

## THEME OVERVIEW

# Enhancing farmers' entrepreneurship:

If an entrepreneur is a creative person, or someone who takes risks and innovates, then small-scale farmers are definitely entrepreneurs. Their role as such, however, faces many challenges, of which accessing markets is only one of them. Facilitating rural entrepreneurship demands special efforts – especially if we consider the many changes which agriculture is currently going through worldwide.

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*"I did something that challenged the banking world. Conventional banks look for the rich; we look for the absolutely poor. All people are entrepreneurs, but many don't have the opportunity to find that out."*  
(Muhammad Yunus)

It is rather strange to be writing about entrepreneurship in relation to small-scale farming, as these days you find this theme everywhere. As if a major transition is suddenly taking place: the small-scale farmer-cultivator giving way to the farmer-entrepreneur; the subsistence-orientated farm entering the capitalist or market economy. This, of course, is not exactly true. Small-scale farmers have a long history of having one foot in a subsistence economy and the other in a market-orientated one. What seems to be evident from many discussions, is that "entrepreneurship", "enterprises" and "markets" are closely linked concepts. In other words, there is no entrepreneur without a market, and there are no markets without entrepreneurs. And the small-scale farmer is part of this equation.

### What does rural entrepreneurship mean?

An entrepreneur is someone who builds an enterprise or venture, and who produces for or serves the market. The typical entrepreneur is depicted as a determined and creative leader, constantly looking for opportunities to improve and expand his or her business; somebody who takes more or less calculated risks, and who assumes responsibility for both profits and losses. Accordingly, entrepreneurship and innovativeness go hand in hand, in particular when entrepreneurs face strong competition or operate in highly dynamic environments.

So what about small-scale family farmers? Not surprisingly, small-scale farming has undergone enormous changes in recent decades. Many of these changes have not just been driven by external factors. They have also been inspired by farmers who continuously look for better ways to organise their farm, for new crops and cultivars, better animals, and alternative technologies to diversify production, increase productivity or reduce risks. Farmers have used a variety of ways to develop alternative income earning opportunities. Such incomes may have some link to agriculture (such as the marketing or processing of agricultural products), but are also found outside the direct realm of agriculture. Common examples of this second group include the production of handicrafts, or seasonal migration. In this sense, farmers are and have been "entrepreneurial" for quite some time.

However, there is no doubt that small-scale farms face challenges that are unique, even if not totally new. In many countries, farmers face the huge challenge of producing enough



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Access to markets has become increasingly important, but finding ways of selling your product is not always easy.

food, feed and fibre (and possibly even fuel) in a context of rapidly rising urban and rural non-farming populations; and at as low as possible prices, as most of the domestic demand originates from very poor people. At the same time, they are expected to "pull" the country forward as entrepreneurs. Years of privatisation and liberalisation policies, however, have few positive results to show.

As always, the explanations for these poor results differ between scholars and across the globe. Some refer to the hugely challenging conditions which prevail, in spite of favourable macroeconomic policies. In 2002, the World Bank's "World Development Report: Institutions for markets", pointed to failing property rights and weak market institutions in general; other documents (such as those prepared by Thomas S. Jayne *et al.* from Michigan State University, and Mylène Kherallah *et al.* from the International Food Policy Research Institute) point at the half-hearted or otherwise inadequate implementation of adjustment policies as the major cause. An interesting perspective is the one that looks at transaction risks, and in particular at those that stem from co-ordination problems between all those involved (e.g. Dorward *et al.*, 1998). The central idea here is that market transactions need co-ordination, whether this is formal or informal, while confidence is a major factor in any business and investment decision. The structural adjustment programmes which were widely implemented failed to support the private sector to develop new co-ordination procedures. As a result, market transactions still typically take place through hierarchical socio-familial networks, and are limited to restricted areas – i.e., close to the urban centres, and only for those commodities for which profit margins are sufficiently high. Trade thus remains restricted to a happy few, and only a small proportion of farmers are integrated in such

# Creating conditions for growth

networks. A large majority remains locked in a system of *ad hoc* sales of relatively low volumes of produce on marginal (spot) markets.

## Markets and uncertainty

As shown by the sudden rise in food prices recently, commercialisation and trade take place within a very uncertain environment, and many factors are involved (such as import regulations, subsidies and trade restrictions). But increased market participation does offer many opportunities. Farmers may receive extra income through higher volumes of sales, and may, as a consequence, be better able to improve and diversify their diets, to invest in education for themselves and their children, and to re-invest in their farm and make it a more productive enterprise. However, when prices decline or returns to investments fall short, the consequences may be catastrophic.

In general, farmers face highly imperfect, dynamic and diverse markets, and run enormous risks to reach them. The relationships they establish with sellers or service providers and buyers are multiple and rapidly evolving; increased interaction with new and more distant actors adds considerable risk. What can be done, for instance, when suppliers or buyers do not live up to their promises? How can they negotiate when they have little access to information and unequal power relationships? Suppliers and buyers often operate through business cartels, and may disappear when opportunities seem more profitable elsewhere. In addition, some risks may also stem from the interaction within the producer community itself, for example through lack of accountability and/or excessive rivalry between producers or between different producer groups.

It is important to mention that access to credit remains highly problematic, as financing institutions still find it difficult to serve the agricultural sector. Information provided through extension and support services (including NGOs) mainly focuses on technologies, and not on prices, contacts or possibilities. Though market information systems are emerging in many developing countries, many of these systems are difficult to access and do not generate all the relevant information in time, or at affordable cost. In addition, the impact of local networks and of decision-making procedures –including mechanisms of reciprocity and redistribution of income and assets– also plays a role. Not surprisingly, small-scale farmers maintain part of their farm for subsistence purposes, even when they perceive a real prospect of increasing production for the market. This often makes perfect sense –

even more so if we consider wider aspects such as transport and transaction costs.

## Rural entrepreneurship and sustainable land use

But in spite of the risks and difficulties, small-scale farmers are increasingly linked to local, national and international markets. Roughly, three pathways of change may be distinguished: (1) farmers whose income is (still) mainly based on agricultural production, and who are increasingly linked to the production and commercialisation of one or more products (in what is known as “commodity supply chains”) for domestic markets, (2) farmers who are increasingly part of an export-oriented process (often controlled by large multi-national companies), and (3) farmers who diversify away from agriculture. In the first two cases, farmers may be driven to take up new activities as well, like processing, marketing, etc., while the third path refers to those who migrate, or who provide other services.

These three pathways are not necessarily distinct. Farm families may be involved in different processes (or “value chains”), simultaneously serving the local and urban markets, in both conventional and “fair” trade. However, to some extent, entrepreneurship implies specialisation. It is simply too difficult to travel three relatively divergent pathways, and to maintain competitiveness. There is a tendency in international co-operation to prioritise the integration of farmers into export value chains, connecting them to the international markets. As Pommathat and Ling (p. 20) and Ingram (p. 22) show, the benefits of these processes can be many. It is important, however, to consider that farmers will need careful support in order to be “competitive”, and that this support needs to be based on “real” competitive advantages. It is also worth remembering that there is a lot of truth in the simple adage that you should be a national champion first before becoming an international one.

Whatever the path to follow, a question that remains (and which is not easy to answer) is whether these pathways will lead to more or to less sustainable land use. It might be argued, for instance, that diversification away from agriculture follows a vision of farming as a complementary activity, or even as a survival strategy, and not as an activity to invest in. Better links with the national or international markets, combined with an urgent need to increase incomes in the short run, may also encourage farmers to expand the area under the targeted crop, without taking appropriate measures to maintain sustainability. On the other hand, increased incomes could prove to be the

## Fairer trade

Though we think that the major challenge for small-scale farmers and farmer co-operatives in developing countries lies in the expansion of trade within their own country and region, the fair trade movement needs mentioning here. Fair trade is serving a “niche” of consumers in urban centres and higher-income countries who are prepared to pay a premium price. Fair trade is based upon the idea that conventional trading relationships between small-scale farmers in the South, and traders and processors in the North, are unfair. This unfairness keeps farmers poor, while a lack of assets also leads to unsustainable land use. The fair trade movement is diverse, its volumes are not insignificant but still rather small compared to conventional trade in agricultural products, and is linked to only a few small-scale farmers in the world. The role of fair trade, however, goes beyond these direct estimates of impact. It has helped many farmers develop entrepreneurial skills. It has been, and still is, an inspirational example for many more farmers to engage in markets and to call for “fairer” shares. In addition, fair trade is challenging conventional traders and companies, which in turn has led to a rapid increase of initiatives labelled as sustainable trade, or ethical trade. There is tension, of course, between the concept of a “fair” price, and the way markets and businesses normally work, but the idea that entrepreneurship should be governed by norms (ethics) and rules is increasingly accepted. Fair trade is playing an important role in this process.

best guarantee for sustainable land use, allowing farmers to re-invest in soil fertility, conserving natural resources, or the appropriate use of technologies; and to diversify production for local or domestic markets. It is compelling to argue that an entrepreneurial attitude is a necessary condition for sustainability, because it implies a highly efficient use of scarce natural and human resources.

### Farmer empowerment

Another issue to consider is that farmers within the same community or village will always have unequal opportunities to participate in markets. There will always be differences in terms of education or land size, interest or vulnerability. More vulnerable farmers, for instance, are probably less able to deal with the additional risks associated with (increased)



Photo: Fatoumata Keite/IFDC

**Improved co-ordination between producers helps trade in Soumbala, Mali.**

market participation. Some farmers will be willing to invest in reaching markets, and accept the outcomes, while others will not. While there is a relationship between vulnerability and willingness to invest in risky challenges, it is not as straightforward as one might think. Very poor farmers may, for instance, be more disposed to accept additional risks, when they feel that they have almost nothing to lose. In this context, farmer empowerment refers to the strategies that increase the opportunities for small-scale farmers –including the more vulnerable ones– to participate effectively in markets. There are essentially two strategies to empower farmers through market participation. The first one follows a “vertical integration” approach. In this situation farmers take up new economic activities, which cut across other parts of the production and commercialisation process. Examples are producers or organisations that purchase and distribute agricultural inputs, or collect, store and market agricultural products (such as the case presented by Chaya, p. 6). The second strategy refers to the establishment of better relationships with the other organisations involved (or “horizontal integration”), aiming at contacts, links and opportunities. These strategies are often seen and presented as opposites (as if having to choose between farmers and traders), but this is not really so: what seems essential is to explore the competitive strengths of farmer groups and co-operatives for certain tasks, and of traders and other private

entrepreneurs for others, and to focus on improved co-ordination mechanisms. Established traders may, for instance, have far better opportunities to serve consumers, to develop strategies for increasing market share and to interpret consumer trends.

In addition to these more straightforward strategies to improve co-ordination and empower small-scale farmers, another important issue is that of the “institutional environment”. This refers to the norms and rules that govern transactions, and to the rural investment climate that offers security and protection to farmers and producers (and other rural entrepreneurs investing in market intelligence, technologies, products and services, and organisational reforms). Both producer and business associations, as much as the state, have a crucial role to play here, leading to what is frequently referred to as “good governance”.

### Facilitating rural entrepreneurship

Rural entrepreneurship depends on individuals understanding cost-benefit ratios, and being able to evaluate market opportunities and associated risks. Facilitating rural entrepreneurship will also require careful nurturing of grassroots (“bottom-up”) initiatives, and may involve establishing or supporting networking and brokering services. However, as we have argued in this article, facilitating rural entrepreneurship needs to go well beyond this, and should include support to lobbying and advocacy for enabling institutional environments. In fact, the whole debate around rural entrepreneurship would be much more helpful if it focused less on the definition of and the capacities for entrepreneurship, and more on the conditions that enable rural (and urban) entrepreneurs to develop their business.

Though many organisations will be involved in facilitating rural entrepreneurship, a special and crucial role has to be played by the producer organisations. These organisations are expected to: (1) stimulate entrepreneurship through provision of information and other advisory and capacity building services; (2) strengthen market (bargaining) power through collective commercialisation and by improving co-ordination between producers; (3) profit from economies of scale through collective storage and processing; and (4) represent farmers’ interests in policy negotiations, and dialogue with other agribusiness stakeholders. Producer organisations are of tremendous importance to stimulate rural entrepreneurship, and to guide farmers through the transformational changes that market participation both requires and is bound to produce. The outcomes of such changes are uncertain, and will probably produce both winners and losers. In any case, they require dialogue, both within the rural communities and between their representatives and other stakeholders involved (policy makers, consumers, business associations, other producers). It is through dialogue, and effective co-ordination, that small-scale farmers will show that they are effectively part of the equation, for good. ■

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