

# FARMER INCOME LAB

## WHAT WORKS INSIGHTS AND REFLECTIONS

JULY 23-25, 2018, STAKEHOLDER CONVENING

**Dalberg**

**MARS**



## SUMMARY INSIGHTS FROM STAKEHOLDER CONVENING, JULY 2018

In 2018, Mars, Incorporated embarked on the Farmer Income Lab's work with Dalberg and Wageningen University as research partners and strategic guidance from Oxfam USA. During the Lab's pilot year, the team reviewed the available evidence from hundreds of efforts to increase smallholder farmer incomes. The findings, published in the accompanying 'what works' paper, were encouraging in some respects while highlighting evidence gaps in others. There is strong evidence of farmer incomes increasing as a result of multi-faceted approaches, but even this doesn't drive the transformative income increases that farmers need to thrive.

To build on the paper's findings and provide additional insights into how, as an industry, we can meaningfully improve incomes, in July 2018 the Lab convened a small group of experts from the academic, civil society, philanthropic and industry sectors. This document summarizes the key insights from those discussions and the Lab's analysis of the evidence.

### CONVENING INSIGHTS

**Above all, a step change is needed in global supply chains if we are to meaningfully raise farmers' incomes.** The improvements achieved so far are positive, but not sufficient to transform farmers' livelihoods. Systemic challenges including climate change and the rapidly increasing global demand for food threaten to undermine the gains made so far. Addressing the root causes of low farmer incomes, such as weak governance and uneven risk distribution, can enable global food companies and smallholder farmers to thrive together.

**There are several actions that lead buyers can take which show promise in raising farmer incomes. These include:**

- 1- **Focusing directly on income.** Poverty will endure unless farmers' can cover their household and farm costs with enough left over to save or deal with unforeseen costs. Throughout the Lab's research, it was clear that increasing farmer incomes is possible – when tackled directly. Stakeholders at the convening embraced the Lab's intent to make income the focal point rather than one factor in improving productivity, resilience or market access. However, increasing incomes is more complicated than, for example, boosting productivity, as incomes are affected by a wider range of factors, such as market dynamics, input costs, and non-farming activities. By adopting a singular focus on income, the Lab can build a clearer picture of what works.
- 2- **Targeting root causes, not just symptoms.** Low and unpredictable incomes are a symptom of smallholder farmers' disadvantaged position in global supply chains. Farmer incomes are not defined by isolated events or a single actor – they are influenced over time by a range of factors that shape their ability to grow, sell, save and invest. A better understanding of these factors is needed to inform tailored strategies for tackling the barriers and norms that prohibit higher earnings. This is where collaboration can be particularly powerful, as various actors combine data and evidence to formulate comprehensive solutions.

- 3- **Defining roles and responsibilities in different contexts and commodities.** It is clear that no single actor in any sector can solve the farmer income challenge alone. The Lab's analysis revealed important distinctions in lead buyers' roles, depending on the situation. The better organized the supply chain, the more able the buyer to shape interventions that can increase and stabilize farmer incomes. In supply chains that are less well organized, lead buyers can convene and influence multi-stakeholder collaboration to introduce more structure.
- 4- **Aligning on targets for addressing multiple barriers.** Numerous interrelated issues need addressing to achieve a transformational rise in farmer incomes. To keep industry efforts on the right path, shared targets for tackling the various barriers identified are needed across the private, public and philanthropic sectors. Such a systemic approach will also make it easier to design, deploy and measure the success of collective efforts.
- 5- **Enabling interventions to succeed.** Any intervention will be constrained by the market conditions and broader environment in which the farmers operate. Companies should consider a range of levers for creating an enabling environment, including their own pricing and marketing, while seeking opportunities to support broader policy and governance improvements.

### CORE TEAM INSIGHTS

During the convening, the Lab asked each partner to reflect on our journey together over recent months:

**Joost Guijt, Senior Advisor Inclusive Agrimarkets, University of Wageningen**

*Based on the convening and paper, what are the key insights and conversations you feel can add value to global dialogue on improving farmer incomes – and where do you see a need and opportunity for the Farmer Income Lab to dig deeper into 'what works'?*



It was encouraging to unpack the evidence for income improvement. Farmer income can be raised if targeted: low incomes are due to choices we make about our food and agribusiness systems, and do not have to be accepted as inevitable. That shifts the conversation structurally to 'how do we do this.' It is important to try to understand the "how" by looking at robust evidence. The evidence challenged some common assumptions about the effectiveness of what doesn't improve farmer income: for example, pricing arrangements as commonly practiced are not very effective, while we know stable, decent prices are critical for smallholder farmers. The evidence points to the need for better solutions.

Taking an income lens helps focus our analysis and efforts to ensure we really are addressing income, if that is what is intended. Raising farmer income is often an explicit or implicit goal of efforts to improve livelihoods. In practice, this is often tackled through indirect means such as improving productivity or market access. The work so far revealed there are a lot of unproven assumptions about how productivity actually leads to improved income. And those assumptions are often not tested or safeguarded, meaning income is not raised. What also struck me was the thought that the needs of agribusinesses are met by improving productivity or access to markets – more produce becomes more

available for their supply needs, so they don't need to look further at what it means for producers. However, the needs of small scale producers are not necessarily met; for them selling more produce more easily only makes sense if it leads to higher, more reliable income. This gap between what one party needs versus that of the other, must be closed.

What our work confirmed was the need to tackle interlocking issues simultaneously. Farmers are sophisticated economic actors; their reality needs to be responded to in all its complexity. This implies the need to take a systemic approach to trying to improve livelihoods, with income improvement as one dimension.

Going forward we need to work on several things:

- Figuring out how to do relevant and affordable systemic diagnosis, including farmers' own systems with multiple income streams and the systems that connect farmers with firms, so different actors can understand their role in shaping farmer income and what choices they have.
- Understanding the key success factors behind relevant interventions and knowing how to design our investment and engagement choices to ensure these factors are in place. These often imply some kind of system shift.
- Understanding for whom and how commercial agriculture can improve income, and for whom not. It is not a panacea, and alternative parallel work is needed for those who cannot connect to commercial markets.
- Looking at the deeper implications of making income improvement stable and equitable. For example, what structural shifts in farm-firm business relationships are needed rather than short-term problem fixing? And how can disempowered actors such as women with few assets or works in value chains be given real opportunity and voice, rather than tweaks to business as usual?

In making improvement of disposable income an explicit priority it remains important to continue to look at other priorities, such as environmentally sound production and equitable distribution. Income is not a proxy indicator for all our sustainability and inclusive goals. For example, if the evidence points to the value of self-help groups for women's empowerment, it can remain critical to support these for that purpose, even if they don't have the impact on income that is desired.

### **Veronica Chau, Partner, Dalberg**

*Tell us about some of the insights you gained from looking across case studies of what lead buyers are doing. What do you think are the top 2-3 key implications for companies, like Mars?*

Our review of the case studies revealed real and effective actions that companies can take to increase farmers' incomes. The implications from our research and subsequent conversations at the convening point to ways that companies can





better *diagnose* farmers' needs, adaptively *design* interventions and collaboratively *deliver* support and solutions.

- **Diagnose:** The review of the literature and discussions at the convening revealed insightful ways that companies can better diagnose key barriers across supply chains that impede farmers from earning higher incomes. The barriers paper shared by Oxfam offered some very concrete ways of understanding the root causes in supply chains that constrain farmer incomes. Companies will need to include some of the more sensitive issues around pricing, contracting and other marketing practices that are contributing to low or unpredictable farmers' incomes in their diagnosis efforts. The discussions at the convening also highlighted the importance of including an environmental sustainability lens into efforts to diagnosis root causes of what is constraining farmers' incomes.
- **Design:** Companies can better harness their capabilities in design and innovation of new business models to better design interventions for farmers. For example, in the same way that companies design products for different segments of consumers, companies should apply that same approach to user-centered design to their efforts to design programs that address farmer incomes. For example, some of the participants at the convening highlighted examples of where companies are segmenting farmers on the basis of household characteristics—assets (e.g., size of landholdings or number of livestock), demographics, or income sources. Another key dimension to segment farmers on are their attitudes towards and ability to adopt and embrace new technologies or paying for new services. Segmentation by level of commercialization and reliance on agriculture vs. non-agriculture sources of income can be used to provide insight into farmers' risks, the resources at farmers' disposal to mitigate risk and the services and programs that are relevant to farmers.
- **Deliver Together:** Holistically addressing the barriers to farmer income will require coordinated action with other actors, including other lead buyers, government and civil society. Particularly in less well-organized supply chains many of the key challenges to farmer incomes will need to be addressed through pre-competitive collaboration with other lead buyers. In this sense, lead buying firms can use their convening and influencing power across various global food value chains to catalyze change. Similarly, firms can take a more active role in generating knowledge on improving farmers' incomes, and in disseminating learning and evidence more broadly, so that other firms aiming to make their agricultural supply chains more responsible, can build upon past experiences.

### **Uwe Gneiting, Lead Researcher, Oxfam America**

*As a key advisor to the Farmer Income Lab, what are your key insights from the convening, having participated as a core member of the research team, on what actions companies should prioritize to improve incomes in commercial supply chains?*



The convening highlighted the growing momentum to tackle farmer income as well as the need for new, system-oriented approaches to do so effectively. One of the key insights I take away from the convening is the importance to distinguish between interventions to support farmer incomes and the conditions that need to be in place for those interventions to be effective. Investing in farmers' productive capacity, for example, will yield limited results if farmers don't

have reliable market access, can anticipate the prices they will receive or are unable to control assets, such as land.

My takeaway is that buyers need to move beyond focusing on resource-intensive interventions targeted at a small group of farmers to also develop system-oriented strategies to achieve scalable and sustainable income change for large numbers of farmers. We need to overcome the mismatch between the system-level causes behind precarious farmer incomes and the focus of many existing interventions on immediate constraints to production on and around the farm level.

Three potential areas of actions that stood out include:

- **Redesign Supply Chains** – discussions revealed the need for buyers to more deeply engage with farmers through their supply chains and consider how their purchasing practices affect farmers' income prospects. Long-term trading relationships, favorable trading terms (e.g. access to finance, technical support, quick payments), opportunities for upgrading into higher value-added activities, and transparent market information emerged as key themes
- **Ensure Stable and Higher Prices** – low and volatile prices came up as one of the key impediments for farmers to invest in their farms and earn higher incomes. There is an urgent need for buyers to proactively engage in designing and implementing pricing mechanisms that account for the costs of production and enable farmers to work towards a living income.
- **Support the Empowerment of Women Farmers** – the need to tackle the systemic barriers faced by women farmers to earn higher incomes came up strongly in discussions. Importantly, interventions targeted at increasing women's economic empowerment require broader investment in challenging deeply engrained gender norms. These investments include areas such as collective women's voice and influence, unpaid care work, control over income and assets and gender-based violence.

### NEXT STEPS

As a leading global food company, Mars will continue to leverage its unique perspective, significant purchasing power, and ability to influence a range of stakeholders as it stewards this innovative initiative over the next five years.

Drawing on early insights, work is underway with the Lab's partners to shape its future agenda. Together with Oxfam, and in dialogue with a wide range of other potential partners and advisors, the Lab is considering how best to activate its work as a 'think-do' tank. 'Thinking' means asking provocative new questions that will deliver breakthrough insights. 'Doing' means accelerating action in Mars' own supply chains based on what the Lab learns, and connecting solutions so that others can take action too.

This cutting-edge agenda will deliver value to Mars as its future-proofs its supply chains, while engaging other businesses and governments in dramatically rethinking and recalibrating their efforts. In this way, the Lab will powerfully illuminate how best to design and activate supply chains in which farmers and businesses truly thrive.