

# INSIGHTS

FROM THE 5TH  
OF A SERIES OF  
PROVOCATIVE SEMINARS

## Pro-poor business, development and smallholder empowerment

**Brussels**

22 June 2011

**The growing effort within international development circles to ‘make markets work for the poor’ has seen the private sector adopt new approaches that claim to be more inclusive of small-scale producers and enterprises. Fair trade, corporate social responsibility (CSR) and inclusive business models offer the hope that market principles and practices can be used to reduce poverty and empower producers. But to what extent do such models actually deliver on their promises? This was the question raised at the last of a series of ‘provocations’ designed to stimulate critically constructive debate on making markets work for small-scale farmers.**

### **ABOUT THIS PROVOCATION**

This seminar, the last in the ‘provocations’ series, was held at the European Parliament in Brussels on 22 June, 2011. It was co-hosted by Richard Howitt, MEP and European Parliament Rapporteur on CSR, the United Nations Research Institute for Social Development, and the Belgian nongovernmental organisation Vredeseilanden.

The provocation brought together policymakers, academics and practitioners working at the interface between small-scale production, markets and development to share their insights on empowerment, CSR, pro-poor business standards and inclusive business.

The debate began with invited speakers: Sanjeev Asthana, National Skills Foundation for India; Chris Bacon, Santa Clara University; Richard Howitt, MEP; Miguel Méndez, SNV Representative for Nicaragua, Alberto Monterroso, Comercializadora Aj Ticonel; Merlin Preza, president of Coordinator of Fairtrade Small Producers in Latin America and the Caribbean. It was continued by an invited audience.

## WHAT IS EMPOWERMENT?

The many actors involved in pro-poor business can have quite different perspectives on what empowerment means. Despite a broad consensus among participants that smallholder empowerment is the process through which producers strengthen their capacity to achieve their goals and negotiate with both private business and public policy actors, contrasting views emerged regarding the relative weight of economic, social and political dimensions of empowerment.

For some speakers, empowerment means building economic and technical capacity to access markets on favourable terms, compete and produce better quality products. This aspect is often emphasised by inclusive business models, which aim to use competitiveness and improved market access to simultaneously boost businesses, secure livelihoods and reduce poverty.

Other speakers — often referring to the experience of fair trade — stressed the political dimension of empowerment: the capacity of producers to contest, bargain, exert claims on the powerful, and control decisions that affect their lives through collective action and social organisation.

These different perspectives are more than academic; they have quite different implications for policy and strategy.

**“A simple definition [of empowerment] is the capacity of individuals or groups to act in order to achieve their self-defined goals without impinging on the human rights of others.”**

**Chris Bacon, Santa Clara University, United States**

**“When we’re talking about empowerment, are we putting the burden on the private sector when it’s actually a responsibility of the state?”**

**Jorge Chavez-Tafur, ILEIA Netherlands**

Empowerment in the economic sense focuses on: the need to boost productivity and managerial capacity through technology transfer, technical assistance, and training; overcoming key constraints for producers, such as credit and late payment; and cultivating trust and long-term relationships between producers and buyers.

Empowerment in the political sense focuses on social organisation, contestation and effective participation in governance. Chris Bacon, professor of environmental politics at Santa Clara University in the United States, said a political reading of empowerment guards against the danger that standards become a subtle way of exerting power over, rather than with, small-scale producers. He sees producer organisation as key to gaining a foothold in national policy and competing with big companies for power.

Merlin Preza, president of the Latin American and Caribbean Fair Trade Coordinating Council, similarly argued that small producers must get organised to be empowered and achieve long-term sustainability.

But it was clear that producers’ ability to organise collectively varies significantly across country and region.

And it doesn’t happen by itself. Talking about India, Sanjeev Asthana, from the National Skills Foundation for India, noted that change can only happen if producer empowerment is coupled with civil society advocacy and enabling state regulation and support.

## PROGRESS IN CORPORATE RESPONSIBILITY?

Several speakers in Brussels noted significant progress in standard-setting associated with CSR. Richard Howitt, MEP and European Parliament spokesperson on CSR, was upbeat about developments during the past two years, which have seen business adopt a more positive attitude to social and environmental issues.

This is largely due to several global initiatives, including the latest OECD guidelines for Multinational Enterprises, the ‘Ruggie’ framework for business and human rights, and new initiatives to promote sustainability reporting.

CSR seems to be moving beyond piecemeal voluntary initiatives towards international ‘soft law’, which not only carries greater regulatory weight but also provides for a more comprehensive set of standards. The Ruggie framework and OECD guidelines have, according to Howitt, breached the tight line of responsibility which companies draw

**“We have seen unanimous agreement and support for the fact that businesses must, and can, do much better with respect to human rights. They can’t just say it, they have to do it”**

**Richard Howitt, MEP.**

## Pro-poor business, development and smallholder empowerment

around their head offices, and made the supply chain a core issue with enormous consequences for human rights.

But not all participants agreed that the CSR agenda has leapt forward. CSR often remains within one company office, rather than being integrated throughout a corporation. And managers still pick and choose among standards and often focus on short-term transactions with producers rather than cultivating long-term relationships.

Dwight Justice, from the International Trade Union Confederation, emphasised that the meaning of 'responsibility' — within Europe and elsewhere — remains restricted to a limited number of best practices related to social and environmental issues. This narrow definition diverts attention from the need to hold companies accountable for their actions, he said. The foundations of accountability, he added, are not voluntary initiatives, but law coupled with social action.

Peter Utting, deputy director of UNRISD, remarked that in the past decade, the CSR agenda has moved on from codes of conduct to monitoring, reporting and verification (MRV). The challenge for the future will be to not only strengthen MRV practices but to also focus on two more 'Rs' — redress (or effective remedy) and redistribution, which relates not only to how income and wealth are shared but also the distribution of value within value chains and power within power relations.

“... companies are in fact claiming that they can help smallholders for development ... [But] should we grant a positive evaluation to the projects of companies like Monsanto, Syngenta, that are producing pesticides, herbicides, fertilizers? Are there good examples of those companies working together with smallholders?”

Frederic Ghys, Vigeo, Belgium

## HOW INCLUSIVE IS INCLUSIVE BUSINESS?

The potential for inclusive business was highlighted by Miguel Méndez, SNV Representative for Nicaragua. He underscored the importance of relations between producers and companies centered on trust and capacity building, as well as both economic and social objectives.

Inclusive business implies that engaging with smallholders goes beyond charity or a short-term transaction, to become part of a longer-term core business strategy. Citing the example of a large Nicaraguan coffee exporter setting up a coffee school, Méndez emphasised the need for companies to see such actions not as philanthropy but as a social investment linked to their core business.

Not all inclusive business is inclusive. According to Castellanos, 'real' inclusive business:

- reflects a short, medium and long term mission;
- links directly to growing market opportunities;
- includes training, credit extension and investment;
- aims to solve a business problem;
- builds trust, confidence and synergies; and
- contributes to sustainability and ethics.

“I am absolutely convinced that smallholders can be credible partners for business”

Johan Declercq, Max Havelaar, Belgium

For Alberto Monterroso of Comercializadora Aj Ticonel in Guatemala, inclusive business should also address the gap in knowledge of consumer markets and the true value of smallholder products.

Asthana noted that transforming business relations requires an institutional structure where small-scale farmers can stand on their own two feet. Building this will involve reforming both government and governance, but is needed to address biases in subsidies, procurement and distribution that favour large producers.

Various speakers noted that the 'inclusive business' label can mask business-as-usual in terms of contractual relations which just happen to be with

“[In India] there are two big gaps. One is that there are very traditional mindsets within multinational companies...The bigger challenge has been that they haven't found an economically viable business model to reach out to the huge numbers of smaller producers”

Sanjeev Asthana, National Skills Foundation for India

**“Focusing on small scale producers with access to land is not really helping the poorest of the poor, who are often landless.”**

**Christina Archer, The Body Shop International, United Kingdom**

smallholders, or ongoing shifts in economic concentration that favour larger producers and enterprises.

Johan Declercq from Max Havelaar in Belgium, for example, was concerned that Dutch strategies for international cooperation are redirecting support from smallholders to big farmers and industry under the title of 'inclusive business'. This is confusing for smallholder organisations and consumers alike, he said.

Monterroso, whose organisation connects Guatemalan smallholders to export markets, complained of vegetable producers having to wait up to two months to be paid. This practice of delayed payment has made it harder for smallholders to survive financially, leaving vegetable production in the hands of a few larger companies.

Monterroso also noted that the time and cost required to get certification is often not worth the effort. In this situation 'inclusiveness' works more for the multinational or supermarket than for the smallholder who is financing the trade.

But other participants reminded us that inclusive business must ultimately pursue competitiveness and profits if it is to be viable. The provocation also raised concerns that unlike some fair trade models, inclusive business pays less attention to collective empowerment of smallholders, which is seen as critical for sustainability and 'real inclusion'.

## STANDARDS FOR WHOM?

New pro-poor business models have ushered in many standards — for working conditions, human rights and transparency in trading. While these appear to be altering some of the rules of the game by which large enterprises engage with local producers and communities, many questions remain about their effectiveness for pro-poor development and producer empowerment.

Chris Bacon argued that how standards are applied and implemented leaves much to be desired. Certification agencies, businesses and media often overstate the benefit of certification for smallholder livelihoods and empowerment. While there have been some positive impacts — such as improved education and land tenure for smallholders involved in fair trade — there are also persistent livelihood insecurities, hunger and enduring poverty.

**“The problem is that values and requirements for CSR come ... downwards, from European consumers.”**

**Christophe Landuyt, EXPO-I, Netherlands**

**“There are four ways for business to help producers: provide a market, transport, credit and extension services. But the problem is that it takes many years to create a lucrative and profitable relationship because they have to invest a lot in the capacity of producers”**

**Piet te Velde, Matabeleland, Zimbabwe**

Merlin Preza raised concerns that the underlying logic of certification standards turns responsibility on its head: the 'problem' is assumed to lie with smallholders rather than with a corporate-led economic system that reproduces environmental degradation, precarious livelihoods and inequality.

Standards are designed first and foremost to satisfy the market, northern consumers and corporations rather than the smallholder.

In practice, they must go hand in hand with building the capacity of smallholders and their organisations — or risk undermining past progress.

Alberto Monterroso and other speakers suggested that while certification has raised standards and improved aspects such as health, too often it is regarded as an end — a business in itself — rather than a means. Technical norms and procedures are often out of sync with the realities of smallholders; whether it be their literacy and educational levels, financial and administrative capacity, tenure situation or geographical isolation.

Norms can also become more demanding over time. “What we are asking for”, said Preza, “is simpler procedures — not lower standards.” And, she added, they need to be regionally-specific given variations in local contexts and cultures.

Certification should also better include small-scale producers in designing, implementing and governing standards. It is wrong to put all certification standards into one 'pro-poor' bag. Those initiatives that provide a space for smallholders to contest design and

**“There needs to be clear principles and agreements on set standards so that companies can work more easily with fair trade and organic standards ... I propose more lobbying for simpler certification measures”**

**Dominikus Collenberg, KAITE Trust ,  
Zimbabwe**

implementation have proven to be more sensitive to smallholder demands and concerns.

These interventions all highlighted how crucial governance arrangements are in determining the potential of standards-based initiatives to work for producer empowerment.

### **BACK TO DEVELOPMENT**

It is important that the 'pro-poor market' agenda does not lose sight of the broader development equation.

Merlin Preza reminded us that fair trade is just one tool of many needed to reduce poverty and inequality. Smallholders and their families and

communities need education, health services, infrastructure and off-farm employment opportunities.

And they need a level playing field that protects them from unfair competition. Large corporations not only have far more resources and bargaining power, they are now taking advantage of schemes such as fair trade which were designed for small producers.

Some participants raised concerns that governments and nongovernmental organisations are supporting pro-poor business models that do not truly benefit development in the global South. Others noted that the prevailing context of neoliberalism, post-structural adjustment, privatisation, globalisation and unequal power relations between North and South must be addressed for new governance institutions to emerge.

It was widely suggested that many of these development questions should also be addressed by the state, both by regulating business and providing the necessary resources for development.

For example, Sanjeev Asthana said that in India there are many gaps within the inclusive business discourse, despite the good intentions of both states and businesses. He called for government reform at all levels, capacity building and a more integrated approach to livelihoods.

Miguel Méndez also raised concerns that while despite widespread interest in building better relationships between smallholders, states and businesses, the institutional framework for achieving this is not clear.

The 'Ruggie' principles, raised earlier, aim to address this by clarifying the role of government in protecting human rights and the role of companies in respecting them. But some participants in Brussels remain concerned that inclusive business shifts the burden of facilitating empowerment from states to businesses.

**“Who will help organise or stimulate these pro-poor business models? When you compare small producers in sub-Saharan Africa with any big company here in Europe — as well as with local elites in both government and business — you could just call them powerless ... The power is not balanced.”**

**Teopista Akoyi, Vredeseilanden,  
Belgium**

**“It should be the government's role, through laws, to ensure that companies fulfill their obligations. Otherwise, smallholders will be continually subsidizing large companies, and solving the development problems that they have created”**

**Merlin Preza, Latin American and  
Caribbean Fair Trade Coordinating  
Council, Nicaragua**

Good intentions must be coupled with good practices. Capitalism does appear to be taking an ethical turn. But at the same time, we are seeing a rise in precarious employment, unfair competitive practices and economic concentration, while government resources continue to be captured by elites.

Some participants suggested that funding risks being channeled away from fundamental smallholder priorities towards other issues, such as climate change. Small coffee producers in Central America and elsewhere use farming systems that protect biodiversity and the climate — by necessity, not ethical choice. But their role in nurturing ecosystem services is not valued in any monetary sense.

According to Preza, the prices paid to smallholders rarely cover these aspects of production. Nor do they cover inputs such as fertilisers and land, let alone their food and other developmental needs.

# Pro-poor business, development and smallholder empowerment

Yet smallholders have still managed to improve their land and found resources to invest in communities, education, training and technical assistance. They are essentially subsidising the planet and other citizens.

The need to reconnect pro-poor market strategies with the broader question of inclusive and equitable development suggests that donors, governments and others should direct far more attention to issues of food security, processing and value-added, and the relocalisation of markets.

## CONCLUSION

This provocation revealed the diversity with which actors within fair trade, CSR and inclusive business frame empowerment and responsibility.

The inclusivity of pro-poor business models depends on who is being included and why, and the extent to which 'inclusion' can empower smallholders. By improving market access, some models have delivered economic empowerment for smallholders. But the political dimension of empowerment and participation — to gain control and exert claims on the powerful — is often diluted, raising questions as to what a more enriched notion of empowerment might look like.

And while fair trade, CSR and inclusive business models provide many tools to help empower smallholders, they are not a panacea for development. A key message from the provocation is that the governance and institutions of pro-poor business models really matter — because that is what shapes representation and inclusiveness.

The provocation series may have finished but the debate on the inclusiveness of pro-poor business is far from over. Participants at the Brussels seminar raised many themes that a future series might address, including gender, informal markets, South-South trade, intergenerational change, and ecosystem services.

**“How far can we go in any [pro-poor business and] development agenda without political regulation [of elites] and a collective political empowerment of smallholders?”**

**Karen Bahr, Catholic University of Leuven, Belgium**

## ABOUT THE PROVOCATIONS SERIES

Over the past year, IIED, Hivos and collaborating institutions organised a travelling series of 'provocations' to take a deeper look at the assumptions, impacts, evidence, benefits and risks of the approach to 'making markets work' for small-scale farmers. The aim is to provoke constructive debate by focusing new knowledge and insights on to this development dilemma.

Between September 2010 and June 2011, five provocations took place in European cities. Each one gathered invited speakers, local delegates, and international participants (via web streaming) for three hours of debate.

The series is supported by the Hivos Knowledge Programme *Small Producer Agency in the Globalised Market*.

- Provocation 1: Producer agency and the agenda to “make markets work for the poor”  
The Hague, Netherlands, 28 September 2010
- Provocation 2: Rights-based versus market-based development: a false dichotomy?  
Stockholm, Sweden, 3 March 2011
- Provocation 3: Making markets work for the poor: contents and discontents  
Paris, France, 30 March 2011
- Provocation 4: Making markets work for smallholders or wage labour?  
Manchester, UK, 25 May 2011
- Provocation 5: Pro-poor business, development and smallholder empowerment  
Brussels, Belgium, 22 June 2011



Watch online at [www.iied.org/provocations](http://www.iied.org/provocations)