

# **SMALL-SCALE FARMERS' ENGAGEMENT WITH PRIVATE ENTERPRISES: TOWARDS FARMER-OWNED OR FARMER-LED SUSTAINABLE AND INCLUSIVE ARRANGEMENTS**



ISSUE PAPER  
**ASK. ANALYZE. ADVOCATE. ACT!**



**Asian Farmers' Association  
for Sustainable  
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In Cambodia, Thida is happy. Her organization, Farmer and Nature Net (FNN), encouraged her to start raising organic pigs to sell to the market. A partner NGO, the Cambodian Center for Study and Development in Agriculture (CEDAC), gave her the necessary training on how to raise pigs the organic and healthy way. Now, she no longer needs to go to town to buy expensive feeds because she can source and make these from the various plants and materials around her. CEDAC is also helping her and other farmers sell their products to the market. This helped her increase her income as she no longer had to sell her products to traders at a low price. Moreover, consumers are willing to pay better prices for organic produce.

In Thailand, Sasitorn, a woman farmer leader, is also enjoying higher income from producing herbs. She and other women farmers have decided to come together and collectively and directly sell herbs to tourist shops in the city. The additional income she is earning from this enterprise helps her buy more food and have more money for other household expenses.

The experiences of these women farmers underscore the potential benefits of properly organized and managed farmer-owned enterprises or of well-regulated, sustainable and inclusive business and marketing arrangements between farmers and other private enterprises.

## 1. WHAT ARE THE DIFFERENT TYPES OF ENGAGEMENTS OF SMALL-SCALE FARMERS WITH PRIVATE ENTERPRISES IN TERMS OF OWNERSHIP?

There are three kinds of engagements by small-scale farmers with private enterprises in terms of ownership.

The first is the farmer-owned private enterprises. In this type of engagement, farmers come together to organize their own economic projects, usually as cooperatives or as farmers' groups. They are the owners and decision makers in their enterprises. Civil society groups and non-government organizations normally support these enterprises by catalyzing and/or facilitating the organizing processes, providing them with trainings on production and marketing, and linking them to buyers and markets.

The second type is where farmers are one of the major stockholders of the private enterprise, along with some other individuals or entities (such as NGO workers). We can call this farmer-directed/ farmer-led enterprises.

The third type is where farmers enter individually into an agreement with private companies. Unlike farmer-led and farmer-owned enterprises, farmers have little decision making power over the operations of the enterprise in this type of arrangement. We can call this individual farmer-as-client engagement in an enterprise.

## 2. HOW ARE FARMERS INVOLVED IN THESE PRIVATE ENTERPRISES?

There are different kinds of farmers' involvement in and with private enterprises, depending on the farmers' role in the value chain or in the production, processing or marketing of produce.

The most basic and common forms are those focusing on farm production. Women and men farmers set up their own groups, clusters or cooperatives in order to improve their harvests and incomes. Some cooperatives and farmers' organizations help their members by encouraging the sharing of farming technologies and know-how, and by buying agricultural supplies in bulk in order to get discounted rates, among others.

In some cases, farmers, either individually or in groups or in cooperatives, enter an agreement with private enterprises to supply agricultural products at an agreed volume, time and price. There are different variations to this general scheme. These may include contract growing arrangements and supply agreements, among others.

Another form of involvement is where men and women farmers, either individually or in groups or in cooperatives, process their products in order to be able to sell them at higher prices and get higher incomes. An example of this type of arrangement is when coconut farmers set up a private enterprise to start village level virgin coconut oil production, or when fruit and vegetable producers process their output to produce jams and preserves.

Still another type is one in which farmers develop an enterprise, or makes arrangements with market brokers as a group, with the goal of bringing their agricultural output directly to the market. Many of these arrangements are intended to help producers get a better price for their products by



having a share in the profit that normally goes to traders. Many of the cases on marketing arrangements surveyed by AFA in 2013 fall under this category.

Finally, the last form of involvement is where men and women farmers, through their own cooperatives/enterprises, strive to participate in all aspects of the value chain, from the production, processing or value adding, and eventually in the marketing of their produce.

### 3. WHAT ARE THE CURRENT TRENDS IN SMALL FARMERS' ENGAGEMENT IN PRIVATE SECTOR ENTERPRISES?

There is now a growing trend of small-scale farmer engagements in and with private sector enterprises. This trend is a result of many factors as follows:

- Farmers are now more aware that they need to work together in order to be able to successfully market their products;
- The increasing trend of social entrepreneurship provides farmers with alternative models of working with private enterprises. Unlike usual commercial entities, where the main rationale for existence is profits, social enterprises' goals (such as poverty alleviation, rural development, women empowerment, among others) are more attractive to small men and women farmers as these are usually aligned to their interests;
- Farmers are realizing that the only way they can successfully compete with imported agricultural

products is if they work together in improving production and in marketing their products;

- There is a growing trend of investments in agriculture. In Asia, where small farms are the norm, investors have little choice but to engage small agricultural producers through various forms of private enterprise arrangements.

### 4. WHAT ARE THE CHALLENGES ASSOCIATED WITH SETTING UP FARMER-OWNED OR FARMER-LED ENTERPRISES?

Unfortunately, there are only a few sustained success stories of farmer-owned enterprises or farmer groups engaging other private enterprises as of the moment. Many of these farmer-owned enterprises encounter problems, which prevent them from continuing their operations. Some of these problems revolve around the following issues:

#### **Capability Issues**

Processing and marketing agricultural products, and managing enterprises require a different set of skills. Farmers need to be able to develop these skills, or find support organizations that can help them build these capabilities. Sometimes they work with experts and organizations that help them undertake the activities and functions where special skills are necessary.

#### **Access to resources**

Farmers need resources, such as land, capital and technology to manage and run private

enterprises. For instance, small farmers' enterprises engaged in the marketing of farm produce will not be able to directly sell their produce to buyers if they do not have the funds to transport their products to the market. Similarly, farmers who want to engage in processing of agricultural products cannot do so if they do not have the resources to buy the materials and inputs needed to process their products.

In Asia, farmers' lack of access to resources is one of the biggest stumbling blocks to small farmers' sustained and successful engagement in private enterprises.

#### **Limited policies to support small farmer engagement in private enterprises**

In Asia, the absence of policies that support and promote the interests of small farmers in private enterprises discourages the development of farmer-initiated, farmer-led and farmer-beneficial private ventures. At the same time, the lack of effective rules and regulations regarding agreements and arrangements between small agricultural producers and private companies had been shown to create problems for small men and women farmers.

#### **Unfair sharing of risks and benefits between small farmers and private companies and enterprises**

In many countries in Asia, men and women farmers are entering into various types of arrangements with private sector (companies and individuals). Unfortunately, many of these engagements are characterized by unfair sharing of risks and benefits between small farmers and private companies. For instance, one can find that in most contract growing arrangements with private investors and companies, farmers normally assume the cost of failed crops. Because of this, many farmers end up being indebted to private investors and enterprises.

#### **Issues around land rights and ownership**

Farmers who do not have land rights or ownership will find it very difficult to engage in private enterprises. Landless farmers are often not in a position to decide what kind of crops to plant, how much to plant and what types of planting methods to adopt in their farms.



Unfortunately, landlessness continues to be a big problem in Asia. Hence this is one of the most important challenges facing small farmers' engagement in private enterprises in the region.

#### **Other production issues**

Farmers are confronted with many problems that limit their production and income potential. These include climate change, soil degradation, over-use of harmful chemical agricultural inputs, lack of irrigation, among other issues. All these result to low outputs and income, and further limit farmers' chances of establishing successful private enterprises.

### **5. WHAT ARE THE BENEFITS OF ESTABLISHING FARMER-OWNED OR FARMER-LED ENTERPRISES?**

The AFA survey shows that engagement of farmers in private enterprises, if supported and managed properly, can bring tremendous benefits to small men and women farmers. It can help farmers improve their income, and consequently, their welfare and standard of living.

Equally important, it empowers them and gives them a voice in the various aspects of the value chain. One of the most common complaints among men and women farmers in Asia is the fact that they are mere price takers. They are almost always never in a position to determine the prices of the goods they produce. By working together in farmer-initiated and farmer-led private enterprises, such

as those engaged in producing and in marketing agricultural produce, small agricultural producers are in a better position to secure better prices for their products.

## 6. WHAT ARE THE CRITERIA FOR SUSTAINABLE AND INCLUSIVE ARRANGEMENTS BETWEEN FARMERS AND PRIVATE SECTOR?

As mentioned earlier, in many countries in Asia, men and women farmers are entering into various types of arrangements with private sector (companies and individuals), sometimes individually, and sometimes through their groups or organizations. Sadly, many of these arrangements are skewed in favor of the private sector.

When can we say that the arrangement is sustainable and inclusive for farmers as well? The business/marketing arrangement is sustainable and inclusive when:

- There is significant participation by farmers in the decision making processes of the enterprise, particularly in contract formulation, setting the prices of agricultural produce, and in managing and overseeing the operations of the enterprise. It is essential that the ownership and control of land and other basic natural production resources remain in the hands of the farmers. It is also important that opportunities are given especially to women farmers so they can actively participate in these processes.
- There is appropriate sharing of the risks and benefits of the enterprise. The contract arrangement should include provisions for equal protection, insurance for products and mechanisms for settling grievances and redress.
- Agreements ensure that the valuation of farmers' agricultural output covers labor and production costs.
- Farmers are encouraged to fully learn and adopt a broad range of technologies and are given the flexibility to innovate for their own learning and advancement.
- The use of inputs, raw materials, processes, and the products themselves are environment-friendly, energy-efficient and reduce wastage.

## 7. WHAT CAN GOVERNMENTS AND INSTITUTIONS LIKE ASEAN DO TO PROMOTE SUSTAINABLE FARMER-OWNED OR FARMER-LED PRIVATE ENTERPRISES AND SAFEGUARD FARMERS' INTERESTS AND RIGHTS IN THEIR ENGAGEMENT WITH PRIVATE COMPANIES?

Small-scale farmer engagement in private enterprises needs to operate in a policy environment that promotes and protects the interest of small agricultural producers. Hence, the policy recommendations forwarded in this paper are framed by two general policy objectives.

The first objective is to support and promote the sustainability of farmer-owned or farmer-led private enterprises. The second objective focuses on small farmers engagement, whether as individuals or as groups, with private enterprises such as private companies and private sector investors. It is intended to ensure that the sharing of risks and benefits between farmers and investors is equitable and inclusive and does not further undermine the farmers' livelihood and welfare.

The Asian Farmers Association is forwarding the following national and regional policy recommendations aimed at promoting sustainable small-scale farmers' engagement in and with private enterprises:

### *Development, adoption and implementation of a national farmers' enterprise development policy*





This policy should have the following components:

- Extension of trainings, workshops, knowledge sharing and other forms of capability building support for farmers who are interested to develop and operate private enterprises;
- Creation and allocation of a starter fund to support the development and operations of farmer-owned or farmer-led enterprises;
- Creation of special credit windows for farmer-initiated/-owned and farmer-led private enterprises and other economic initiatives;
- Development and adoption of a system of tax incentives for small farmers' economic enterprises (e.g. tax holidays, one-stop permit processing, simple application procedures).

**Securing ownership and rights over lands by small-scale men and women farmers**

Governments should support policies aimed at ensuring and safeguarding small men and women farmers' ownership and rights over the land they till. This is very important because farmers will have very limited influence over what types of commodities to produce, how much to produce, and how these can be produced if they do not own or hold the rights to lands. It will be difficult for farmers to freely and successfully engage in private enterprises if they do not have the power to make these basic farming decisions.

**Provision of the necessary infrastructure support such as farm-to-market roads, communal irrigation and access to post-harvest facilities**

**Adoption and implementation of national and regional regulations to ensure the fair sharing of risks and benefits in contract growing and other similar supply and marketing arrangements**

At the national level, governments must regulate contracts so that farmers are protected when they enter into agreements with companies. They should regularly monitor compliance to these regulations. They should extend legal assistance and support to farmers when the latter engages with private sector investors. Farmers' organizations can be given the authority to monitor these contracts and support farmers who are entering into such contracts.

In many contract growing arrangements, farmers usually shoulder the entire costs of crop failures. Governments should set standards and rules to ensure that investors also share in the risks in agricultural production. This is very important especially at a time when climate change is creating a lot of risks in farming.



**Regional program on knowledge-sharing and management**

ASEAN must develop a regional program that will allow farmers from different countries to learn from each and from others on how to best develop, manage and operate farmer-owned and farmer-led enterprises. This regional program should document farmers' experiences and facilitate farmers' exchanges, among others.

The active participation of farmers' organizations in pushing for these national and regional policies will contribute to the creation of a policy environment that enables them to engage in successful, sustainable and beneficial private enterprises.

## 8. WHAT SHOULD FARMERS AND FARMER GROUPS DO TO INCREASE THEIR LEVERAGE AND POWER IN THE MARKET AND ALONG THE VALUE CHAINS?

- Organize according to geographic clusters and along commodity/crop lines. This will enable farmers to achieve economies of scale, improve their negotiating and bargaining power, and strengthen their advocacy work. Organizing processes should prioritize inclusion of women and young farmers as well as facilitate the development of functional systems of rules and incentives for allocation of costs and benefits among members.
- Instill an “entrepreneurial” attitude in each farmer: continuously innovate and enhance capacities, knowledge and skills in organizational management, including financial management; business planning and management; production of safe and organic foods; navigating the market; product quality control, packaging and branding; price negotiation; participatory guarantee systems for organic products, and value addition. These can best be done through farmer exchange visits, study tours especially with successful business enterprises, knowledge learning and sharing, documentation of experiences and networking with other relevant groups and stakeholders.
- Strengthen advocacy for policies and regulations that will promote farmer-owned or farmer-led enterprises and safeguard small scale farmers' interests when dealing with other private companies.

## 9. WHAT CAN OTHER KEY STAKEHOLDERS DO TO PROMOTE FARMER-OWNED/ FARMER-LED ENTERPRISES AND SUSTAINABLE AND INCLUSIVE ARRANGEMENTS BETWEEN FARMERS AND THE PRIVATE SECTOR?

### *Donor Community*

- Support the organizing and capacity building efforts of small scale farmers, especially at the initial stages of establishing the farmer-owned/farmer-led enterprises through technical assistance and direct financing support to farmers' organizations.

- Ensure that their guidelines for financing government-initiated agriculture and food security and nutrition programs include support for farmer-owned or farmer-led enterprises.

### *NGOs and Academe*

- Catalyze and facilitate the awareness-raising and organizing processes for farmer-owned or farmer-led enterprises, especially in areas where farmers' organizations are still weak.
- Institute partnerships with farmers' organizations in building the entrepreneurial attitude of farmers and their organizations, as well as in agriculture research for development and in setting product standards.

### *Private Sector*

- Invest in the development of environmentally-friendly industries and products, while forging links with farmers in the development of the same.
- Significantly involve the farmers and their organizations in the ownership and decision-making processes of the business (e.g. price, standard, technology, contract, communications system).
- Ensure mechanisms for shared risks and benefits and insurance protection for both the products and the farmers.

### *Consumers*

- Support the products of farmer-owned or farmer-led enterprises.
- Give constructive feedback and recommendations so that farmers' enterprises can improve their products and their processes.





CREDITS

*This issue paper is based on two documents: (1) the proceedings of the workshop entitled “Regional Learning Session on Sustainable and Inclusive Marketing Arrangements towards increasing Farmers’ Market Power,” participated by 41 persons from 10 farmers organizations in 9 countries and 17 partner organizations, organized by AFA, with support from CSA and Agriterra, and held last May 9-12, 2013 in Quezon City Philippines; and (2) a paper commissioned by AFA, entitled “Trends, Patterns and Trajectories in Brokering Small Scale Farmer Engagement with Private Enterprises in Selected Countries of Southeast Asia,” written by Dr. Nerlie Manalili.*

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