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# Smallholder-inclusive Food Value Chain Models – Overview and Recent Development

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*Presented at “Partnering for Smallholder Inclusive Market Opportunities in the Mekong” Workshop, 8-9<sup>th</sup> December 2015, Hanoi*

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Australian Government  
Department of Agriculture,  
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seekLIGHT



***Q1. Consumer preferences are changing:***

- ***Agree***
- ***Disagree***





**Q2. The agrifood retail sector is changing:**

- **Agree**
- **Disagree**









Los Angeles,  
USA



Medan,  
Indonesia



Fiji









Milan, Italy



Medan,  
Indonesia

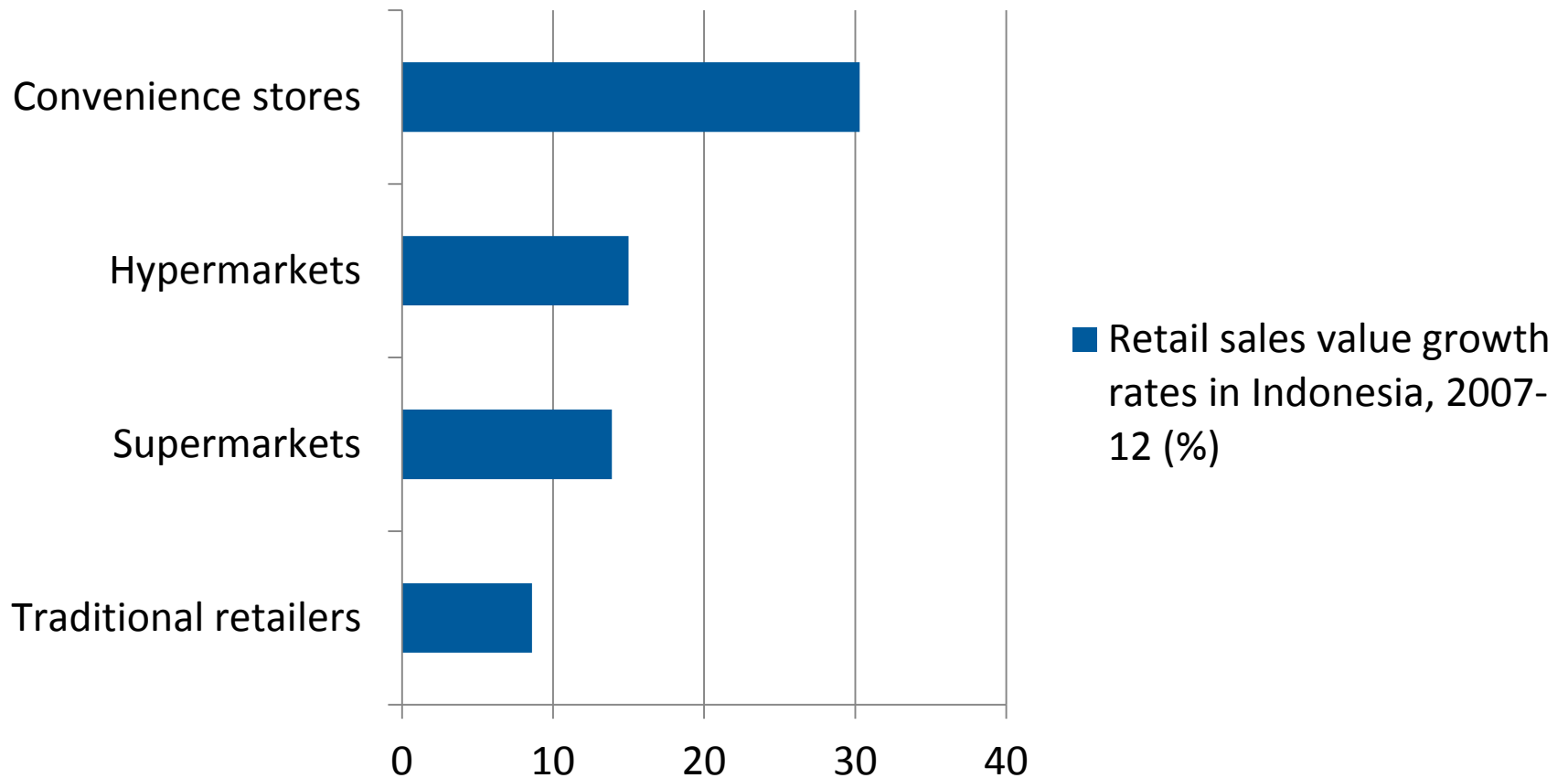


Beijing, China



Darwin,  
Australia

## Retail sales value growth rates in Indonesia, 2007-12 (%)



Source: Euromonitor International



## Carrefour has opened its largest store in Asia

By *ISN News Desk* on 03/12/2015 · Comments Off on Carrefour has opened its largest store in Asia



Carrefour SA, a French retailer, as of late opened its biggest store in Asia in the Chinese capital, Beijing. The divulging comes as the firm plans to capitalize on the expanding interest for imported sustenance from medium-and top of the line customers.

The two-story hypermarket is situated on the North Fourth Ring Road, adjoining the sprawling office of Swedish outfitting retailer

Ikea. It houses more than 80 stores, including Uniqlo, Decathlon and the first-ever Baidu Concept Store.

The Carrefour Beijing outlet, which is spread over a territory of 71,380 square meters, offers more than 40,000 items, 15 percent of which are foreign things.

## French salt and Australian meat ...

## Food labelling – allergens, ecological arrangements, GMO

### Major food producers join hands to actualize the SmartLabel Initiative

By *ISN News Desk* on 04/12/2015 · Comments Off on Major food producers join hands to actualize the SmartLabel Initiative



A percentage of the biggest nourishment makers and food merchants reported an activity to give



customers “momentary access” to detailed data on thousands of products through their smart phones. Customers, utilizing their cell phones, will have to scan the QR code or barcode, as per the proposal by the Grocery Manufacturers Association.

More than 30 food titans, including Pepsi, ConAgra, Hormel, Campbell Soup, Land O’Lakes, Coca-Cola, Nestle and

Hersey, have marked on to take an interest in the SmartLabel Initiative. The SmartLabel will incorporate fixings, allergens, creature welfare, ecological arrangements, and, maybe the most questionable characteristic. whether the sustenance contains genetically modified organisms

# Agrifood transformations

- An increasing number of food producers are now directly connected with modern retail outlets.
  - Increasing demand for safer and better quality foods
  - To ensure consistent supply
- Across international borders
- A shift:
  - from public to private standards;
  - from spot market relations to vertical coordination;
  - from local sourcing to sourcing via national, regional and global networks ([Reardon et al. 2009](#)).





## The change...

*Are smallholder farmers changing?  
Can they change? Should they change ?  
How to help them change? What, why  
and how do they change? What is the  
suggested change?*

“I am doing ‘*nothing*’. My husband is responsible for milking the cows and collecting the grass and I do the REST”

A dairy farmer in Sukabumi, West Java





*Wegmans Supermarket  
Ithaca, NY*





32个省

500家农合社

产地直采0渠道

“每天都能吃到新鲜的”

产地追溯二维码

手机扫一扫 信息“码”上到



可用“我查查”  
“微信”等二维



码手机扫描软件  
查询

Carrefour, Beijing





*(Delivered) directly from farms – minced beef – AUD 12/kg always cheaper*

*Giant supermarket, Bogor, Indonesia*



# Contract farming: %total farming

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Brazil	Poultry (75%), pork (40%), soybean (35%)
Mozambique	Cotton (100%), tobacco (100%)
Zambia	Cotton (100%), tobacco (100%), paprika (100%)
Viet Nam	Cotton (90%), tea (50%), rice (40%)
Kenya	Tea (60%), sugar (60%)
Thailand	Poultry (70%), sugar (100% )

Source: UNCTAD, 2009.

# Lessons from a dairy study in West Java: Promising but challenging ...

- Q: Do Smallholder-inclusive Business Models offer Opportunities for Growing the Indonesian Dairy Sector?
- Survey to 240 dairy farmers in 2014.
- Smallholder-initiated vertically integrated (SVI) vs 'conventional' models
- Findings:
  - Not just about access to information:
    - A mismatch between pricing indicators and quality indicators affected
  - Farmers participating at SVI business models:
    - use more high protein concentrate but
    - use less concentrate feed (10% less).
    - 10% higher price
    - Produce 10% less milk
    - insignificant difference in daily revenues and adoption of other types of innovations between SVI and conventional farmers.
- A: The presence of SVI models creates more competition in the market and encourages adoption of high quality concentrates.
- HOWEVER, the development of new dairy business models should consider access to inputs and strategies to develop quality-based pricing systems.





# Outline

1. Definition of smallholder-inclusive business models
2. Inclusiveness and types of business models
3. A proposed framework for characterising various business models
4. Concluding remarks

# 1. Definition of smallholder-inclusive business models

- Contract farming - much discussed in the literature:
  - The transaction cost approach to define rationale for vertical coordination in value chains ([Frank and Henderson 1992](#); [Humphrey and Schmitz 2001](#); [Jia and Huang 2011](#));
  - Only one of the options;
- ‘**Smallholder**-inclusive **business** models’ - used relatively recently.
  - The business aspects of smallholder agriculture.
  - How ‘small’?
    - “Cannot be rigid or one size fits all” depending on the regional, national and local contexts.
    - A smallholding is “small” because resources are scarce; while the term agriculture includes crop raising, animal husbandry, forestry and artisanal fisheries ([HLPE 2013](#))
    - FAO - marginal and sub-marginal farm households that own or/and cultivate less than 2 hectare of land.



## 2. Inclusiveness and types of business models

- Smallholder-inclusive business models –  
*‘the way in which a company structures its resources, partnerships and customer relationships to create, capture and distribute value ([Cotula and Leonard 2010](#))’.*
  - The term ‘company’ is defined as an entity working in the agricultural value chains ([FAO 2012](#)).
- ‘Smallholder-inclusive-business models’ are not always initiated by smallholders.
  - Partnerships with other smallholders and/or commercial enterprises.

# Types of business models

1. Management contracts (eg tenant farming, sharecropping, etc);
2. Joint venture;
3. Farmer-owned business; and
4. Contract farming (eg the nucleus estate model, etc).



# Types of business models

Types of business models	Advantage	Disadvantage
<b>Management contracts</b> <i>"The arrangements under which a farmer or a farm management company works and manages agricultural land on behalf of the owner in return for a lease fee or share in profits e.g. tenant farming, sharecropping."</i>	<ul style="list-style-type: none"> <li>• Opens up new opportunities to smallholders and community landholders</li> <li>• Depending on the contract type, may enable sharing of production risks</li> <li>• Overcomes land access constraints, particularly women</li> <li>• May provide better returns</li> </ul>	<ul style="list-style-type: none"> <li>• Landholder is only recipient of payment in cash or in kind</li> <li>• Landholder does not make decisions concerning farm management</li> <li>• Small-scale subsistence farmer is often excluded</li> <li>• Landholder is bound to long-term contract at a fixed-lease fee that does not reflect the market price</li> <li>• In tenant farming, tenant has weaker negotiating power.</li> </ul>
<b>Joint venture</b> <i>"A business agreement in which two independent market actors e.g. an agribusiness company and a farmers' organization, agree to develop a new business by contributing equity and, therefore sharing assets, ownership, revenues and expenditures."</i>	<ul style="list-style-type: none"> <li>• Enables smallholders get access to greater resources (e.g. technical staff and technology)</li> <li>• Allows companies to enter new markets while sharing the risks with a venture partner</li> <li>• In farmers' coop, smallholders become part of the decision making process and the process is transparent</li> <li>• Enables co-ownership of assets</li> </ul>	<ul style="list-style-type: none"> <li>• Joint venture between agribusiness companies is difficult to implement as it takes time to build the 'right' partnership</li> <li>• There can be imbalances in terms of expertise, investment, assets contributed by different partners or members.</li> <li>• Can have poor integration and cooperation.</li> <li>• In farmers' coop, members may only receive small or no dividends.</li> </ul>
<b>Farmer-owned business</b> <i>"Formal business structures in which farmers collectively enter into particular types of businesses eg processing or marketing to gain access to credit or to limit the liability of individual members."</i>	<ul style="list-style-type: none"> <li>• Enables access to greater resources and stronger bargaining power for members</li> <li>• Simple registration regulations and operational procedures for cooperatives in many countries</li> <li>• A cooperative may be granted lower taxes or other special privileges.</li> </ul>	<ul style="list-style-type: none"> <li>• Complex governance structure</li> <li>• Slow decision-making</li> <li>• Limited entrepreneurial orientation</li> <li>• Membership heterogeneity (in terms of farm size, business objectives, expertise, etc) may lead to conflict of interests</li> <li>• In many countries, cooperatives' high reliance on government assistance may discourage their growth.</li> </ul>
<b>Contract farming</b> <i>"Supply agreements (verbal or written) between farmers and agribusiness processing and/or marketing company/buyers for mutual gains".</i>	<ul style="list-style-type: none"> <li>• Farmers are guaranteed reliable markets and fixed pricing structures which allow them to do medium and long-term planning. They get access to credits, inputs and technical assistance or may benefit from increased credit worthiness.</li> <li>• Companies can improve supply quantity and quality and transfer or shift sharing of production risks to farmers. They can overcome land constraints.</li> </ul>	<ul style="list-style-type: none"> <li>• Farmers may be subject to inequitable distribution of benefits and risks and subject to depressed producer prices and increased indebtedness due to late payments or defaults. They may lose autonomy and control over farm enterprises.</li> <li>• Companies may face high transaction costs in dealing with individual farmers and experience disloyalty of farmers (eg side selling).</li> <li>• Productivity may not be optimum due to a lack of technical skills of farmers.</li> </ul>

# Assessing inclusiveness

## Criteria for assessing inclusiveness

Ownership	Voice	Risk	Reward
<ul style="list-style-type: none"><li>•Equity share</li><li>•Key assets (land and processing facilities)</li></ul>	<ul style="list-style-type: none"><li>•Ability to influences key business decisions (e.g. price setting)</li></ul>	<ul style="list-style-type: none"><li>•Commercial, political and reputational risks</li></ul>	<ul style="list-style-type: none"><li>•Sharing of economic costs and benefits</li></ul>

Source: Adapted from various sources (Cotula and Leonard 2010; FAO 2012)




# The best models?



The 'best business models' for smallholders?



No one size fits all (FAO 2012)



Most successful business models are formed based on the local cultural contexts and the marketing needs of members that might differ between sectors/regions.

# Factors strengthening smallholder-inclusive business models

Key aspects	Factors
<b>Regulatory framework</b>	<ul style="list-style-type: none"> <li>• Favourable government policies oriented towards promoting contract farming with the private sector and intended to promote fairness in relationships</li> <li>• Transparent and affordable process of legal registration of a new business model</li> <li>• Reduction of government taxes and levies</li> </ul>
<b>Institutional setting</b>	<ul style="list-style-type: none"> <li>• Well-organised collective actions</li> </ul>
<b>Research and development</b>	<ul style="list-style-type: none"> <li>• Public research and extension services that support adoption of innovations</li> <li>• Investments in training</li> <li>• Increased focus on quality control</li> </ul>
<b>Access to resources</b>	<ul style="list-style-type: none"> <li>• Public infrastructure development</li> <li>• Provision of equipment to promote mechanisation among smallholders</li> </ul>
<b>Linkages with private sector</b>	<ul style="list-style-type: none"> <li>• Competitive private sector</li> <li>• The government as a facilitator in a tripartite model</li> <li>• Private investors connected with the associate enterprise directly and/or with producers</li> <li>• Private sectors must have identified a market for the planned production and be sure that such a market can be supplied profitably in a long-term</li> </ul>

# Sweet Partnerships – Cocoa in Vanuatu



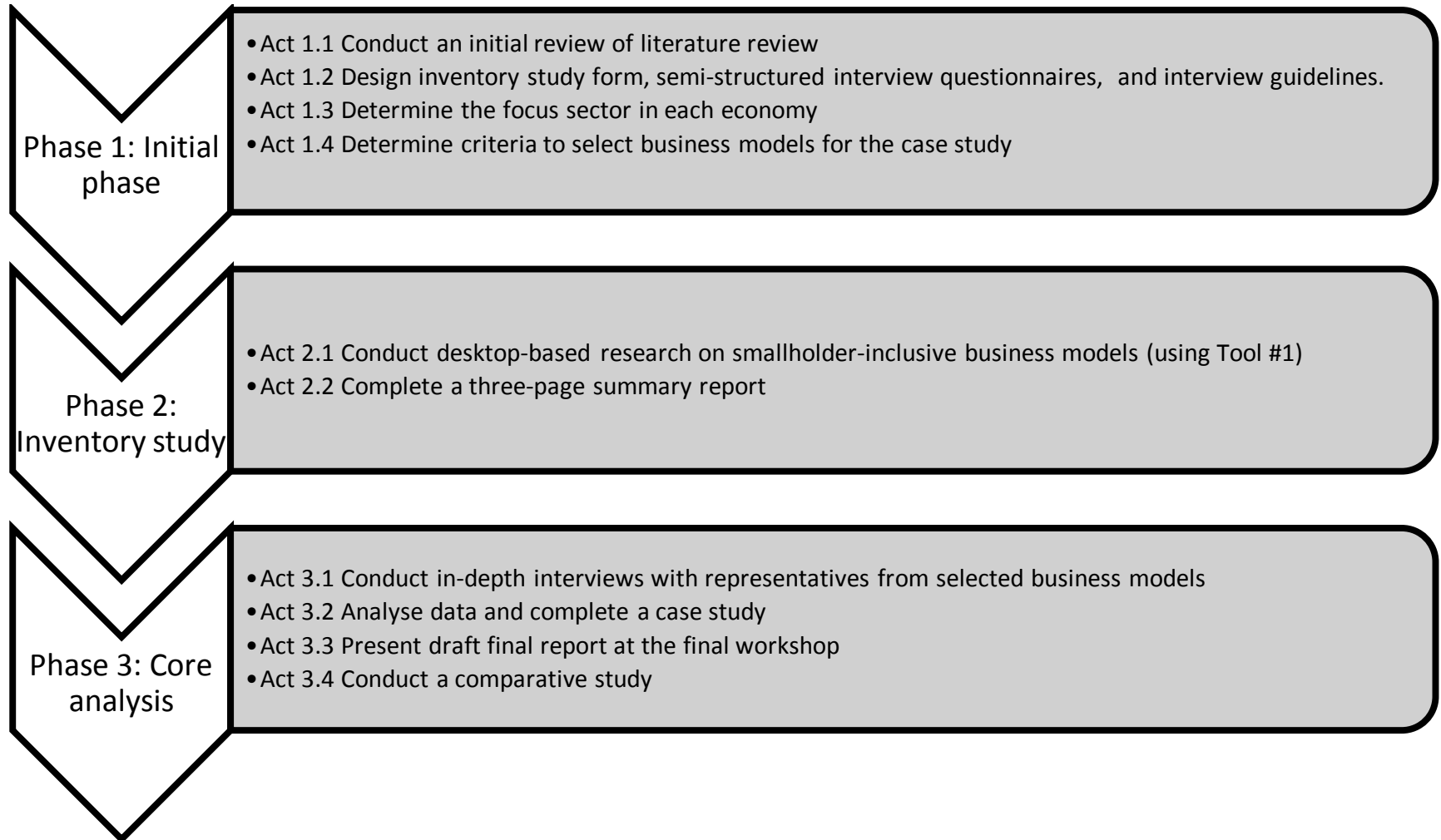
***“With Cadbury’s paying the farmers \$1.25 per kilo, Vanuatu farmers can triple their profit by producing a higher quality single-variety bean earning \$6 to \$8 per kilo from Haigh’s.” (Prof Randy Stringer, GFS)***

***“We don’t want to come across as altruistic, Mother Teresa — it’s a business partnership,... We want an insight into their souls; we want to see them grow.... we want to tell the story of the grower.” (Mark Bahen, Bahen & Co).***





### 3. A proposed framework for characterising various business models



# Phase 1: Initial phase (November 2015 - December 2015)

- i. Initial literature review (Now available at: <http://www.adelaide.edu.au/global-food/research/smallholder-inclusive/>)
- ii. Determine focus (sub) sector and examples of business models

→ An in-country project proposal – January 2016

# Focus sector(s)

- Meat
- Dairy
- Horticulture
- Fish

## Selection criteria:

1. The focus sector has significant contribution to the economy;
2. There is a widening gap between domestic consumption and local supply and there is a concern from the government to lessen reliance on imported products;
3. The focus sector shows some new development in the ways it develops vertical coordination that better involves smallholder participation;
4. Business models in the focus sector are under-researched; *or*
5. There have been expressions of interests by governments, donor agencies, agribusiness companies and other stakeholders to invest in smallholder-inclusive business models.



# Selecting business models

1. Business models that represent a significant proportion of the existing models; *or*
2. Business models that have potential for development e.g. models that are gender-inclusive, practical, efficient, and enhance the inclusiveness of smallholders in local as well as global modern food value chains.

# Phase 2: Inventory study (December 2015 – February 2016)

- Desktop research to review at least five business models in each economy.
  - Description (eg. how it started, production capacity, partners, services to members, gender context, etc)
  - Costs
  - Performance measures ( eg. market share, satisfaction of the final consumers, price data, labour index, price stability, smallholder participants' welfare)
- A three-page summary of their inventory study to address:
  - What are the characteristics of business models that seem to strengthen their development?
  - Are there any similarities between the characteristics of successful models in different sectors?
  - What are challenges facing the reviewed business models to grow?

# Phase 3: Core analysis (March 2016 – June 2016)

- Co-design in-depth interviews with representatives from selected business models using a semi-structured questionnaire.
  - With at least representatives of smallholder farmers and an agribusiness firm's manager or owner for each of the business models.
  - Players at different segments?
  - Allow comparative analysis
- An economy study to address:
  - What are the structure, conduct and performance of the focus sector?
  - What are factors explaining variations in the socio-economic performance of business models?
  - How can we strengthen smallholder farmer's linkages with agribusiness firms and other market players? What are the roles of the government, NGOs and private sector to strengthen the linkages?
- Comparative analysis
- The final workshop in June 2016
- Project final report – August 2016



## 4. Concluding remarks

- More work should be done on smallholder-inclusive business model especially to systematically review the association between sectoral characteristics, the nature of successful business models and the role of stakeholders.
- This new project:
  - To explore as much variations in factors strengthening smallholder-inclusive business models as possible.
    - ‘common models
    - Models with potentials
  - Consider publication opportunities
- Food for thought – partnerships between smallholders and commercial agribusiness companies: important but not necessary?
  - Not necessarily imply that smallholder farmers need to partner up with commercial entities in order to succeed (Cotula and Leonard 2010).

Thank you.

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