Case Study: Brazilian small farmers

IN 1999, WORLD VISION BRAZIL started a very ambitious project to enable small land-holder producers in Rio Grande do Norte State, one of the poorest regions in Brazil, to export melons to European markets. To our knowledge, this had never been tried before, and we did not have any experience in terms of procedures for accessing foreign markets. We were driven by a dream: to see poor producers access important and lucrative markets and to see poverty reduced.

With the support of a trade representative who made the first contacts with European import traders (regular importers, not Fair Trade importers), we created an operational plan, including terms of production and logistics to address the demands, time frames and requirements of the market. We selected as our Brazilian partner the melon producers from the town of Baraunas, who were already selling their product to the big export companies of the region. Even though the small producers of Baraunas had the needed capacity and quality to serve the international market, what they didn't have was the capacity to commercialise directly with distant markets. And although they had been selling their melons to the big companies for several years, a lot of small producers were wanting to stop growing melons due to the low prices the big companies paid.

Since World Vision was not an export company, we contracted an export company to manage the legal procedures and technicians (agronomists, foreign trade experts) to carry out the operational steps. At this point, World Vision Brazil didn't have detailed understanding of the principles and procedures of the Fair Trade movement. We promoted the melons as a "fair trade" product, even though we didn't have a Fair Trade label. Fortunately, we met all the Fair Trade criteria and procedures! However, we did not have the protection of the Fair Trade certification and labelling processes.[1] The impact on the beneficiaries, the small melon producers, was extremely positive. We exported 45,000 boxes of melons of the same quality as the European market standard. The small producers raised their family income 54%. But we had a problem: the export company charged us 26% of total sales, reducing the small producers' potential profit.[2]

PHOTO: WORLD VISION BRAZIL

Fair Trade "Vision" melons being prepared for export

The price of success

After the key partners (World Vision Area Development Programs, other NGOs and small-holder producers) assessed this pilot process's successes and failures, we decided to move ahead, including more melon-producing families and increasing the amount to be exported. The outcomes and the wide visibility achieved on the first export transaction made us very confident that we had found the best way to reduce the growers' poverty. To avoid the high costs charged by the export company, we opted for a small export company that in the past had marketed handicrafts and cashew nuts from poor communities to Europe, and whose main shareholder was a partner NGO. In an integrated approach, the small producers borrowed the financial resources to cover the costs of production and post-harvest processing from World Vision's rural microfinance programme.

In its second year the programme yielded even more outstanding results. We exported 75,000 boxes of melons to eight European import traders, and also sold 15,000 boxes of melons to a Brazilian national chain of supermarkets. The producers' income rose to the point that they could pay off old debts. Additionally, other small producers of melons in the same region also increased their profit because the big companies had to increase the price they paid per box to compete with our prices. The final investment return analysis pointed to a 60:1 rate. Using the small export company reduced export fees from the earlier 26% to only 8%, increasing even more the producers' profit. Up to this point, the relationship between the European importers and World Vision Brazil was very friendly. The international market price for melons was high enough to cover all costs and profit both producers and importers. Favourable repercussions of this innovative experience in the wider World Vision partnership and with other organisations made us rather famous. World Vision Brazil won the Award from the Inter-American Development Bank for best experience in Business Development Services. A national TV network and newspapers reported on the feat of poor producers who had accessed the international markets in a competitive way.

But we had not yet seen the market show its claws or experienced the degree to which it is biased against small producers.

In the third year we were more ambitious: the operation grew and exported 140,000 boxes of melons and sold 30,000 boxes of melons in the domestic market. But this was September 2001. After the terrorist attack in New York, exporters who would otherwise have sold primarily to the US market moved their melons to Europe, flooding the European market and causing a fall in prices.

We tried to reach an agreement with the European import traders to share some of our losses, appealing to their "social awareness". But all selling is done through a consignment process, in which the importer charges all its costs and a fee of 8% and pays the balance no matter how small it is. We knew about these rules, yet anticipated that our win/win alliance with the

export melons to Europe

importers after three years might prevail. But business is business, and the fall in prices meant that we experienced losses. The losses were split between the producers and local partners and offset by World Vision back-up funds.

After our third year of export operations, we realised that we had the knowledge and abilities to access markets competitively. But trade had brought implications that went beyond the scope of a single entity like World Vision, and despite efforts to build alliances, we worked alone. This was a huge constraint that needed to be dealt with if the programme were to improve.

Lessons learned

The experience taught us some hard lessons:

- "Trade liberalisation" is still a mirage; for some, the market can be anything but free. Power in the market moves from the rich to the poor; it is a one-way street.
- Market traders in developed countries are not equipped or prepared to deal with small producers.[3]
- Small producers are very vulnerable to swings in global trade. There is no special protection to improve or support their market access, while big traders can count on insurance, hedging mechanisms, easy access to cheap credit, and so on, to strengthen their competitive advantages. Without support and special conditions, small producers cannot cope with prolonged high fluctuation of commodity prices.
- Trade barriers affect small producers more than big, modern companies. All export regulations, trade rules, and freight procedures were made for big exporters.
- Trading costs are much higher for small producers, due to their smaller scale, logistics, precarious infrastructure, and so on.
- As well as alliances between producers, NGOs and government at local and national levels, to acquire local and global competitiveness there must be strategic (ethical) alliances with the private sector.
- It takes time for small producers to learn the complexity of global trade; this learning time frame must be respected. First they must be able to commercially produce the required quality and quantity, then to access local markets, then national markets, and finally international markets.

Re-starting from the bottom up

After this rich learning experience, World Vision Brazil, our partner agencies and the small producers decided to continue with the initiative, re-designing it on a stronger basis to address these issues. The new Market Access programme aims:

1. To strengthen the productive capacity of small producers and build their capacity to participate in accessing the market by building on their competitive advantages

2. To improve the mechanisms of commercialisation, settling up reliable negotiations with the buyers (we created a buffer fund to protect small producers from the big swings in commodity prices, and a Fair Trade company to make the commercialisation more professional)

3. To promote better conditions for small producers accessing the markets, through advocacy actions

This new phase has already supported more small farmers and handicraft producers than the previous initiative did. They are commercialising handicrafts, cashew nuts, mangoes, organic products, honey, etc. in local, national and international markets. To reduce the market risks, we are increasing the amount of non-perishable products commercialised; taking advantage of Fair Trade rules and mechanisms; and doing business with companies committed to social responsibility. Clearly, expanding market access can have a positive impact on poverty reduction. Global trade can break exclusion in market flows, creating alternatives where a domestic market is dominated by local elites. And it is a huge opportunity to expose people to new ideas and build their capacity to deal with all aspects of economic activity. Yet this initiative highlighted that if some structural constraints to market access do not change, successes like this will continue to be exceptions to the rule and will be limited. We can prepare the poor to deal with trade, but trade must be prepared to deal with the poor.

– Eduardo Nunes and João Helder Diniz

[1] See: J. Diniz & G. Santos, "Comércio Solidário no Brasil: Esta ideia tem futuro? (Fair Trade in Brazil: Does it have a future?)", *Comércio Ético e Solidário (Fair Trade)* magazine, 2003. [2] A complete programme evaluation appears in *Avaliação de impacto do Programa de Comércio Solidário (Fair Trade Program impact evaluation)*, World Vision Brazil, 2002. [3] See: E. Nunes, *Market Access: The challenge is ahead*, UNCTAD, 2004.