

**BRINGING THE POOR INTO THE EXPORT PROCESS -
IS LINKING SMALL PRODUCERS TO BIG EXPORTERS A
SOLUTION?**

**A paper contributed by the
ITC Export-led Poverty Reduction Programme (EPRP) Team**

BRINGING THE POOR INTO THE EXPORT PROCESS - IS LINKING SMALL PRODUCERS TO BIG EXPORTERS A SOLUTION?

1. Introduction

Bringing small producers from developing countries into the export process is widely recognized as a lever to foster pro-poor economic growth. However, from a practical perspective, the question is how one can actually integrate poor communities into export value chains in an effective and sustainable way. One possibility is to directly link small producers to big exporters, thereby enabling them to supply international markets.

This paper examines the viability of this approach. It discusses the incentives of small producers and big exporters to enter into business relationships, explores the potential benefits from such linkages and determines the role of trade-related technical assistance organisations (TRTA) and governments in making such approaches work.

2. Why linking small producers to big exporters cannot be a solution

On the one hand, one can argue that the needs and aims of small producers and big exporters differ so hugely that neither of them has incentives to enter into joint business relationships.

From the small producers' point of view, maintaining the loyalty of big exporters is difficult: big exporters are likely to abandon small producers as soon as they find larger producers that can supply at cheaper prices (e.g. due to economies of scale). Furthermore, small producers have weak bargaining power. As a consequence, they are unable to reject unfavourable conditions in negotiations with big exporters. This situation worsens when there are only a few big exporters able to link to the market, making small producers even more exploitable. As a result, small producers' incentives to do business with big exporters can be limited.

Big exporters are primarily interested in maximizing their profits and not in helping small producers out of poverty. They require suppliers who can deliver sufficiently high quantities of products that meet international quality standards. However, products from small producers often suffer from poor quality, are not available in the demanded quantities and are not delivered on time. The reason is that small producers do not have the required capacities to efficiently handle complex production processes. Hence, dealing with small producers imposes additional costs and risks, lowering big exporters' interest in entering such business relationships.

3. Why linking small producers to big exporters can be a solution

On the other hand, there are several reasons why small producers and big exporters might mutually benefit from entering into business relationships.

The products of small producers in developing countries are typically traded down a complex line of intermediaries until they are exported. As a result, small producers are only able to capture very small shares of export prices. This situation can be improved when small producers are directly linked to big exporters that have established marketing channels and logistics systems. The exclusion of unnecessary intermediaries leads to higher prices for the products of small producers translating into higher incomes and improved livelihoods. Once business relationships with big exporters are established, small producers can also benefit from subsequent transfer of knowledge on international standards and marketing skills. Furthermore, whilst producing for national markets might be a good opportunity for producers in developing countries with large internal demand, it is certainly not a valid option for the majority of developing countries with their relatively small and underdeveloped local markets that mostly demand basic goods. Besides, exports generate foreign exchange earnings that are much needed to foster quick social development.

In addition, buying their products from poor small-scale producers can enable big exporters to target niche markets for products certified by Fair Trade labelling organisations. Demand for these goods produced according to a set of social and environmental criteria is growing as consumers are increasingly concerned about, and interested in, the origins and production processes of what they purchase. In contrast to undifferentiated commodity goods, Fair Trade labelled products yield considerable price premiums that are more immune to global fluctuations. Working with small producers is thus a way for big exporters to show social responsibility which is becoming increasingly important to enter markets in the developed world.

To sum up: Instead of entering into exploitative relationships, supplying big exporters directly may offer small producers a better position in the export value chain leading to higher prices and hence reduced poverty. In turn, big exporters can use business relationships with small producers from poor areas for product differentiation, leading to higher profits. If the capacity of small producers is strengthened, and they become enabled to achieve the quantity and quality consistency required by big exporters, this win-win situation makes linking small producers to big exporters a sustainable way of integrating the poor into the export supply chain.

The following case study will show how this can be done effectively with support of trade-related technical assistance organisations.

4. Case study: linking honey and chilli farmers to exporters in Kenya

Since 2005, ITC has worked with 120 low-income farmers in Kenya to assist them to improve their incomes through production and export of birdseye chillies and honey. Situated in the dry and disadvantaged region west of Nairobi, farmers and beekeepers had lacked modern production know-how and access to international markets. Accordingly, the project focused on the formation of producer groups and delivery of production-related training to improve quality and productivity. In addition, ITC linked the producer groups to two socially responsible exporting companies. The role of these exporters was twofold. First, they provided a guaranteed market by buying the entire production of the farmers at pre-determined prices. Secondly, they also delivered further technical training for the project participants to come up with products that are of suitable quality for export markets. Due to these activities, exports totalling US\$ 20,000 were generated in the first year, improving both the profits of the exporters and the livelihoods of the 120 farmers and their families. The activities are now being extended to include 500 additional farmers and 250 beekeepers, further adding to the project's sustainability.

5. The role of trade related technical assistance organisations

The Kenyan case study points out that if capacity building is provided, linking small producers to big exporters can be an answer to the challenge of effectively integrating poor people into the export process. It is possible to generalise the levels at which this support is required:

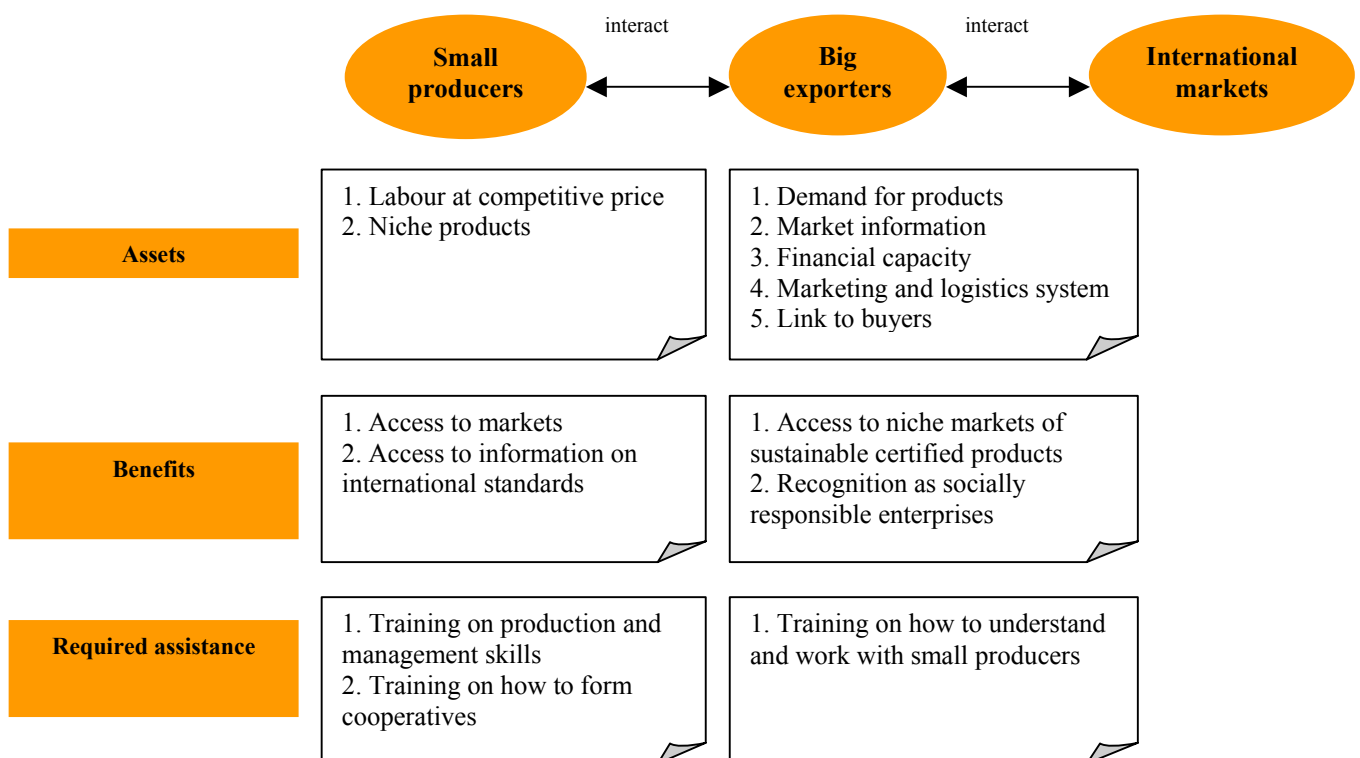
1. **At the producer level:** Training on market-oriented production and good agricultural practices is needed. In many cases, it is also essential to provide training on processing facilities and on new machinery. In addition, training on how to form and manage cooperatives needs to be delivered. The benefits of small producers being organised in cooperatives are twofold: first, the bargaining power of small producers increases and enables them to explore economies of scale, leading to higher earnings and hence improved livelihoods; as for the big exporters' side, having one focal point (i.e. the cooperative's management) for negotiations significantly lowers transaction costs and therefore increases profits.
2. **At the level of cooperative's management:** Training is necessary on market requirements, international standards, basic accounting principles, costing and pricing, price-risk management and negotiation skills. This helps create empowered cooperatives that are capable of acting as a focal point for big exporters.

3. **At the level of big exporters:** Training on how to understand small producers' mentality, their specific needs and how to maintain a constant communication flow with cooperatives' management.

Building on these outlined training needs, the following recommendations for trade-related technical assistance organisations can be given:

1. Create **awareness** on assets, mutual benefits of the linkage and required capacity building interventions (as described in figure 1);
2. Assist both parties in defining the **scope of collaboration** and setting up a communication systems that connects the producers' capacity and big exporters' demand;
3. Establish a **business model** and **management mechanism** for both sides to collaborate;
4. **Manage** the relationship from the beginning, then supervise and follow up.

Figure 1. The linkage between small producers and big exporters



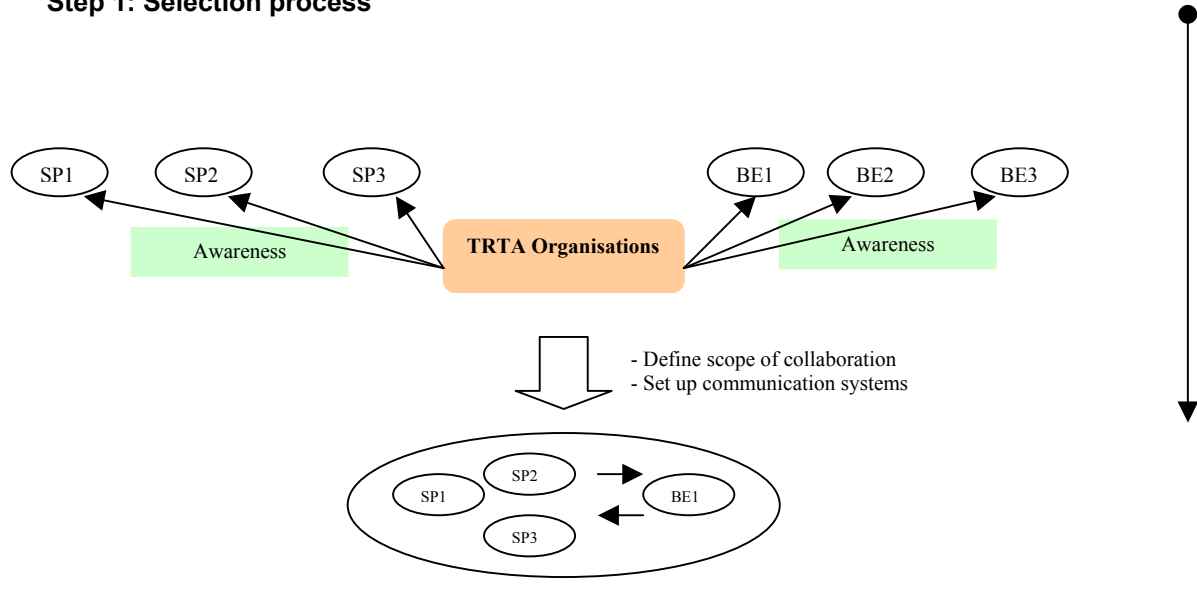
Finally, governments should see linkages between small producers and big exporters as a means to mainstream trade into national poverty reduction strategies. They can further help by:

- giving incentives like tax cuts to exporters that establish relationships with small producers;
- create national capacity for inspection and auditing according to international standards.

The Proposed Model:

Figure 2. Functions of TRTA organizations in linking small producers and big exporters (SP = small producers; BE = big exporters):

Step 1: Selection process



Step 2: Implementation process

