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AGRIBUSINESS AT GLOBAL SCALE AND SMALLHOLDERS

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Abstract

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This paper explores the different dimensions of the recent dialogue about global food chains and the relevance their specific characteristics might have for the livelihoods of small-scale agricultural producers. It moves from describing positive and negative aspects of contract farming, to defining the role of corporations and their Corporate Social Responsibility strategies, and to exploring briefly the Fair Trade concept. Finally it describes the emersion of Multi-Stakeholders Global Partnerships where Civil Society Organizations can act as third parties for the establishment of win-win relationships in global value chains.

Keywords: international trade, contract farming, fair trade, civil society organizations, multi stakeholders platforms

Abbreviations: CSO (Civil Society Organization), CSR (Corporate Social Responsibility), FAO (Food and Agriculture Organization), IFAD (International Fund for Agriculture and Development), IIED (International Institute for Environment and Development), MSP (Multi Stakeholders Platforms), NGO (Non-Governmental Organization), SWOT (Strengths Weaknesses Opportunities and Threats), TNC (Trans National Corporations), UNCTAD (United Nations Conference on Trade and Development), WCED (World Commission on Environment and Development), WFP (World Food Program)

Introduction

The value of the global trade of food and agricultural commodities has increased fivefold in the last 50 years and it is projected to keep rising (FAO, 2014a). Although the powerful agricultures of USA, Europe, Brazil, Argentina and Australia still dominate the markets, many emerging economies have shown very good performances and several countries are nowadays net exporters. Beside the most important and traditional commodities (cereals, meat, milk, sugar, palm oil, rubber, coffee, tea, cocoa, etc.), in many emerging economies there is an increasing attention towards new high value products, which could be either consumed domestically by the growing middle class and exported to richer foreign markets (flowers, off season fruits and veggies, organic products, etc.). A minority of large farms/plantations and a huge multitude of smallholders are involved in this production of high value export crops, fibers and animal productions, but historically only a small share of the final value was retained by the producers in developing countries, whereas the largest part was kept by the importing and processing/retailing companies in the developed countries.

Taking into account the growing world population, that will reach 8.3 billion in 2030, and the fast increasing urbanization (today, 850 cities already have more than 500 000 habitants), all food chains are under stress and need to be reorganized, to meet the demand of the future consumers.

On the other hand (FAO, 2014b) stresses that more than 90 percent of the 570 million farms worldwide are managed by an individual or a family, relying predominately on family labor. These farms produce more than 80 percent of the world's food, in terms of value, but 84 percent of these family farms are smaller than two hectares and manage only 12 percent of all agricultural land. Their individual access to inputs, credit, extension and then to markets is difficult and sometimes almost impossible, due to infrastructural problems. Another

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aspect to consider is that the production of agricultural raw commodities is based on the use of natural resources and other tangible and intangible assets, while trade enables farmers to capitalize on the economic potential of their produce. This means that over the long period the persistence of trade profits from agricultural commodities depends on the protection of the long-term productivity of natural resources, such as soil, water, and vegetation. The sustainable management of such resources, in a scenario of uncertainties due to unpredictable climate changes and shocks (UK-US Taskforce on Extreme Weather and Global Food System Resilience, 2015) has consequently become the key word for all stakeholders. Within this scenario, the international trade could contribute meaningfully to poverty reduction by fostering the primary sector, including internalizing environmental concerns and rural development issues. Furthermore, FAO, IFAD and WFP (2015, p. 28) state that "*Empirical evidence suggests that agricultural growth in low-income countries is three times more effective in reducing extreme poverty compared with growth in other sectors*".

For over one decade, two civil society-driven mechanisms: the ethical movement on Fair Trade, and the movement on Corporate Social Responsibility (CSR) have shaped the global discussion on how bridging the gaps between agriculture and trade, and more specifically between small-scale producers and global agri-food global supply chains. While developing countries continue the implementation of liberalization policies, it is important, for the global agri-food systems' actors to work to make sure that the benefits of globalization reach the rural poor. High-value agricultural production is considered (Carletto et al., 2007) to be one of the most important mechanisms to extend these benefits. Corporations in particular can channel benefits to developing countries rural areas, increasing efficiency of their supply chains and connecting the goods they produce with the demand of advanced industrial countries (Stiglitz, 2006). Yet there is an enormous gap in how benefits and margins are shared along value chains. As Binswanger and Deininger (1997) highlighted, market failure is pervasive in underdeveloped farming systems. Table 1 provides some examples of the market distortions – not only in developing countries, that can be resumed by a line from Grossman and Stiglitz (1977, p. 310): *"as long as there is imperfect information or an incomplete set of markets, then maximizing the well-being of shareholders does not lead either to economic efficiency of general well-being."*

Structural factors, market failures and colonial inheritances have posed for decade's entry barriers to the equitable participation of farmers, in particular smallholders, into the agri-food market, limiting the effectiveness of market-led agricultural development (Bezemer and Headey, 2008). With the exception of some emerging Trans National Companies (TNCs) from newly industrialized Asian countries, lead firms are mostly based in high income countries (Altenburg, 2007).

Kydd and Dorward (2004) have explained how coordination failures in the agri-food systems in Least Developed Countries have generated market failures. They simplify the dominant agricultural development policies into two broad phases with relation to the definition of roles and responsibilities of the State and markets: state- and market- led development. It is considered important to use their framework to define, later in this work, what are the new options and alternatives that are arising in building relationships between different stakeholders in market-led development. The first phase of state-led development was dominant until the mid-seventies; during this phase, many public and parastatal marketing bodies were set-up to support the adoption of innovations among small-scale farmers. Weak private sector and poor market infrastructures generated an unfriendly investment climate, unattractive for investment opportunities, as

Table 1
Main market failures and distortions

Sources of market failures and distortions	Sources of distortions in agribusiness
Existence of monopolies, cartels and market power	High transaction costs (e.g.: in altering production modes)
Externalities	Social (labour conditions), Environmental (e.g.: soil erosion, salinization) Health (e.g.: obesity)
Collectively produced and/or consumed goods	Indivisibility of many rural investments (e.g.: R&D, marketing, roads, and irrigation).
Imperfect information	Information asymmetry (e.g.: between smallholders and wholesalers)

Elaboration based on Stiglitz (1994), Binswanger and Deininger (1997).

well as important coordination challenges. Mistrust towards private sector firms and the *"belief in the need for the state to actively intervene to direct the economy to achieve both productive and welfare objectives"* (Kydd and Dorward, 2004, p. 952) completed the picture. These were the main reasons to justify state intervention, but by the early 80's many the inefficiency and ineffectiveness of an incredible number of parastatal rural institutions, the use of development programs to extend the areas of political and power influence, the corruption, accompanied by a heavy burden on the public sector budgets were among the reasons that brought this approach to fail. The reactions of donors and international agencies were mainly guided by neo-classical theory, as the one that *"postulate(s) maximizing behavior plus interactions through a complete set of perfectly competitive markets"* (Hoff, 2000, p.2), limiting the functions of the state only to the pure public goods. This has resulted in the reduction of interventions also towards goods that had been, so far, generally recognized as public goods in agriculture: research of pro-poor technologies; extension programs to foster adoption and diffusion of innovations; market regulation & information; and physical infrastructure.

Market-led development approach, beyond the redefinition of the role of the state, has brought a series of privatization, deregulation and liberalization in agricultural markets. This new approach emerged during the early 80's and it was supposed to cater to the needs of a diversified rural economy, and therefore to respond to the needs of the rural poor (The World Bank, 2008). Unfortunately, the reduction in public expenditure for agriculture was not compensated by the rise in private sector investment (Davis et al., 2008).

When discussing about market-led agricultural development, it is important to refer to the overview provided by Ellis and Briggs (2001) on agricultural growth based on small farm efficiency paradigm, as reported from Zezza et al. (2007, p. 1): "*The basic tenets of this paradigm are that agriculture plays a key role in overall economic growth and that small farmers are rational economic agents who can take advantage of new technologies as well as big farmers"*.

As a matter of fact, the private large corporations have a major role in the market-led development, for their dimension, coverage and leadership role among other stakeholders in the agri-food systems, and for the potential of integrating new solutions to their business models. Stiglitz (2006) estimated that Trans National Corporations (TNCs) channeled almost $200 billion each year in foreign direct investment in developing countries. This investment level can certainly reduce the gap in technologies, skills and infrastructures that characterizes many developing countries, generating economic benefit, but side effects have also been *"negative social, political and environmental externalities, and therefore highlighting the market failures for which companies do not pay the cost"* (Stiglitz, 2006, p. 192). Even recognizing the benefits that TNCs can bring to the developing countries where they invest, still remains the question on how the revenues generated along the value chain are shared, and which business models can guarantee a better distribution among stakeholders, with special reference to smallholders and their communities.

Altenburg (2007) reports a UNCTAD (2001) research that shows how the perception of TNCs' role in developing countries has evolved and changed over the years; most of the actors of the development context (NGOs, CSOs, governments, etc.) have changed their opinion from blaming the TNCs for their quasi-monopolistic power in markets to consider them as important drivers of growth.

Value Chains, Networks and Globalization

For the definition of globalization, value-chains and production networks, we refer to Sturgeon's (2000, p. 5) definition *"the growing global-scale inter-connection and integration of human activity. These inter-connections are expressed in many areas of society and economy"*. Sturgeon identified five types of phenomena in the areas of economic integration: a) cross-border integration of wholesale and retail financial markets, b) increased global-scale market competition and wholesale and retail trade, c) increased foreign direct investment, d) increased cross-border contracting and global-scale production networks, e) formation of international joint ventures and strategic alliances for Research & Development. These five types of actions define global value-chains and production networks where global food traders, processors and retailers operate and also provide the basis for a different *modus operandi* in international development in agriculture. The value chain approach has been chosen to guide this work, as it allows identifying bottlenecks and barriers, points of leverage, strength and weaknesses, as well as mapping stakeholders. Value chains have been described (Porter, 1985) as the high-level interrelationship between a business' key operations or activities involved in delivering value to customers. Porter's chain defines five primary activities of value addition between a business supplier and its customers; it is divided into supply chain and demand chain. In addition, four main support activities are indicated, that facilitate the primary five. This value chain definition has evolved over time and it is relevant to mention a more recent definition elaborated by Downing et al. (2007, p. 9), who broaden the concept *"the full range of activities that are required to bring a product from its conception to its end use. These include* *design, production, marketing, distribution, and support to get the product to the final user. The activities that comprise a value chain may be contained with a single firm or may embrace many firms. They can be limited to a single country or stretch across national boundaries."* The novelty of the value chain approach resides in the search for drivers of competitive advantages beyond the neoclassical factor of cost differential, building on location-specific conditions, and external economies, such as linkages with supporting industries, competition, consumers' demand and government regulation. Sturgeon (2000) expands on Porter's concept highlighting the distinction between "chains" and "networks", and making distinctions at organizational and spatial scale. He defines the "chain" as the way to map the vertical sequence of events leading to the delivery, consumption, and maintenance of a particular good and service, while a "network" maps both the vertical and horizontal linkages between economic actors. As seen in Gereffi et al. (2005), in global value chains lead actors are often present. This or these actors, depending on the type of chain, have the power and the capability to define and impose the parameters of the contracts in the value chain, but at the same time there are many different approaches (Altenburg, 2007) supported by governments, civil society and private sector, to mitigate market imperfections and failure. For this paper, only Contract farming, Corporate Social Responsibility and Fair Trade are described.

Contract Farming, Fair Trade and Corporate Social Responsability

In their guide to contract farming, Eaton and Shepherd (2001, p. 2) have written: "*Contract farming can be defined as an agreement between farmers and processing and/or marketing firms for the production and supply of agricultural products under forward agreements, frequently at predetermined prices. The arrangement also invariably involves the purchaser in providing a degree of production support through, for example, the supply of inputs and the provision of technical advice. The basis of such arrangements is a commitment on the part of the farmer to provide a specific commodity in quantities and at quality standards determined by the purchaser and a commitment on the part of the company to support the farmer's production and to purchase the commodity*". Contract arrangements may range from very informal – sometimes only oral - purchase agreements through to highly specified schemes, where production methods are described in each single detail, delivery dates are specified, product characteristics are defined, etc. Contract farming can enable farmers to access more lucrative and even foreign markets, can reduce market risk and increase income stability for farmers whenever the price of their produce is predetermined, but without certain pre-conditions, contract farming can also have negative impacts for small scale farmers. Market concentration, unequal bargaining positions, and asymmetry of information allow powerful firms to offload risks to smallholders and/or to force down farm gate prices, and consequently they generate negative environmental and social impacts in the wider community. In developing countries, Bellemare (2015) adds access to extension services as one of the potential benefits for the smallholder, but he also describes at least three likely problems:

- monopsony, whenever there is no other market for the crop under contract but the firm which signed the agreement; in this case, the firm can postpone payment, reduce the price, change the terms of delivery and so on;
- contract rigidity, due to the technical conditions imposed in the contract, which defines inputs to use, modalities of usage, schedule of delivery, etc. that can be either very costly and difficult to respect, especially when the farmer is a smallholder with limited education;
- side selling, that has been observed whenever there were other buyers available and the price established was lower that the market price at the harvest time.

Both positive and negative aspects, as well as problems and potentialities, have been well described also in the book edited by Little and Watts (2004) and several new case studies are proposed in the very recent book edited by Harper, Belt and Roy (2015), who also elaborate (p.178) a Strengths Weaknesses Opportunities and Threats (SWOT) analysis for the smallholders' involvement at the beginning of a value chain, from the point of view of the lead firm (Table 2).

Contract farming is very common and important also in developed economies, although there is generalized lack of data about its magnitude in the various sectors. Just to mention a few cases, in Finland 80 percent of pig breeders and 90 percent of milk producers had a contract, and in the USA 90 percent of poultry production and 50 percent of pig production are under contract; in the whole European Union, about 60 percent of dairy producers have a contract (Vavra, 2009). As a matter of fact, although the modality "contract farming" traces back its origin in the remote past, and in developing economies has been frequently associated to the colonialist attitude, where state monopolies or foreign companies exploited the peasants, and imposed their top-down organizational and technological approach, this type of involvement has also proven its economic and social validity. Most studies confirm that the participation in contract farming schemes improves the income and welfare, although this generally positive outcome might be biased by the so called "selection problems" – only the best ones participate in the contract and

Table 2
Smallholders in value chains: SWOT analysis from the lead firms' point of view

Strengths	Weaknesses
Low cost Family labour Traditional knowledge and skills Flexibility Close social networks Less contacts with competitors	Socially and physically remote Illiteracy Lack of language skills Ill – health Low aspirations and self-esteem Digitally divided from mainstream Weaker sections
Opportunities	**Threats**
Low input, organic farming Custom designed individual products Fair Trade preferences Resurgence of cooperatives	Standardization Bulk requirements Inexorable growing worldwide inequity Government subsidies and preferences

Source: Harper, Belt and Roy, 2015.

by the "publication bias" – only the positive cases are studied and published (Bellemare, 2015).

Quite recently, the need to homogenize legislation and to establish general rules for clear, transparent and mutually profitable contracts, has led to the joint production of a detailed handbook (UNIDROIT, FAO and IFAD, 2015), where all aspects, problems and likely solutions are treated. The expression Corporate Social Responsibility (CSR) includes several activities, including support for non-profit organizations, attention to working and social conditions of employees, environmental protection, etc., to meet the demands coming from the stakeholders, both in the home country/ region/ town (where the company is based) and in the countries where the company operates, if the case. A widely accepted definition of CSR is the one adopted by Business for Social Responsibility (BSR - http://www.bsr.org/), the US leading non-profit CSR business association, which demands from its members to *"achieve commercial success in ways that honor ethical values and respects people, communities, and natural environment"*. Four sets of arguments have been identified to make their case: moral obligation, sustainability, license to operate, and reputation.

- The moral appeal – arguing that companies have a duty to be good citizens and "do the right thing";
- Sustainability - this arguments emphasizes the classical definition of sustainability (WCED, 1987) *"Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs"*;
- License to operate – every company needs tacit or explicit permission from Government, communities and other stakeholders to do business;
- Reputation – is used by many companies to justify CSR initiatives on the ground that they will improve company's image, morale, strengthen the brand, increase the sales and raise the value of its stock.

Emerging from the business ethics in the 1970's and from the pressure from CSOs on large and international firms to reduce their negative externalities and to increase social justice at all levels, the CSR has increased in the 1980's and 1990's to become mainstreamed by the year 2000. CSR is evolving to integrate business and society, since any business that pursues its goals at expenses of the society where it operates will find its success temporary. However in the current global economic environment, it is imperative for companies to move away from traditional CSR and philanthropic approaches, looking forward to commitments to reach specific and explicit performance targets.

Fair Trade is the international trade model that creates linkages between the consumers in industrialized and rich countries and specific farmers' groups in developing countries, operating in a condition of exclusion (Taylor, 2005; Friedman, 2011). The main objective of Fair Trade is to change the international relations in a way that disadvantaged producers, not only in agriculture, have a fair return for their work, a stable income, and decent working conditions, thanks to an holistic sustainable development approach, that considers also the impacts on their communities. The Fair Trade model is consequently market-based and recognizes the importance of trade for the promotion of economic growth and for generating positive spillover effects on poor communities, but it intervenes to mitigate the negative effects that the market distortions might have on the weaker actors of the supply chain, most commonly the small-scale producers, who are also helped to improve their organizational level. The most notorious element of Fair Trade is the fair price, as a mechanism to support producers' income by paying a premium price above the market price.

The Fair Trade model tries to address the inequality of distribution of benefits generated by market-led development models, especially in marginal areas where the resource gap is more serious (Barrientos, 2000). There is also some criticism to the Fair Trade model (LeClair, 2002). The premium has not been considered the optimal incentive, as it might increase crops that otherwise would not be financially and economically sustainable, and it can generate barriers to innovation; contracted crops could outplace other crops and their increased price could even lead to minor availability of food for non producers in the same area. The Fair Trade movement has experienced in the last ten years an evolution from being an ethical movement to driving the evolution of market-based approaches in many International Non-Governmental Organizations (INGOs). The Fair Trade has been the first model providing market integration for smallholders with an extremely weak economic profile and, since it requires also a robust organization at field level (Vorley et al., 2009) it has set the ground for the integration of masses of poor farmers into global retailing, also for other commodities. For many INGOs, Fair Trade has been the first entry point for market-based development projects and in a second moment, thanks to the experience acquired with the Fair Trade approach, other development projects have been launched, where also conventional business is recognized as a mean for reducing poverty. Regardless the many critiques to the Fair Trade model, both in terms of the incentives provided and in terms of the limited dimensions reachable by the model, Fair Trade has demonstrated the benefits of long-term and reliable business relationships (Coles, 2010).

New Agricultural Economy

Porter and Kramer (2010) analyze how all these different tensions coming from the corporate environment and from the ethical movement are pointing towards the same direction, with some cases of global Multi-Stakeholders Platforms (MSPs) in which global NGOs and corporations are working together on the issues of equity and sustainability, under the so called "*regoverning markets*" approach. Private sector corporations, Civil Society Organizations, and donor agencies share a few basic questions on smallholders and global value chains: can very small and small producers organize themselves to meet the demand of corporate giants? Can marketing systems be adapted to make markets work better for the poor? (Vorley and Fox, 2004). As Swanson et al. (2003, p. 641) have described, a new global agricultural economy is emerging. In this new agricultural economy, "*farmers are growing value enhanced crops, exploring new ways of co-operating, searching out contracts, linking to international markets and making investments in new business opportunities that utilize their farm products*".

Since the implementation of heavy public sector driven marketing policies (Kydd and Dorward, 2004), the global farming and agri-food systems have changed dramatically. From many developing countries, millions of smallholders are supplying global value chains, with an important degree of complexity, high quality and safety standard products, responding mainly to the needs of industrialized countries' and urban areas' consumers. New forms of aggregation are appearing among small farmers' groups that are trying to find ways to address, through scale and dimension, the needs related to competing and being reliable in the global market. These new ways are in general more flexible than the ones that have characterized the 19th and 20th century (*consorzi*, cooperatives, marketing boards, etc.) and are trying to apply some of the mechanisms of the corporate world to the small and very small producers in developing countries (Collion and Rondot, 2001). These forms of aggregations or clusters are being developed to generate services that are functional for a given value chain (i.e.: capturing the benefits from purchasing inputs at scale, lowering production cost; being able to claim VAT credits through a commercial branch, getting better prices, internalizing the production of inputs such as seedlings and fertilizers). Last but not least, transactions between producers and buyers are becoming more formalized on both output and inputs markets, and even contractual arrangements with international actors of the value chain are becoming more formalized. *"These changes, referred to as the new agricultural economy"* (Cavatassi et al., 2009) generate at the same time risks and opportunities for many small-scale producers. The "regoverning markets" concept was first introduced by the International Institute for Environment and Development (IIED) in the early 2000, with its *"regoverning markets"* programme (Vorley and Proctor, 2004), funded by many international development agencies. Its object was to produce evidence to support policy dialogue and interventions, recognizing that small-scale agriculture supports the livelihoods of the majority of the rural poor and that many actors were not prepared for the new agricultural economy. The goals were to: a) understand the keys to inclusion into these restructured agri-food markets, in order to address implications and opportunities for small-scale producers and enterprises, and more specifically to b) understand what is better practice in connecting small-scale producers with dynamic markets; c) bring these findings into the wider policy arena and thereby inform, with facts and recommendations, practical action, public sector policy and private sector strategies.

Production-oriented interventions alone do not resolve the problems faced by smallholders, if they are not accompanied by policies and programs targeted to other parts of the production-distribution-retail chain. The challenge is to stimulate policy change to overcome the barriers faced by smallholder farmers in accessing markets. As Coles (2010, p.1) wrote, there is a basic difference between systems that are focused on positive social and environmental impact and the ones that are driven by price incentives regardless of the consequences: *"When income is relatively stable and the market is more reliable, producers are more likely to be able to invest to increase productivity or improve product quality and sustainability. In contrast, incentives to buy or sell for the cheapest price, whatever the consequences encourage short-term thinking and perpetuate environmentally and socially damaging practices".* The following section will provide with some ideas on how the systems' stakeholders have moved from theory to practice through the participation in Multi Stakeholders Platforms (MSPs). To realize this potential, however, it is demanded not only the development of skills and capacities at both ends of the chain, but also novel organizational models linking producers with buyers in a transparent, equitable and sustainable way. The development of 'doubly specialized' intermediary organizations – sustainable businesses that add value to the buyer as well as contribute to development objectives – is a critical and missing step in this process. Beyond the examples of Multi-Stakeholders Platforms that are grounded on specific geographical areas, the last years have seen the emergence of several industry oriented, global MSPs focused on sustainability with a membership of INGOs, corporations and research institutions.

Platforms can provide networks and chains several positive externalities allowing an improved participation of small-scale farmers to global value-chains. Altenburg (2007, p. 6) highlights that the advantage of expanding networks, that can be interpreted in a broader sense as a platform, are related to the fact that *"all firms are more or less embedded in networks of firms that provide externalities such as easy access to information, material inputs, specialized business services and a skilled workforce. The more developed these complementary networks are, the more can individual enterprise specialize in certain core capabilities, which in turn tend to raise the competitiveness of the network which the firm is embedded in".*

The two most relevant platforms for the objective of this article are the Sustainable Food Laboratory (http://www.sustainablefoodlab.org), with most of its constituency in the western hemispheres and the Sustainable Agriculture Initiative (http://www.saiplatform.org) platform, more Eurocentric and more business oriented. These two platforms, that are interlinked and interconnected, and their members represent a huge share of the agri-food industry and some of the international NGOs with global coverage and operational potential. These platforms represent a unique space for actors coming from different backgrounds to share learning, support dialogue, and building joint operational experiences that aim at building shared values based on mutual trust.

Faysse (2007) describes the evolution of MSPs, from a starting point of means of resolving conflicts over natural resources, first in developed countries and, more recently, as a global good practice. In the same study, this author highlights the challenges and issues preventing many MSPs from reaching the initial high expectations, mainly because of social inequities not fully addressed. Besides this bottleneck, five main issues are listed, representing a challenge for MSPs to achieve their goals: a) power relationships; b) platform composition; c) stakeholder representation and capacity to participate meaningfully in the debates; d) decision-making power and mechanisms; and finally e) cost of setting up a Multi Stakeholder Platform.

Through the work of international NGOs and MSPs, an important number of Trans National Corporations have started to invest to bring smallholders into their supply chains. Among these companies, global brands such as Unilever can be found, as well as domestic food businesses, such as Sri Lankan cereal maker Plenty Foods; wholesale suppliers, such as Superior Foods US; smaller European or US brands, such as UK-based smoothie-maker Innocent. Some examples of the type of engagements that go beyond the explored mechanisms of Fair Trade and CSR can be found in literature (Bright et al., 2010): Plenty Foods increased yields of soya grown by smallholders by 50 per cent over a period of nine years by making relatively small but consistent investments through forward contracts, sharing technology, and paying quality premiums to farmers. Many companies have adapted the way they do business – ranging from purchasing and sourcing practices to marketing strategies and corporate operations and culture – to deliver commercial value and development benefit. Companies' motivations to invest in new trade relationships vary: Cadbury launched its Cocoa Partnership in Ghana to counter threats to the viability of cocoa production at the smallholder level; Marks & Spencer converted 100 per cent of its tea and coffee (and subsequently other) sourcing to Fair Trade certified products in response to growing consumer demand; SABMiller has invested in a South African sourcing model to meet the South African government's policy requirements for black empowerment. Private sector investments that work with, rather than bypass or displace smallholders have substantial potential to alleviate poverty and inequality, where business models are adapted to create stable and lasting relationships that support smallholders and return more value to them. The different approaches are set out in Vermeulen and Cotula (2010). Each one of these models has major potential benefits and risks for agribusiness and smallholder sides of the relationship. This leads again to point to the central role of public policy and market governance on the outcomes, and the balance between the pros and cons. This was also one focus of the Regoverning Markets program, which included not just case studies of successful market linkage but also policy interventions to reduce market and coordination failures. One is the Best Commercial Practices Code in Argentina, which was successfully introduced by key private sector players to drive improvement in free and fair trading practices between supermarkets and suppliers in the face of threatened government regulation. The shift described involves a critical change process for a company to adapt its business models and to *"adapt its practices for sourcing and purchasing and to work with key partners in the supply chain to restructure trading relationships or develop new chains. However, to enable change of this kind to happen, companies also need to adapt their: corporate culture – from a competitive mindset to a partnership oriented outlook; operations – to create incentives for buyers to invest in creating long-term stability and development benefits in supply chains; corporate or brand communications – to integrate verified commercial and development benefits delivered through these changes"* (Bright et al., 2010, p. 13).

For the development of new inclusive business models, the presence of a specialized intermediary, able to broker the social value between different stakeholders is fundamental. In most cases the agent playing the role of catalyzer of the new models is an organization from the international civil society that can leverage on reputation, sustainability and moral dimensions of CSR and that can understand the different needs and languages of TNCs and very small farmers. Based on the above-mentioned experiences, Vorley et al. (2009) indicate the five main principles for the successful integration of smallholders into a value chain led by large corporation: a) chain-wide collaboration and innovation, b) market linkage, c) fair and transparent governance, d) equitable sharing of costs and risks, e) equitable access to services.

Conclusions

The challenges facing the global food systems in the next decades are enormous. Growing population, new food habits, technological development and urban concentrations push towards very large and giant companies in all phases of the added value chain: trade, processing and retail. On the other side, the production of all raw commodities, ranging from the classical commodities (cereals, oils, tea, coffee, cocoa, etc..) to the most recent high value new entries (spices, quinoa, argan oil, for example), are mainly produced and will be produced by tens of millions of smallholders, often living below the poverty line in remote and depressed communities. This scenario is then aggravated by the climate change, adding a higher level of risk and even uncertainty to all choices. In the old agricultural economy, characterized by the well-known market imperfections (asymmetry of information, unbalanced power, search for short term profits, externalities, etc.) small scale producers have been generally exploited, with negative long term consequences. Such scenario has begun to change, in both advanced and developing economies, thanks to the birth, evolution and expansion of concepts like Corporate Social Responsibility and Fair Trade. This was due to the increasing social and environmental awareness of the consumers, as well as to the arrival of new generations of managers and Chief Executive Officers, more conscious of the fact that the long term sustainability of their companies also depends on the wellbeing of their first suppliers, the smallholders. At the same time, two other phenomena have emerged: the first one is the growing empowerment of smallholders and of their organizations, which take many different forms (unions, cooperatives, product associations, other informal aggregations) and provide nowadays several different services, from the more political one – to lobby for their rights, to the more technical ones. The second one is the presence on the scene of "third parties", global Non-Governmental Organizations, which do not deal only with advocacy issues (protection of nature, cultural heritage, human rights), but have also entered into the market context, where they may have a pivotal role within the networks and may act as "brokers", pushing the other stakeholders towards the establishment of win–win agreements, where the short term needs of producers and corporations are mitigated by the long term goals of global sustainability. In our opinion, all these contemporary phenomena are leading towards a new scenario, where the long term sustainability will prevail over the short term profits, and where returns and welfare will be fairly shared, for the mutual benefit of all stakeholders.

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