify into other income-generating activities when the economic environment is harsh.

Malawi – rising maize prices outstrip earnings from sugar cane

Kasinthula Cane Growers (KCG) in southern Malawi reports that its sugar cane growing families now spend an average of 80% of their income on food, compared to around 50% a year ago; many families now eat one less meal each day. These 300 farmers all grow much of their own food but still buy more food than they sell. The Fairtrade premium, at \$60 per tonne, is therefore crucial to being able to invest in development projects which can also benefit

the community and has brought benefits such as replanting the sugar cane fields, constructing water boreholes, connections to the national electricity grid and the building of a health clinic.

The global economic recession has complicated and exacerbated the ongoing global food crisis, impacting most on those least able to cope – the poor in the poorest countries. At a time when the wisdom of a *laissez faire* approach to markets is under intense scrutiny, the Fairtrade model of incentivising business and consumers to offer a sustainable, pro-poor trading model is proving to be vital to the livelihoods of thousands of farmers and has more resonance now than ever.

Conclusions and recommendations

Although the public agenda is now dominated by the global economic recession, we must not forget the plight of the millions of vulnerable people who have been pushed to the edge by the extreme price volatility over the past year. Their vulnerability has been exacerbated by the economic slowdown. According to the World Bank the volume of world trade is likely to contract for the first time since 1982, further reducing the potential for growth in developing countries. We must support small-scale farmers for our sakes and theirs: to reduce poverty, increase food production and protect the environment. To do this, small-scale farmers urgently need a transformation in international agricultural trade. Governments in the North and South and international institutions should massively step up their support for agriculture in general, and smallholders specifically. They should: halt the overall decline in aid for agriculture; ensure that agricultural policy and aid flows focus effective support on small-scale farming, promoting affordable, low-input solutions; and increase support to NGO and voluntary programmes, including Fairtrade, aimed at supporting the long-term sustainability of small-scale agriculture. Companies, the public and the Fairtrade system also have critical roles to play.

Northern governments should:

- Refocus their agricultural aid to prioritise the needs of small farmers, including those producing for the Fairtrade market
- Commit to increasing their aid to agriculture; the FAO says that the countries hardest hit by the food crisis need \$30bn annually to ensure food security and promote agriculture
- Review trade liberalisation policies in light of the food crisis and global recession. Trade agreements should ensure that developing countries are accorded 'special treatment' by not being required to excessively reduce their import tariffs on agricultural items, especially on sensitive products that can affect food security.

Southern governments should:

- Champion the strengthening of producer and farmer organisations, including Fairtrade organisations, and actively seek out farmers' views in policy planning
- Take much greater steps to ensure that small farmers have increased access to credit and basic inputs such as seeds and fertilisers
- Honour their commitment to spend at least 10% of their national budgets on agriculture and make this spending more transparent and accountable
- Make state intervention both smarter and more efficient and also have clear strategies to build up the private sector.

Companies should:

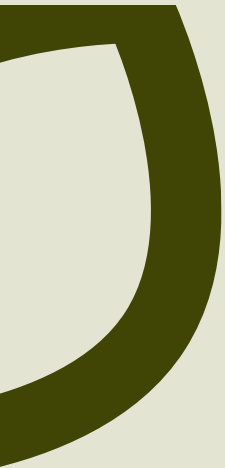
- Invest in smallholders in their supply chains to become better organised, and build long-term and sustainable relationships
- Extend the scope and range of Fairtrade products that they offer the public
- Commit to improving trading relationships and the position of all participants in their supply chains.

The Fairtrade system should:

- Continue to have an explicit focus on the needs of small farmers, ensuring appropriate standards to best empower farmers in the long term
- Develop the flexibility of the Fairtrade model to quickly review minimum prices and ensure they constantly cover actual costs of production (especially when input costs are rising rapidly)
- Scale up the reach and scope of Fairtrade especially to the most disadvantaged groups in the very poorest countries.

The public should:

- Commit to buying Fairtrade products regularly
- Ask their local shops, supermarkets and cafés to stock more Fairtrade products
- Step up their support and join the campaign for broader fundamental changes to the international trade system to benefit smallholders especially in least developed countries.



Fairtrade Foundation, 3rd Floor, Ibex House,
42-47 Minories, London EC3N 1DY
T: +44 (0) 20 7405 5942 F: +44 (0) 20 7977 0101
W: www.fairtrade.org.uk
Registered charity number 1043886

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