Case Study

3 Smallholder to Enterprise Transition

International Labour Organization

In this case study, we will explain the impact of the Decent Work for Food Security and Sustainable Rural Development (DW4FS) on the transition of farmers from subsistence farming to micro or small farm-based enterprises in NTT. The information below is gathered from reports and discussions with local partners and local ILO staff. The project has been running for under two years so successes and challenges are still being identified and addressed.

From Running a Farm to Running a Business

Farming is a traditional practice in NTT and one that farmers have been doing for generations. Farming is not considered a business, and rarely has it adapted to market conditions. Aside from government and donor-funded programs providing better farm inputs and some technical training, little has been done in the area of farm management, financial literacy, group formation or entrepreneurship.

Treating a farm like a business that responds to changing market needs and is connected to more markets and buyers will result in productivity increase, higher demand and therefore more income. This increase in income lifts the family out of poverty, creates employment, contributes to local economic development and results in food security and less vulnerability to unexpected events. It is this that the project is trying to achieve with farmers. Results in the first year of the project have already been positive.

Decent Work for Food Security and Sustainable Rural Development Nusa Tenggara Timur, Indonesia

POPULATION	POVERTY	UNEMPLOYMENT
Over 4.5 million (80% rural)	22.58% of the population lives below the national poverty line (as of Sept 2015)	30%

Objective: Promote food security and sustainable poverty reduction of rural communities in the most vulnerable and disadvantaged districts of Indonesia's NTT province.

Roughly 1.4 million people in NTT do not have regular access to employment and income, and the majority of those considered 'employed' are small-scale, subsistence farmers working in the informal economy with low productivity. These people live in poverty and risk falling deeper into poverty in the case of shocks (low yields, drought, fire, economic shock, etc.), resulting in unstable access to food and basic services. Farmers lack the skills, financial literacy and market connections they need to upgrade their farms into market-oriented operations and increase their earning.

The ILO conducted a baseline survey on households in the target district and villages in NTT. The survey found that most farmers believe that they receive a fair price on their products from buyers, but do not know what are the minimum market prices. 77 per cent of them only have verbal agreement with buyers, but there is a great deal of trust in the relationship. Two thirds of the farmers interviewed reported that they run out of money before their next income, and only 21 per cent have savings. Only 6 per cent of the interviewees keep a record of their spending.

The ILO is working in NTT to improve the livelihoods of farmers using an enterprise development and farm management approach to complement improved farming practices. In order to improve the livelihoods of farmers, the ILO is supporting them to upgrade their farm to a micro/small enterprise, and approach farming like a business. The ILO is developing the capacity of local NGOs, Business Development Service Providers (BDSPs), microfinance institutions and others to ensure long-term suitability of project outcomes in NTT.

A series of activities or steps are needed for smallholder farmers to upgrade to a market-oriented approach to farm management, or enterprise development. The first step is to expose farmers to market information, including demand conditions, quality incentives, alternative markets and sources of income and so on, in order to change their mindset.

Engaging Farmers in the Value Chain

A tool employed in this project to expose farmers to the market was a participatory value chain analysis. Once the three target value chains were selected, the project began to actively engage with key actors including those at the source – farmers and community members. Working with the local NGOs and other stakeholders, the ILO began the value chain assessment but instead of a top down approach where farmers know the results at the end, villages were asked to identify representatives – often village leaders, active farmers, and women – and they were included directly in the assessment process as part of the team.

The value chain team with the farmers started their assessment at the end of the chain (consumers and retailers) and worked back to the communities. In this way, smallholder representatives were informed by end-users of issues and preferences so that they could find the bottlenecks themselves as they moved back up the chain. The core team ensured the representatives were activity engaged. At the end of the process, community representatives were informed on demand and factors that affect prices, and they brought this information back to their communities and used it to strengthen negotiations.

Not only was this a solid value chain analysis activity, but it was also the first step in value chain development because the people at the source of the commodities were now able to understand the needs of those at the end of the value chain, and see the connections along the way. This also helped farmers to see themselves as part of a larger process and understand why approaching farming as a business to improve productivity would help them. Training alone will not guarantee change unless you bring farmers to the market to show them their potential.

Training and Group Formation

Once farmers have better market information and access, training on entrepreneurship and financial literacy becomes useful. As they begin to change their mindset towards a business-oriented one, they will need to tools to do this successfully. Calculating inputs and managing household income is essential, as well as understanding how to act on new opportunities.

An important concept that they will be exposed to is group formation. Working as a group in agriculture makes sense because it allows farmers to bulk their products, sell in higher quantities and earn more income. It strengthens their bargaining position with buyers, and allows them to enter new markets with new potential buyers. It also allows them to purchase inputs in bulk, reducing the overall cost. Group formation requires support in setting up transparent and agreed upon management processes, and

they need to build their reputation with local buyers and grow their network.

To support groups, the ILO has been upgrading local NGOs to serve farmers as BDSPs, and in turn the BDSPs will provide ongoing support to the groups as they develop. Group formation offers farmers a way to act like a formal business and overtime, even access things that formal business can access based on stronger representation. This includes finance and various forms of social protection and services. In order to achieve this, BDSPs should have market access and strong local networks, they should understand processes and benefits for farmers, and they should also be understanding and supportive. Group formation needs to be led by the farmers and cannot be a prescribed solution.

New Enterprises in NTT

A year into the project and we can already see the shift to market-oriented farming. The ILO's local partner for maize estimates that 40-50 per cent of farmers who have received training are now able to calculate inputs and other production costs. A group of women even started a small snack food enterprise for maize chips. They require support to continue, but have distributed 500 samples to local businesses. Eight farmers have created basic business plans that have allowed them to access loans from microfinance institutions and roughly 28-40 women (TBD) have started a self-help savings and loans group in Oefeto village. The partner reported that most maize farmers were consuming most of their yield, but now many consider is as a product for sale.

In Semau Selatan sub-district, a farmers group formed after the ILO training and between them they started with 30 ropes of seaweed. In a year, they have already increased to 100 ropes and they consider this far more successful than if they had continued to buy and sell independently. Other farmers have also reported that their income has increased since the technical training from providing higher quality seaweed.

In livestock farming, a cooperative with 25 farmers has already been started after the ILO training. The farmers had been discussing forming a group for some time but didn't know the steps. With support from the local livestock partner, they began the process. Once the cooperative was formed, they worked with local animal husbandry extension workers to apply for the government cattle program run in Kupang district through BRI bank. They were granted a loan and used it to purchase 50 bulls to fatten over their first year. Right now, the farmers are working together to build an advanced covered pen to keep the cows. The loan also covers the cost of feed, vaccinations and other needs.

The cooperative began in January of 2015 so is still in its infancy. It remains to be seen what will happen in their first year of operation, but with strong leadership and commitment from the farmers, this so far appears to be a solid organization. At the end of the year, they will repay their loan and use their earnings to buy more cows for fattening. They are also discussing breeding, but it has not come into practice.

What's Next?

The initial signs from the target communities have been positive, and a mentality shift among many of the farmers is clear. The first challenge is spreading these ideas to other farmers outside of the targeted villages and even strengthening it within. Farmers themselves must be the catalysts for change and bring the knowledge outside of their own communities. They can act as facilitator and trainers, with the support and coordination of the local partners and BDSPs.

To continue strengthening the farmers and farmers groups, the local NGOs need greater capacity. The three main partners are being upgraded as BDSPs but they still require training and oversight to be successful. Until the institutional environment is better for farmers and they have access to services, finance and other forms of support, it will be difficult for them to grow their farms and groups successfully.

Stronger networks need to be in place, and for this the BDSPs must be functioning independently and competently.

Farmers need to develop good relationships based on mutual trust with buyers. Many have existing relationships but need stronger bargaining positions from better quality products and group formation, and many need to develop new relationships to access markets further than their local market. The buyers need to be reliable so that farmers are not left with unsold crops.

Access to finance is a major challenge in continuing to grow farm-based enterprises. Farmers need to be able to plan ahead but they are currently vulnerable to unexpected situations reducing their yield or putting their crops at risk. Financial stability allows them to plan, expand, access better quality inputs like fertilizer and attempt alternative income activities. Accessing finance in the short term will allow them to grow in the long term. This will also be improved through strong BDSPs and a supportive institutional environment.

According to the local seaweed partner, a specific challenge in NTT is the quality of seeds made available as well as product quality. In addition to understanding the concept of a business, calculating costs and so on, the farmers need technical training to produce better quality seaweed, as well as better seeds. In Bali and Lombok, for example, seaweed seed certification processes are already in place and the quality of the seaweed is higher. This is another example of how local institutions need to be strengthened to continue supporting farmers in improving their livelihoods – if local organizations and the government developed and enforced quality standards for seeds, overall product quality would increase quickly.

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http://www.ilo.org/jakarta/whatwedo/projects/WCMS_308006/lang--en/index.htm

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