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Making the case for Institutional Demand: Supporting smallholders through procurement and food assistance programmes

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ABSTRACT

This paper focuses on the rationale for supporting market interventions for smallholders through what we call Institutional Demand. Institutional Demand consists of different interventions that target procurement from smallholder farmers and distribute their surplus to vulnerable populations. This policy intervention links the goals of both agricultural development and social protection through three key areas: price stabilization; income generation and; food security. We argue that Institutional Demand should be a key policy intervention as it can directly address both rural poverty and malnutrition. It does this by linking the productive capacity of smallholder farmers with populations living in situations of food insecurity. Impact evaluations and assessments of Institutional Demand programmes are limited in scope and depth. Therefore, while this paper outlines much of the evidence thus far, the primary purpose of this paper is to push forward a new research agenda that looks at the ways in which Institutional Demand can promote policy synergies between the goals of social protection and agricultural development. The issues outlined in this paper present fruitful areas for more qualitative and quantitative assessments of Institutional Demand programmes.

1. Introduction

Recent literature has shown that there can be potential synergies between social protection and smallholder agriculture development (Tirivayi et al., 2013; Sabates-Wheeler et al., 2009; Devereux and Sabates-Wheeler, 2004). For example, in the case of Mexico, Conditional Cash Transfers (CCTs), agricultural credit, public works employment schemes and crop subsidies have been shown to have income multipliers and promote investments in agricultural production (Sadoulet et al., 2001; Davis et al., 2002; Todd et al., 2010). While there is evidence that these policies play a crucial role in reducing vulnerability and strengthening rural livelihoods, the role of Institutional Demand initiatives in promoting such synergies has not been thoroughly explored. We define Institutional Demand as a set of initiatives that stimulate long-term demand through the procurement of smallholder production for distribution to vulnerable populations through food assistance programmes. The explicit focus on state ownership over the design and implementation of procurement policies is where institutional demand differs from the broader concept of "structured demand" and local and regional procurement (LRP) that often includes foreign aid based programmes (Soares et al., 2013; Coles, 2013). We argue that Institutional Demand should be a key policy intervention as it can directly address both rural poverty and malnutrition by linking the productive capacity of smallholder farmers with populations living in situations of food insecurity.

Many developing countries are currently implementing institutional food procurement initiatives such as national food reserves, local and regional food distribution and Home Grown School Feeding programmes (HGSF). These programmes constitute Institutional Demand and have the dual objective of both strengthening smallholder agriculture and promoting food security among vulnerable populations. However, quality evidence and evaluations on the impact of these various Institutional Demand programmes is still limited. In this paper, we aim to push forward a new research agenda that looks at how Institutional Demand can help produce linkages between the goals of social protection and agricultural development. The issues outlined in this paper present fruitful areas for more qualitative and quantitative assessments of Institutional Demand programmes.

We start by making a rationale organized around three key areas where we see the most promise and highest impact: income generation; price stabilization and food security. Following the rational, we then outline some of the key issues associated with the design and implementation of Institutional Demand programmes illuminated with some examples. The idea here is to present some preliminary obstacles and effects together with different ways these problems have been dealt with in a few examples. The paper ends by summarizing the most

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promising synergies between Institutional Demand and social protection as well as some concluding thoughts on the importance of further research.

2. The rationale for Institutional Demand

Institutional Demand promotes pathways to poverty alleviation and malnutrition by combining agricultural development with social protection goals (Tirivayi et al., 2013). The agricultural component focuses on outputs that result in greater market access, increased profits, price supports and productive investments. There is also a social protection component under the definition that the programmes "provide income or consumption transfers to the poor, protect the vulnerable against livelihood risks, and enhance the social status and rights of the marginalized; with the overall objective of reducing the economic and social vulnerability of poor, vulnerable and marginalized groups" (Devereux and Sabates-Wheeler, 2004: 9; see also FAO, 2015).

The current development literature has pointed to various synergies between social protection and agricultural development (Sabates-Wheeler et al., 2009; Tirivayi et al., 2013). There is a growing evidence base that challenges the view of agricultural and social protection policies operating in different spheres with distinct goals. A number of strategies, such as Institutional Demand, are trying to achieve both objectives through integrated instruments that support smallholder farmers and connect their productive capacity with populations living in conditions of food insecurity. This relationship between social protection and agriculture is strongest when policies aim to address the multiple risks and vulnerabilities that smallholders face in agriculture protecting and promoting livelihoods (Devereux et al., 2008; Tirivayi et al., 2013). However, there has been insufficient attention on the ability of food procurement policies to serve as an innovative strategy to promote synergies between social protection objectives and agricultural development.

There is no one accepted and encompassing definition of a "smallholder" farmer or family farm. In the most general sense, smallholders are characterized by limited access to resources (financial, material, technological, human capital, infrastructural). For the purposes of this paper, we understand that there is a wide array of producers who could be described as "smallholders", "family farmers" or "peasants" depending on your political or analytical aims. Because of this diversity and different context of what constitutes a smallholder, we are fairly broadly focused on producers that primarily rely on household labour, have relatively limited land holdings and an income primarily derived from the land. Nevertheless, the case studies and evidence that appears in this paper will attempt to highlight and use the various definitions of smallholders based on their own policy context. A focus on smallholder producers is crucial given the problems of elite capture and rent seeking associated with the non-targeted procurement schemes such as the Public Distribution System (PDS) in India (Khera, 2011).

We understand that rural populations, and specifically smallholders, face numerous development challenges and barriers in private markets (Humphrey and Navas-Alemán, 2010). In many areas of the developing world, a history of underdevelopment and inequality has resulted in uncompetitive markets and numerous social, economic and infrastructural barriers for small farmers. In areas where there is an overwhelming presence of private investors, they tend to favour economies of scale and export commodity production via international supply chains (Dorward et al., 2004; Poulton et al., 2006). These market channels often exclude or take advantage of smallholder surpluses through monopolistic intermediaries that reduce the bargaining power of producers (Key et al.., 2000) and the ability to remain on the land (Wolford et al., 2013). Thus, while increasing productivity is central to increasing rural incomes, marketing channels also need to be adapted in order to promote the inclusion of smallholder farmers. Institutional Demand is an approach that harnesses the power of the state to support certain sectors in order to achieve specific social and economic benefits in the long-term (Tendler and Amorin, 1996; McCrudden, 2004; Bolton 2008; see also Timmer, 1989).

Institutional Demand can promote synergies between social protection and smallholder agriculture in 3 key areas: (1) *Income generation* by creating favourable markets for producers and offering a reliable source of income; (2) *Price stability* through the establishment of a price benchmark that facilitates more access to information for negotiation and; (3) *Food security* is enhanced both directly through the procurement of food for local disbursement to vulnerable populations and increased demand for agricultural goods that incentivize production for local to regional markets.

All of these aspects have a certain appeal and seemingly apparent optimism. These aspects should not be considered a panacea to guarantee effective operationalization of an Institutional Demand policy or a silver bullet to rural development. Rather, for illustrative purposes, we see Institutional Demand policies as centring on these three aspects that overlap with goals of social protection by reducing the economic, social and nutritional vulnerability of marginalized populations.

2.1. *Income generation*

Smallholder agriculture is a key source of income and food security for the rural poor in most of the developing world (Gollin, 2014). Nonetheless, agriculture remains predominately a low return and high-risk activity for small producers. In order to generate increases in productivity, smallholders must have access to resources such as capital, land and assets; however most rural households do not earn enough income to save and invest. In addition, the high costs of obtaining information on prices, producer organizations, product characteristics and market actors means that productive investments can be risky, and longer-term income gains are often not realized.

There is ample data on the variable challenges facing smallholders and their responses. Morduch (1995) found evidence that agricultural households most vulnerable to income shocks focus on more conservative and less profitable activities such as choosing less risky but lower yielding crop varieties and reducing investments in inputs. Dorward et al. (1998) used a case study on cotton growers in Tanzania to show how high information costs led to significant under-investment in production. Additionally, Dercon and Krishnan (1996) demonstrated that the investment requirements to enter more lucrative agricultural activities pose significant structural barriers to the poor.

In the event of an income shock, smallholders may make choices to maintain their income despite significant costs to their longer-term wellbeing. Farmers with limited resources often sell productive assets such as equipment, machinery, livestock and land, which affect their future productive capacity. Further, when an economy-wide shock occurs and many producers decide to sell their assets, lower prices reduce the potential income generated from this strategy (Dercon, 2002). This can also have a negative effect on household welfare. During periods of crisis poor households often cut their expenditures on health and education significantly (Chaudhuri et al., 2002). Under income shortfalls consumption is reduced and the burden may fall disproportionately on the most vulnerable groups such as women and children (Singh et al., 2012).

Institutional Demand policies help to address income insecurity by ensuring a consistent level of demand that is predictable over time. Regular payments on production allows for predictable income and even the potential to accumulate capital in a bank account. Access to a guaranteed market and secure source of income also reduces risk and uncertainty related to production and marketing encouraging productive investment (Coles, 2013). Productivity gains lead to greater market integration producing a long-term positive impact on rural livelihoods. In Brazil, the Food Acquisition Program (PAA) has increased the viability of local food systems and increased producers' incomes three