



The Brazilian organic food sector: Prospects and constraints of facilitating the inclusion of smallholders

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ABSTRACT

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The Brazilian organic food sector has experienced important growth during the last two decades. Brazilian smallholders, however, are facing huge challenges to enter and benefit from this growth in a sustainable way. Combining the lens of New Institutional Economics and socio-anthropology, we analyze six experiences of Brazilian smallholders who converted to organics in the 1990s'. Three different food systems are featured in this analysis: an alternative food system, which is strongly interwoven with the Brazilian Agro-ecological movement and two commercial food procurement systems oriented towards domestic and an export markets driven mainly by supermarket chains. The analytical focus was on 1) the governance of these food systems, 2) the constraints farmers are facing within these food systems and, 3) the benefits that they can expect from market inclusion. We highlighted the roles that NGOs, Faith-based organizations and public-related agencies play in supporting the inclusion of smallholders into all three food systems. We confirmed the arguments in support of pursuing the agro-ecological development based model in Brazil, but underlined that there is a critical lack of support for farmers included in the commercial market-oriented food systems. Such a lack is even more critical as the food systems driven by expanding supermarket chains are characterized by strong asymmetric power relations at the expense of smallholders. Considering the reluctance of NGOs and Faith-based organizations to support these farmers, we call for efforts to be made to provide a policy framework to enable public-related entities to secure sustainable inclusion into these systems and exit strategies for those experiencing exclusion from these highly competitive food systems.

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1. Introduction

Global demand for organic products has remained robust and was estimated to have reached 39.8 billion € in 2009, tripling the value of 13 billion € in 2000. Most of the sales take place in the USA and Europe (97%) with a growing commodity import from developing countries (Willer and Kilcher, 2011). However, the rapid rise of both supermarkets and an urban upper middle-class consumer segment in the New Industrialized Countries of the South (Reardon and Berdequ , 2003) has recently brought about an important expansion of the domestic market in these countries (Sirixet al., 2011).

International Organizations such as the FAO or the IFAD (El-Hage Scialabba, 2007; IFAD, 2002) see a promising opportunity for smallholders in particular to take advantage of the global boom

in organic demand. Many research results from countries such as India, Tunisia, Turkey, Cuba or in tropical Africa confirm this optimistic view. They show that organic farming effectively has the potential to provide smallholders with access to attractive markets with higher profitability while creating new partnerships within the whole value chain and strengthening their self confidence and autonomy (Crucifix, 1998; Shah et al., 2005; Kilcher, 2007; Bolwig et al., 2009).

However, some less optimistic outcomes have been highlighted, too. G mez-Tovar et al. (2005) and Gonz lez and Nigh (2005) show, for example, how the unsuitable certification context and the highly competitive market for organic coffee in Mexico tend to reproduce social inequalities between smallholders and larger market-oriented producers, resulting in the exclusion of the former. Similarly, Blanc (2009) shows that the Brazilian domestic market for organic vegetables is highly competitive and exclusive, and does not protect smallholders from potential hold-up situations exerted by powerful downstream partners. From a broader point of view, research has underlined that smallholders in

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emerging countries, who are often economically marginalized and with low educational backgrounds, are facing many challenges to enter the organic sector and to benefit from it. Problems such as decreasing incomes during the conversion period and high costs for certification are serious constraints, particularly when no specific subsidies exist for organic production (Egelyng, 2009). Structural barriers to access credit, difficulties in creating reliable market links and a lack of knowledge about organizational management are also considered to be highly problematic issues (Barret et al., 2001; Nordlund and Egelyng, 2008; Blanc, op. cit.).

This paper aims to discuss these issues further using the specific context of Brazil and its growing organic sector. Setting aside rather contradictory statistical data, Brazilian production in the organic sector has experienced important growth during the last two decades. With 1,766,000 ha managed by 7250 producers certified as organic in 2007, Brazil is the fourth largest country in the world in terms of agricultural land under organic cultivation (Willer and Kilcher, 2011). In addition to a few large agro-industrial farms mostly orientated towards export markets, growing contingents of smallholders have joined organic production from the 1990s onwards. With the election of the first left-wing Brazilian government in 2002² in particular, organic farming became part of a political strategy to facilitate the social inclusion and economic development of smallholders (Bellon and Abreu, 2006). Since 2003, the Ministry for Agrarian Development (MDA), which is in charge of supporting family farming in Brazil, thus has steadily extended its support for organic farming, funding smallholders and their organizations to convert their production while developing extension programs specifically directed towards organics.³ Likewise, the organic law passed in 2007 institutionalized the Participative Guarantee Systems (PGS), said to be more adapted to poor smallholders (Fonseca et al., 2008). Many NGOs and associations from the civil society, including faith-based entities along with powerful organizations such as the MST (Landless Movement) and the FETRAF (Federation of Family Farming Workers), laid the foundations for these stronger social orientations in state agricultural policies. They have joined the project progressively and today agro-ecology and certified organic farming are positioned at the heart of their strategies.

The growth of the organic demand both within the domestic and the export market, along with the support provided by specific institutional frameworks, public policies and activists' engagements, thus offers growing opportunities for the Brazilian smallholders to enter the organic sector. At the same time, it offers fertile ground to conduct an analysis of the challenges these smallholders face when entering this sector and attempting to benefit from it. In this paper, we specifically focused on three food systems that have been the main drivers of the inclusion of the Brazilian smallholders into the organic sector⁴ since the early 90s. One is oriented towards the export market and the two others towards the domestic one. We classified the latter as, 1) an "alternative food system" (AFS), for it is strongly interwoven with the Brazilian social movements and embraces diverse experiences that have the common aim of stressing social and environmental welfare, and 2) a commercial market food system driven mainly by expanding supermarket chains. For each of these food systems, we focused on three main

questions: how does smallholders inclusion occur in practice? What – common and distinct – difficulties and challenges do smallholders experience and to what extent do they benefit from their inclusion in these food systems? This comparative study is then followed by a discussion about the specific governance set up in the Brazilian organic sector, featuring the interactions of smallholders with the public sector, commercial market actors (e.g. supermarkets, exporters) and civil society organizations (e.g. NGOs, faith-based organizations, etc.).

These issues are discussed on the basis of six different case studies of organic experiences which combine data obtained during a) our own fieldwork conducted between 2007 and 2009 in two localities b) data gathered in a PhD (Schultz, 2006) and three Master Theses (Brancher, 2004; Azambuja, 2005; Almeida, 2009) together with journal articles (Storch et al., 2004; Souza et al., 2005; Almeida and Abreu, 2009). These case studies exemplify singular experiences of smallholders converting to organic production in the three food systems mentioned above. Before documenting and discussing these experiences we briefly introduce the theoretical perspectives selected for the analytical framework, and in the subsequent section, provide a more detailed description of the different food systems which structure the Brazilian organic sector.

2. Theoretical background

Our critical analysis is carried out mostly within the framework of the views held in New Institutional Economics (NIE). References to concepts used in transaction cost economics together with organizational theory are therefore central to this study. A brief reminder of some of the basic conceptual notions in such fields is therefore necessary.

New Institutional Economics uses the "transaction" as its unit of analysis. From a NIE point of view, exchange itself is costly, meaning that, in contrast to the proposition of orthodox economics, the behavior of market actors cannot be explained and predicted by considering trade-offs between prices and production costs (including physical marketing costs such as those for transport and storage) alone. NIE thus claims that taking into account the cost that actors face when trying to coordinate their exchange on the market is essential to understand individual and collective behavior in this arena. These costs, called transaction costs, include the costs necessary to obtain and process market information (information costs), to negotiate contracts with others (bargaining costs), to make sure the other party adheres to the terms of the contract (monitoring costs) and to take appropriate action if this turns out not to be the case (enforcement costs). Hobbs (1997) classified these costs such that information costs typically arise *ex ante* of an exchange, bargaining costs are the costs of physically carrying out the transaction, while monitoring and enforcement costs occur *ex post* of a transaction.

Williamson (2000) and Masten (2000) defined five determinants of transaction costs: 1) frequency refers to how often a transaction takes place, hence helping to build trust and lower monitoring costs; 2) asset specificity, e.g. a farmer planting coffee or orange trees has to wait for a number of years before harvesting and then selling his fruits over a period of several years before investments are returned on his assets. He therefore has to try and minimize his *ex post* risks by making longer term contracts, raising transaction costs *ex ante* to his specific investment; 3) uncertainty, the higher the uncertainty about exchange conditions, the more complex the contracts which will be installed or the greater the tensions occurring between market actors (all of which can raise transaction costs); 4) limited or bounded rationality, contrary to neoclassical economics NIE claims there are limits to how much

² The last Brazilian election was won by the incumbent left-wing government resulting in a third-term (2011–2015).

³ In particular the Programa Nacional de Fortalecimento da Agricultura Familiar (PRONAF) "Agroecologia" launched in 2005.

⁴ What we call the "organic sector" embraces all food systems within which organic products (recognized as such by the organic law) flow. It includes different types of producers, forms of productive organizations, ways of accessing markets and making transactions.

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