

Meeting small-scale farmers in *their* markets

Understanding and improving the institutions and governance of informal agrifood trade

Bill Vorley

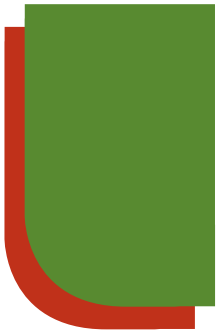


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Knowledge Programme
Small Producer Agency in the Globalised Market



Meeting small-scale farmers in *their*
markets: understanding and improving
the institutions and governance of
informal agrifood trade

Bill Vorley
2013

The research on which this report is based is a product of the Knowledge Programme Small Producer Agency in the Globalised Market. This Knowledge Programme aimed to map, elicit and integrate knowledge on the dilemmas confronting small-scale producers in global, regional and national markets. The programme worked with different actors to bring new voices, concepts and insights into the global debate. It thereby sought to support the development community, including policy makers, producer organisations and businesses, in their search for better informed policies and practices. The programme was led by the Humanist Institute for Development Cooperation (Hivos) and the International Institute for Environment and Development (IIED), and integrated a global learning network, convened by Mainumby Ñakurutú in Bolivia. This report was produced with funding from UK aid from the UK Government, however the views expressed do not necessarily reflect the views of the UK Government.

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Preface

The informal sector is growing in parallel with modern formal markets. It is central to rural and urban food security, livelihood generation, and job creation. It is also where much of the produce that reaches the formal sector originates. But the tide of development policy thinking has moved, and considers informality as a public 'bad' – a deadweight that blocks the emergence of a modern private sector.

This report is the outcome of an expert workshop held in November 2012. Participants set out to better understand the dominant informal markets that link small-scale farmers and low-income consumers. It was organised by IIED and Hivos in association with the close of their knowledge programme Small Producer Agency in the Globalised Market. The event brought together 20 leading researchers and practitioners from around the world. The workshop participants have provided the main input to the report, both during the workshop and subsequently by commenting on a draft version. Those participants were:

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Executive summary

The informal sector is growing in parallel with modern formal markets. It is central to rural and urban food security, livelihood generation, and job creation. It is also where much of the produce that reaches the formal sector originates. But the tide of development policy thinking has moved, and considers informality as a public 'bad' – a deadweight that blocks the emergence of a modern private sector.

This report is the outcome of an expert workshop held in November 2012. The event brought together 20 leading researchers and practitioners from around the world. Participants set out to better understand the informal markets that link small-scale farmers and low-income consumers. The workshop aimed to exchange insights on:

- how poor people adopt informality as a choice to secure their livelihoods and food security, despite the evolution of markets towards formality; and
- how the institutions and governance of 'traditional' and informal food markets can be improved, based on the situation and perspectives of farmers and low-income consumers, rather than the perspectives of agribusiness.

The first part of the workshop exchanged ideas on how informality is framed in agrifood markets, in the context of smallholder agriculture and food security. Participants agreed that to define informality by what it is not (i.e. whatever is excluded from formality) is unsatisfactory. Furthermore, to equate informal markets as traditional (as opposed to modern), unorganised (as opposed to organised), and unregulated (as opposed to regulated) is also impractical. The informal economy is highly regulated and highly legitimated, but not by the state. Applying the concept of informality to rural areas is also problematic.

Participants asked whether formality is really the issue. Rather than focus on informality and its definitions, they agreed that it is better to shift the conversation to speak of the 75 per cent of the world's majority agrifood systems that are mostly informal but mixed with formality. We need to meet farmers in their markets, and to learn how those markets work in terms of exchange and organisation.

The second part of the workshop looked at the factors that underpin the resilience and dynamism in informal agrifood trade. Despite major potential downsides, informal businesses have distinct advantages, especially their greater flexibility to respond to new opportunities in domestic and regional trade. Informal markets are resilient through the active choice of producers and consumers. For them, informality can be seen as a survival strategy, as resistance to a bureaucratic nation state and official norms, or as competition to the formal sector.

The third part of the workshop asked what we need to consider in approaches to improve the performance of the informal sector, while recognising multiple problems. These include food safety and quality, poverty traps, barriers to scale, lost state revenues, and issues of urban governance. There is also the risk of exclusion when intervening with new forms of regulation. Inclusive formalisation will require state regulatory capacity, upgrading services, and investment – a rare combination. But the workshop heard examples of institutional innovations, such as the association of actors in informal markets, upgrading informal traders, and the introduction of standards and certification procedures appropriate for the informal sector.

The final section of the workshop looked at options for addressing knowledge and implementation gaps through research and practice. The discussion centred on three proposals. The first was about consolidating the evidence base on the nature of informality in the agrifood sector through a special issue of a journal. The second proposal was about understanding the right investments for inclusive formalisation, especially in wholesale markets. The third was on informality and market resilience. Informal markets have a perceived capacity to manage or buffer against risks and losses, to maintain supplies in the face of competition and a range of external stresses – including climate change, economic crises, rising energy costs, consumer demand, or political instability. But there is a lack of empirical evidence of the comparative resilience of formal value chains and informal markets or the combination of the two.

The workshop participants called first and foremost for a bridging of the knowledge gap, in terms of how the informal agrifood sector really works, what it contributes, and where there is room for upgrading.

Introduction

The majority of trade that links small- and medium-scale producers and low-income consumers in developing and emerging economies is informal. The forces of globalisation have not unleashed waves of formalisation, and in some sectors have even pushed against it. Among the insights from the Hivos–IIED knowledge programme and its associated learning network is an appreciation of the benefits of following small-scale producers and consumers to their markets. Before designing policies or trying to draw them into new markets, we need to understand how they make their own markets work for themselves.

The study of the informal sector is not new (for example, the work of Keith Hart in the 1970s, Hernando de Soto in the 1980s).¹ But it now has a topicality and urgency, for two reasons. First, in development policy there are now much higher expectations of the formal private sector to act as an engine of development. At a time of renewed concern about food security from rising food prices, resource constraints, climate change, urbanisation, and growing populations, there has been much policy focus on linking small-scale farmers with modern value chains and formal markets. Second, there is a policy and intellectual bias against informality that has hardened since the millennium. Informality is now often viewed as a deadweight that reproduces poverty and impedes the development of the private sector (OECD 2009).

This report is the outcome of an expert workshop held in Amsterdam in November 2012. Participants set out to better understand the dominant informal markets that link small-scale farmers and low-income consumers. Organised by IIED and Hivos, in association with the close of their

knowledge programme Small Producer Agency in the Globalised Market (Box 1), the event brought together 20 leading researchers and practitioners from around the world.

The workshop aimed to provoke reflection through exchanging insights on:

- how poor people adopt informality as a choice to secure their livelihoods and food security despite the evolution of markets towards formality; and
- how the institutions and governance of 'traditional' and informal food markets can be improved, based on the situation and perspectives of farmers and low-income consumers, rather than agribusiness perspectives.

The workshop also set out to explore potential common ground for a new action research initiative and to kick-start a debate on current theories of market modernisation and restructuring. Rather than declaring war on or ignoring informality, it aimed to discover if there were ways of building on some of its positive aspects and reducing its downsides.

This report is based on discussions at the workshop and short papers submitted by participants in the lead up to the meeting. The report is structured according to the four sections of the workshop:

- Framing and concepts
- Understanding how informality works in reality
- Improvements, implications, and knowledge gaps
- Crafting a possible joint research and capacity programme.

1. See for example Hart (1973) and de Soto *et al.* (1986).

Box 1. Small producer agency in the globalised market

Small producer agency in the globalised market was written by Bill Vorley, Ethel del Pozo-Vergnes and Anna Barnett and published in November 2012. It is the product of the three-year knowledge programme run by IIED and Hivos.

The book raises important questions about how smallholder producers make decisions, how they manage costs, risks, and benefits and how they organise their time, energy, and resources to make markets work for them. Where do they sell their produce? What channels do they rely on for inputs, credit, and marketing? Do they receive any outside support?

Based on extensive research and investigations in the field, the book challenges many assumptions about how farmers connect to markets in the developing world. A key finding is that most small-scale farmers rely on informal channels to trade the food they produce. Most of these producers are not organised in any formal manner. For them, informal markets – often coupled with outlets for non-farm activities – are essential. As the authors conclude, it may be time to rethink the agenda for small-scale farming, and focus more attention on how to upscale the benefits of informality, which remains the dominant link between smallholder producers and the urban poor (Vorley *et al.* 2012).

Framing and concepts

In the first part of the workshop, participants exchanged ideas on how informality is framed in agrifood markets, in the context of smallholder agriculture and food security.

Framing informality

The workshop's starting point was that informality is the norm for the majority of agrifood trade in low-income and emerging economies. To define informality by what it is not (i.e. whatever is excluded from formality) is unsatisfactory.²

Furthermore, to equate informal markets as traditional (as opposed to modern), unorganised (as opposed to organised), and unregulated (as opposed to regulated) is also impractical. The informal economy is highly regulated and highly legitimated, but not by the state. In general, it flourishes where the state is dysfunctional or even absent (such as in many rural areas) and not providing public goods. The informal sector often appropriates the tools of modernity such as mobile phones, and even inventory management and price discovery. The word 'traditional' belies a high degree of dynamism in the sector. The decentralised structure of informal markets makes it easier to identify consumer tastes and niche markets and fill them swiftly. Robert Neuwirth (2011) calls this 'organised improvisation'.

Applying the concept of informality to rural areas is also problematic. In its original form, Keith Hart (1973) framed the concept of informality in the 1970s only around urban economic activity (though with economic and social relationships with rural hinterlands, facilitated through ethnicity). As John Conroy noted, this led to a situation in which the notion of rural economic activity as being either formal or informal is neither as agreed, nor as clearly defined, nor as commonly employed, as in the urban case. If formality in agriculture is framed as commercial or corporate farming operating under a national legal frame and supported by the formal institutions of producer organisation (especially cooperatives) and contracts with agribusiness companies, then it is indeed out of reach for the vast majority of smallholders. And for large numbers of small-scale subsistence farmers who have not yet been integrated into the market economy, such as in parts of Papua New Guinea, it may be premature to talk of informal trade at all.

Characteristics of the informal sector

Paule Moustier presented a useful comparison of the typical characteristics of the formal and informal sectors (Table 1).

Table 1. Comparing typical characteristics of formal and informal sectors

Features	Formal sector	Informal sector
Size of firm	Large	Small
Ownership and management	Corporate	Family/self
Technology	Capital intensive	Labour intensive
Bargaining status	Collective	Individual
Legal status	Registered	Extra-legal
Official policy	Promoted/protected	Unpromoted/unprotected
Barriers to entry	Economies of scale, patents, licences	Very modest investment

Source: Cole and Fayissa (1991:780).

2. Nico Tassi stated that in Bolivia, the word 'informal' is not used. Instead, people use the term 'popular economy' or 'the people's economy'. These markets are highly connected to the market economy, as opposed to 1970s concepts of the 'solidarity' or 'alternative' economy, which set out to challenge the capitalist system.

There were several other features of informal markets as perceived by participants. These included **flat pricing**, whereby informal traders are able to take an undifferentiated product and sort/grade it for trading to different markets. There is also a reported capacity to **stabilise market prices** and **regularise the supply of key goods** despite huge volatility of volume of arrivals. David Tschirley and colleagues showed in Zambia that fresh produce wholesalers in Soweto market of Lusaka manage extremely high variability in quantities arriving on the market in a way that creates far less price instability than one might expect. Mobile phones likely facilitate the flow of information needed to achieve this, allowing traders to find markets outside the city at short notice when too much product arrives (Tschirley *et al.* 2011).

Another feature is **personalised means of exchange**, underpinned by a rich set of social and trust-based relations that facilitate trade through cohesion and social capital. Written contracts are rarely observed, but long-term relationships (often spanning generations) are the norm. Derek Baker also reported anecdotal evidence that **retail price is little used in product differentiation** by traders in the informal sector, who rely more on market share and repeat customers. The **absence of quality-linked pricing** from many informal value chains limits the extent to which value can be added. Baker observed that **chain co-ordination** in informal markets is likely to be linked less to value addition than to risk management and implementation of barriers to entry. Those **barriers to entry** exist at most levels of transaction in informal markets, often based on religion, race, and caste. The **role of women** in the informal sector is especially strong as producers and traders.

Perceptions in the policy and donor community

The workshop noted that **perceptions of informality have changed markedly**. The Washington consensus perception was that informality was an exemplar of entrepreneurial skills that should be given space. Since the millennium, that perception has changed. Informality is now viewed as a deadweight that needs to be formalised, as unfair competition for the formal private sector, and as impeding a healthier business environment due to bribes. Informality is seen as a residual part of economy.³ Fear of informality is widespread, especially in the middle classes. Even if they or their housekeeper buy in informal markets, it is viewed as subversive and a cause of insecurity.

Recently, international development agencies have felt that their investments in poor countries have suffered from a weak regulatory environment. Informality has come to be **perceived as an impediment to the development of the formal 'private sector'**. The idea is that business corporations are undercut by informal economic actors who pay no taxes, evade costly regulations, and take advantage of often illegal devices in order to reduce prices.

Policy initiatives aimed at improving the informal sector have often been fragmentary, ending up making those markets official and rule-bound. And analysis of informality has simplified informality to a symptom only of the excess of state regulations, while ignoring the structural inequalities of the market system and the geopolitics of power which justify those inequalities.

Box 2. Rich pickings: La Parada market in Lima

Though individual purchase volumes may be low in informal markets, the overall stakes can be high. In Lima's bustling La Parada market, now replaced in a contentious move by the purpose-built Santa Anita wholesale market, the daily turnover was an estimated USD 2.6 million. The market, which supported a massive subsidiary sector of informal truck drivers, taxis, porters, food processors, and waste-pickers, produced 70 per cent of Lima's fresh produce supply, amounting to 5000 tonnes of food daily, feeding an estimated 6 million people. Top wholesalers were estimated to earn nearly USD 2000 per day. Although they paid a monthly fee for their stall, wholesalers paid neither sales taxes nor local taxes, although they will have to in the new market. Truckers were some of the biggest earners, making 0.10 soles (USD 0.014) per kilo of potatoes handled in 2008. In less than 24 hours they could earn as much as the farmer who invested several months' work in growing the crop.

Ethel del Pozo-Vergnes

³Research indicates that efforts to reduce the informal economy are likely to help reduce poverty, because reducing barriers to formalization can stimulate enterprise growth and create decent work opportunities. Efforts to reduce the informal economy are likely to help reduce poverty.' USAID (2005).

Nico Tassi framed the debate over informality within the polarised tension between very different visions of market individualism and state collectivism. The effect has been one of marginalising the intermediate levels and forms of association (found in many informal markets) and their organisational structures, many of which are compatible with the market. Despite being largely invisible to modern social theory, these **intermediate forms of association** may be essential to the functioning of institutions at all stages of economic development.

Mark Lundy concurred that there is a widely held assumption that informal markets constitute a public 'bad' and must be brought under control. The formal sector has been granted privileges on the basis of presumed unfair competition from the informal. This underpins the considerable public support that modern channels have received in Latin America to the extent that several are close to becoming monopolies in regions like Central America. The public sector, with a few exceptions like El Salvador, continues to see the informal market as a threat while the modern channels operate in questionable ways with relatively little public oversight.

In China, Xiangping Jia reported a strong **intellectual bias against small-scale farm economies**, alongside a wave of transformation and formalisation of farm production (with a growth of cooperatives, migrants and sharecroppers, sub-leasing and wage workers, land consolidation, and agro-industrialisation), urbanisation, and eroded social trust. This is having big impact on structure of production.

The dominant globally accepted models for development of small-scale producers focus on 'market inclusion' approaches within 'value chain development'. The meeting challenged the premise that good chain performance requires a trinity of i) responsive producers, well organised for collective action; ii) receptive and willing agro-enterprises; and iii) facilitating governments and state agencies, creating the right enabling and regulatory environment. 'Inclusion' in these initiatives generally means linkages to formal, high-value, and export markets, with a big investment focus on 'growth poles' and 'development corridors'. This narrative overlooks complexity and reality in all three realms. For example, the promotion and emergence of formal producer organisations continues, despite the fact that farmers belonging to these formal organisations are a very small minority, especially among the poorest. 'Receptiveness'

and 'facilitation' by agro-enterprises and state agencies are far from becoming a general rule – most examples do not go beyond pilot or corporate social responsibility (CSR) projects.

This mismatch between aspiration and reality raises several questions around that lack of evidence and choice of indicators. Does the informal sector really reproduce poverty and not add value? Or do we need to challenge our understanding of how value is added in a capital-constrained world? Are our definitions of economic organisation and trade too tied to our own models?

Bihunirwa Medius reported that in the East African region, most incentives from governments and NGOs are geared towards formal organisations. The push to intervene has largely been modelled on the assumption of a functional state. But formal organisations are not the only means for producers to cooperate to compete in markets. Nico Tassi and Joost Nelen both commented that when we understand indigenous levels and forms of association and trade, from the Andes to West Africa, we see that they are often compatible with the market, despite being largely invisible to modern social theory.

The principles on which cooperation between farmers is based may look informal. But in reality, they are often historically constituted, relying on longstanding social relationships. And assumptions about functional states are often misplaced. Steve Wiggins stated that informality could be understood as peoples' nonconformity with the social contract, in response to state failings. These include failing to provide public goods for productivity, regulations to protect producers from abuse and corruption, and/or failing to ensure food safety for consumers. Mark Lundy and Alejandro Guarín pointed out the absence and failure of the state in many Latin American countries.

The core drivers of resilience in informal food trade seem to be weak states and producer and consumer poverty (and particularly urban poverty, which as Cecilia Tacoli highlighted, is increasing worldwide). Nevertheless, it was also observed that emerging middle classes can also be drivers of formalisation. Understanding governance issues in specific contexts was a common concern, even in cases of countries with strong states like China, where Xiangping Jia reminded participants of the importance of looking at the role of states in the allocation of labour, capital, resources, and technology.

Is formality the real issue?

Participants asked whether formality is really the issue. Rather than focus on informality and its definitions, they agreed that it is better to shift the conversation to speak of the 75 per cent of the world's majority agrifood systems that are mostly informal but mixed with formality. We need to meet farmers in **their** markets, and to learn how those markets work in terms of exchange and of organisation.

For some farmers, when formality is neither affordable nor viable, embracing the informal sector may not be a choice at all. And not participating in high-value formal chains is not always a question of exclusion. Some producers make a conscious decision not to become involved because, in comparison, the entry costs and barriers are too high – and the rewards too low.

Understanding how informality works in reality

The second part of the workshop looked at the factors that underpin the resilience and dynamism in informal agrifood trade.

Dynamism of informal trade

The informal agrifood sector has the lion's share of many developing and emerging markets, especially for fresh produce. Despite the major potential downsides discussed later, informal businesses have distinct advantages, for example greater flexibility in responding more quickly to new opportunities than the formal sector.

Amos Omore reported that traditional milk markets are actively discouraged and without official recognition. But they also have many benefits. Besides the income and relatively high-value employment (estimated at over three times the minimum wage) generated for the traders, they provide cheaper milk for poor consumers, they better satisfy traditional tastes, and they pay better prices to producers. Omore gave statistics of the dairy sector in East Africa which showed the dominance of the informal sector (see Table 2).

Another example is home delivery by street vendors, which is highly innovative and adaptive to a scarcity of living space, where space for food preparation is limited. Paule Moustier reported that in Vietnam, CIRAD-led research estimated that informal markets provide around 50 to 80 per cent of food supplies in Hanoi and about the same percentage of employment in food distribution.

This also applies to much regional trade. For example, Uganda absorbs 46 per cent of the passion fruit grown in Kenya and is a much more important market than exports to industrialised countries. Informal trade in maize and other products between Uganda, Kenya, Congo, and Rwanda continues to flourish through unofficial channels.

The formal system, though now officially a free trade area, involves costly and complex documentation, and is unattractive to small-scale producers and traders who deal in small quantities and can benefit from ethnic ties with communities living close to the border, that facilitate trade and pay in cash. Similarly, flows of cereal trade in West Africa are mainly handled by informal farmer–trader networks, despite policy blindness to the fact (see Box 3).

Drivers of informality

Despite the evolution of markets towards formality, producers and consumers still choose to adopt informality. Their active choice makes informal markets more resilient. For them, informality can be seen as **survival** strategy, as **resistance** to a bureaucratic nation state and official norms (trying to bend the system where unequal access is the rule), or as **competition** with the formal sector. The resilience of 'traditional' and informal trade has much to do with the benefits of trading informally for both producers and consumers. Millions of consumers still show that they think the upsides are worth the downsides.⁴

Drivers of formality were also discussed at the workshop:

Consumer poverty

David Tschirley stressed that the resilience of informal systems is mainly because the vast majority of consumers (especially in urban sub-Saharan Africa) remain exceptionally poor by any standard. Consequently, they need **small volumes** due to their limited spending power and access to refrigeration. This is reflected in the low willingness of consumers to pay for the products of formality, especially food safety. Poor consumers may be more dependent on food prepared out of the home, with street vendors playing an increasingly important role in securing access to affordable food. Cecilia Tacoli cited work with federations of the urban

Table 2. Informal versus formal trade: the dairy sub-sector in East Africa

Level of formality	Tanzania	Kenya	Uganda	Rwanda	Ethiopia	S. Sudan
Informal % (raw milk sales)	95	86	90	95	95	99
Formal % (processed milk sales)	5	14	10	5	5	1

Source: International Livestock Research Institute (ILRI) unpublished collaborative research in respective countries

4. Heintz (2012) distinguishes between voluntarist and structural interpretations of informality: the voluntarist approach assumes that informality is freely chosen among alternatives sources of employment, while the structural approach argues that structural constraints – especially formal regulations – limit opportunities in the formal sector.

Box 3. Dynamism of informal cereal trade in Mali and Burkina Faso

Most cereal trade passes through a myriad of farmer–trader networks going from villages to the bigger towns in Mali and Burkina, and even to foreign markets.⁵ Besides cereals, the networks also trade sesame, other oilseeds, and groundnuts. Under the aegis of development programmes, several regional farmer cooperatives have been created in the past ten years. All of these cooperatives still receive development agency support.

In fact, cooperatives capture only 10 per cent of the cereal trade. Most trade in cereals and other produce bypasses informal networks – a heterogeneous company of farmers and collectors, of village *boutiquiers* and retailers and wholesalers (or *grossistes*). In two survey villages in Mali, the volumes rose considerably after liberalisation. The number of traders went from four in 1990 to 40 in 2011, mainly during the past 10 years.

These informal trade networks are most efficient in terms of volume, market responsiveness, lower transaction costs, overheads, and bureaucracy. They are accessible for the overall majority of farms: there is weekly contact between different traders in several chains, which facilitates the transfer of money. Prices are communicated by mobile phone and updated each day. The sharp rise in use of the Internet and mobile phones has promoted new sales methods for cereals and oilseeds, favouring swifter transactions – farmers and collectors are informed or alerted by mobile phones. Also, farmers have better access to relevant information, making it more difficult for buyers and traders to fix prices unilaterally. Through this dynamic informal trade, growth in cereal production has kept up with population, except for rice.

Joost Nelen, Ellen Mangnus, and Hamady Konaté

poor in low-income settlements in Accra, Dakar, and Nairobi, which showed that for local residents, cooking at home is less and less a viable option.

Proximity and food preferences

Informal markets are often used by consumers due to their **proximity to residence or workplace**. The sector offers stable supplies of food to consumers at low prices and uses distribution channels that suit low-income people's circumstances. Also, some consumer needs and preferences are not offered by supermarkets or other 'modern' systems, due to costs or logistical difficulties. Informal agrifood systems may have an important role to play in defending the cultural integrity of local products in the face of global pressures for standardisation.

Small scale of production

Ronnie Natawidjaja commented that as long as domestic production is dominated by smallholders, there will always be a need for an informal market because of its much **lower entry costs**. When small producers sell a few tonnes of produce, it is very expensive for them to supply the formalised market.

In Indonesia, the majority of the 9.3 million horticultural producers are smallholder farmers operating with less than one hectare of land. Most

fresh fruits and vegetables (83 per cent of the value in 2010) are marketed through traditional market channels compared to 15 per cent to supermarkets and 2 per cent to the export market. The traditional market has demonstrated its resilience, especially for poor families. It is their source of income and also where they obtain their daily food needs. Informality gives producers flexibility and dynamic market structure. Natawidjaja says that modernisation in supply chains has created some formal actors in horticulture. But only 10 per cent of farmers has the opportunity to link to modern sectors. They are more capitalised, they have technology, and they have more land.

State failure and dysfunction

Steve Wiggins expressed the opinion that informality is a symptom of failure of the **social contract** between state and citizen. The state is supposed to provide security, public goods, property rights in exchange for taxation and compliance with regulation. When the state does not honour that contract, then informality may be seen as a rational response for individuals and enterprises. However, this may not always be so much about state failure but **lack of state reach** (related to low state income and low administrative capacity, perhaps linked to very rapid urbanisation), with people behaving and

5. Mali and Burkina Faso are the main West African suppliers of commercialised sorghum and millet.

doing business as they always have done (see Box 4). The information presented by Joost Nelen from Burkina Faso and Mali showed how state agencies were incapable of regulating local supply and trade of cereals, which contributed to recurrent famine in remote areas. After state withdrawal in the 1990s, mostly informal trade networks took over cereal commercialisation and proved their ability to keep pace with rising food demands.

Nico Tassi stressed that market actors' trade is illicit and 'informal' only when you look at it from the perspective of the privileged formal entrepreneurs. In the 1970s, when the concept of an informal economy was emerging, the state was perceived as the best institution that could organise a push for enhanced economic development, and therefore the informal economy was envisioned fundamentally as a problem.

Population growth and weakness of the formal economy

Informality is growing all over the world, including in developed countries (OECD 2009). The inability of formal economies to absorb the unemployed and underemployed, together with the restructuring

of the formal economy, and the weakness of industrialisation (especially in Africa), has pushed more people into informality. A study in Bolivia has shown how female employees retrenched from the formal economy and took up street vending of cooked food (Montaño *et al.* 2007).

Entrepreneurialism

Robert Neuwirth (2011) has observed that the global informal economy has evolved into the 'economy of aspiration'. Kaushlendra confirmed this – in India, informality is where entrepreneurial attitudes are strongest. For example, where companies open stores managed by their own employees, they often fail. But if they put an entrepreneur in charge, the shop may well succeed.

New infrastructure and technology

As transport moves into an area following new transportation infrastructure, there is more competition for farmers and they have more choice. The era of ICTs has also made markets more accessible to individual farmers and traders and reduced the incentives for producer organisation. Bihuniwa Medius reported how mobile phones in Uganda have increased the bargaining power of

Box 4. Market diversification and resistance

Joost Nelen was of the opinion, echoed by others, that resistance to market subordination by making alternative 'own' choices is widespread in today's agriculture. It refers to a wide range of practices through which farmers, local processors, traders, and retailers distinguish themselves from large-scale, corporate agriculture and market circuits controlled by the state or large agro-enterprises. Alternative choices express themselves in ways in which production is organised and in the choice of market outlets. As much as high entry costs and barriers to formal sectors can be constraints, people also make deliberate choices about if and how they want to enter them. Autonomy is central in family farming, and market diversification and 'informal' trade fit this logic. 'Self-provisioning' (a more appropriate term than 'subsistence') is also a central criterion for farmers' options (van der Ploeg 2008; Dufumier 2007). The Mali–Burkina Faso example shows that it is not only compliance with a regulatory model, formal or informal markets which determines the performance (in generating revenues, getting assets, or food security). It is also the capability of farmers and traders to adapt to changing circumstances and keep various options open.

Parallel economy fills state void

In the Northern Amazon region of Bolivia, indigenous traders control the supply of food and goods to remote urban settlements. This informal trade has filled a vacuum left by the state in an area where there are no paved roads or facilities. The informal market economy in La Paz supplies up to 90 per cent of local demand for food, clothing, electronics, and transport services.

In the city of El Alto, local settlers, mostly migrants from rural areas, have built their own sewerage system in the absence of an active public or private sector. Facilities for the recently constructed Asodimin market have been provided by local traders. They even built and paved streets, before naming them after trade union leaders and then handing them over to the municipality, which is legally responsible for maintaining them.

Nico Tassi

farmers growing *matoke* through access to market prices. When the traders arrive, farmers know what prices they should expect and will not cut their bananas until they have been paid the right price.

High entry costs and barriers to the formal sector

In spite of the apparent advantages, many informal actors deliberately avoid formal channels. This is not just because of taxation, but also because other entry costs are high. The path to formality is littered with barriers, in the form of food safety requirements, grading criteria, bans on side-selling, and high rejection rates. Informal trade can be a reaction against the cumbersome bureaucracy of formal trade. The same logic also applies to consumer choice. Vorley's submission noted that a lot of attention was focused on vertical integration and traceability. But investors in modern retail sectors in emerging economies have found how costly it is to bypass the wholesale chain, and how little (if any) premium consumers are prepared to pay for that privilege. This has been especially true in China, where primary production and trade is dominated by small enterprises.

Despite high expectations from modern retail chains moving into emerging economies, traditional supply networks continue to be more competitive in many cases, especially for fresh produce. Vorley also reported that Bharti-Walmart, which is building a chain of cash-and-carry stores in India, has reported difficulties in sourcing commodities direct from farmers. Producers prefer to trade with the market yards (*mandis*), even though Bharti-Walmart offers higher prices. In the state of Gujarat, modern supermarkets have come and gone, and only one format remains. The term 'high value' for modern value chains can be a misnomer, and domestic and informal and/or traditional markets can be just as attractive as the modern sector, if not more so. Vorley's submission cited the work of Michelson *et al.* (2010) in Nicaragua and Louw *et al.* (2008) in South Africa on the relative benefits of selling through wholesale or traders, in terms of price and flexibility.

Links between formal and informal economies

Informality coexists with the formal economy. There is clearly a continuum from informal – which operates entirely outside the legal and regulatory frameworks – to formal, starting with registration and paying fees for example. Amos Omoro described the rise of 'lawful informal' actors who operate with licences in many sectors as a stepping stone towards formality.

However, Derek Baker reported limited linkages between the formal and informal sectors, and very few firms or individuals serving in any capacity in both informal and formal markets. Similarly, service entities serving one sector do not serve the other. There is little apparent spillover of good practice or quality governance. This has been observed for export producers spilling over into domestic markets for vegetables, but it has mostly taken account of formal domestic markets.

Nevertheless, much of the formal food production sector ultimately relies on informal suppliers, until such time as the state or leading firms step in and demand full traceability. Vorley's submission reported how in emerging economies, supply chains to modern retail often have their 'feet' in informality. The Regoverning Markets programme has done studies on vegetable chains that connect Shandong Province to metro Beijing. It found that only 4 per cent of all horticultural goods were **procured** by those operating in firms that could be described as part of the modern supply chain, even though a greater volume than that is eventually sold through modern channels.

In Nairobi, Koenig *et al.* reported that most smaller supermarkets use the same wholesale channels as the classic market or street retailer (Koenig *et al.* 2008). In Nelen's submission, the role of 'formal' farmer cooperatives in Mali–Burkina Faso is insignificant in the trade of cereals and oilseeds. The advantages of the current cooperatives are found in access to inputs, services, and (development) subsidies, for example through cotton cooperatives. Farmers do not see any inconvenience in simultaneously being members of various cooperatives and informal networks. As states lack capacity and fail to reinforce legislation – with the exception of cotton – cooperatives enjoy relatively more room for manoeuvre and mostly operate as suits them best. Previous ways of cooperation thus can continue under this new label 'cooperative'.

In Indonesia, Ronnie Natawidjaja has observed links between domestic formal actors and the informal sector (see Box 5).

Box 5. Links between formal and informal actors in Indonesia

Formal actors in the domestic market have some direct connection with informal actors. For example, with high demands for consistent product quality and continuity, most exporters cannot rely only on their specialised suppliers. They also have to coordinate with the traditional wholesaler in the market and many local collectors in the main production areas. Most of the arrangements that exporters have with traditional actors are informal.

Another example is in the modern channel. Modern retailers much prefer to use their own specialised suppliers. However, since modern retailers require many items for their stores, they often ask the traditional wholesaler to become a regular supplier – with an informal arrangement. Modern retailers gain two advantages from this arrangement. First, it helps to stabilise supply to a store. Second, it keeps pressure on their own specialised supplier to remain competitive with the traditional market, even though the modern retail standard requirement is higher. As specialised suppliers were also part of the traditional markets system, they know how to play their part with informal actors.

Ronnie Natawidjaja

In Colombia, as in other countries, traders were reported to move fluidly between the two sectors, supplying both the formal and informal markets. Better quality products go to the formal sector, though the price premium for higher grades may not always be passed on to producers. Cecilia Tacoli noted the role of **small towns** as areas for first sorting and grading and in bridging those informal-formal linkages, with multiple roles for 'urbanising villages' in those connections. Those activities are driven by enterprises which can be largely defined as 'informal' in that they are small-scale, independent, and very often family-based.

There are also the consumer links between formal and informal. In southern Africa, 80 per cent of poor people use supermarkets, but only perhaps once a month. For daily and weekly purchases, they use local stores or street traders. The same observation was made in Uganda by Bihunirwa Medius.

Downsides of informality

Besides strengths, informal markets can also suffer from a number of weaknesses, some of them well known. It should be noted that many of the downsides can also be found – to a greater or lesser degree – in poorly functioning formal markets.

Food safety and quality

Food contamination can have massive public costs, as the 2008 case of melamine adulteration in milk in China illustrated. Informal markets can provide farmers with limited incentives to upgrade production systems for quality, with no access to training and services via commercial channels. Guarín pointed out that unlike supermarkets or

formal food processors, traditional wholesalers and retailers have no brand to protect, so they can potentially get away with tainted goods. For traders, the limitations of informality include problems of quality, grading, and standards, where farmers try to pass off produce of lesser quality as better quality, which leads to increased transaction and sorting costs. But despite the absence of formal controls and grades, the quality of product reaching the consumer is often high. Moustier reported an analysis done in Hanoi that showed low pesticide residue levels everywhere, and some excess residues in both informal and formal markets (Moustier *et al.* 2007).

Poverty traps

Guarín stated frankly that in informal sectors:

What looks like incipient entrepreneurship is often a disguise for persistent poverty. Jobs are uncertain, typically under-paid, and workers have little or no access to social services or benefits. The costs of entry for new businesses are low – but so are the possibilities for success.

Due to poor access to formal finance, farmers can get caught in quasi-indentured trading relationships if middlemen finance the chain. They are subject to high interest rates⁶ and low prices, with limited or no transparency in terms of pricing, grading, and overall governance structures. They are also prey to 'market mafias' who collude at the expense of farmers.

The growing informalisation of work and erosion of workers' rights can also trap workers in poverty. Del Pozo-Vergnes's report of earnings at La

6. Kaushlendra gave the figure of 10–15% per day reported in Bihar India; Schrader cites data from sesame markets in Ethiopia of informal money lenders charging 15–20% per month, generally based on illegal pre-harvest negotiated sales of sesame at a rate well below market value.

Parada wholesale market in Lima suggests that extraordinary sums are kept back for a cartel. Wiggins reported that when Tanzanian colleagues looked at onion chains from villages on the edge of the southern highlands to the capital Dar es Salaam, the margins were modest all the way until the brokers in the wholesale market in Dar es Salaam were reached. Prices then suddenly rose by a fifth or more, for little or no added value. But Mark Lundy noted that informal traders also shoulder significant market price risk (depending on the connectedness of the trader and the perishability of the crop), and continual pressure to pay informal taxes (i.e. bribes) to function at several levels (roadblocks, market access, market space etc.). There is also a **lack of legal recourse** for non-payment issues, for both farmers and traders.

Productivity and barriers to scale

As Paule Moustier noted in her submission,

The characteristics of the informal sector generate what economists call the simple reproduction of the enterprise, i.e. the impossibility to generate more than the income necessary for the enterprise to pay for the inputs and means of production involved, and hence the impossibility for the enterprise to accumulate savings and invest for its development.

But the workshop did not arrive at consensus on this. Derek Baker saw no inherent difference per se in scale between formal and informal. However, technologies are different, such as transport, which informality does not do well. Baker noted the role of brokers in building scale, such as in informal livestock markets. The broker does not assume ownership of the animal but reduces transaction costs and reduces a lot of the systemic risk – but if this system is not in place (as in Mozambique) then there is little incentive to invest. Tassi noted that in Bolivia, informality has achieved scale to the extent that the popular and indigenous sector has taken over the formal one to become dominant and mainstream. He comments that:

Success of the informal traders and their heightened capacity of political mobilisation

have generated new forms of negotiation and a new equilibrium between these informally constituted groups and the state, which has been forced to accept a degree of legal and economic pluralism.

Workshop participants also noted different interpretations of productivity – informality can be a very efficient use of plentiful labour.⁷ For example, if comparing how many jobs are created per unit of output, formal (pasteurised) dairy requires 5000 litres of milk to create one job, while its informal equivalent requires only 100 litres per job. Employment generated by street vendors in Vietnam gave a similar picture, with 13 people needed to trade one tonne of vegetables in the informal sector, while for supermarkets, the same quantity of vegetables only employs eight people (Moustier *et al.* 2009).

Lost state revenues and issues of urban governance

The reduction of the formal tax base and lack of tax revenue drives a vicious circle of low investment and more informality. Lundy and Wiggins both commented on how many traders pay significant informal taxes to public servants or their proxies to function, or to organised crime that demands protection money. Informal markets also present municipal authorities with challenges of managing and regulating the size and location of informal markets, related to congestion, waste management, and security.

Invisibility

Lack of formal producer and trader organisations at the national level means that the informal sector (and the value it creates) is invisible to policymakers. But invisibility may itself be a survival strategy against a predatory bureaucracy to defend territory and commercial spaces. Eventually it is true and probably necessary for informal producer and trader organisations to become visible by forming associations, cooperatives, or syndicates as negotiation partners for state and international agencies. However, many of these organisations are prone to elite capture.

7. 'Efficient' in the sense of job-creation, perhaps through the substitution of labour for capital. The two processes of differing labour intensity produce quite different 'products', either in terms of safety (e.g. through pasteurisation) or 'place utility' (e.g. product delivered closer to the home of the consumer) or other attributes. It may be a mistake to equate labour-intensive production with informality. It could simply be a matter of choice of technique; a formal firm could conceivably choose to go the labour-intensive route.

Improvements, implications and knowledge gaps

The third part of the workshop asked what we need to consider in approaches to improve the performance of the informal sector while recognising the risk of exclusion when intervening with new forms of regulation and governance.

When asking what opportunities exist for policy interventions to build on positives and reduce the negatives of informal markets, or to achieve ‘inclusive formalisation’, there are many questions with few clear answers. How can policy buy-in be attracted into the informal sector without being accused of promoting underdevelopment? How can the role of the state be more significant in promoting institutions and regulation in informal markets, so that small-scale producers and traders are supported and not abused, consumers are protected from gross public danger (especially food safety), vulnerable people are protected in work and in trade, and productivity is promoted? How can the right balance be struck between informality and formality?

Alejandro Guarín made the point that while informality is something we see as pertaining to firms and employees, some of its key features are enabled by demand – that is, by consumers. The question is then whether improving informal markets is a zero-sum game: if businesses (or workers) gain, do consumers lose? A very good scheme for formalising traditional retailers by providing training or credit could be very bad for poor consumers if prices go up even a little bit.

The risks of undermining functioning market systems

There are certainly risks of getting policy wrong, especially of destroying a well-functioning system either through starving the informal and ‘traditional’ sectors of public investment by only investing in the formal sector (such as through growth corridors and contract farming arrangements⁸) or through inappropriate formalisation. Neuwirth reminds us that de Soto’s call for formalisation is not always a good idea for the firms and traders in the sector, when they have no problems accessing cash or trading with the formal world. Governments and donors often propose new forms of production, organisation, regulation, and governance without sufficiently understanding the informal organisation of the production and marketing systems. Joost Nelen pleaded the case for better political-economic analysis of such propositions. There are international

and national (vested) interests. Nico Tassi concurred:

The efforts of international agencies and policy initiatives aimed at improving the informal sector were often cosmetic and fragmentary. They often ended up negating it, making it official and rule bound – issuing licences, offering bank credit, organising marketplaces, setting up training schemes and, above all, taxing operators made visible by formalisations.

Ted Schrader gave an example of those risks from the sugarcane sub-sector in Rwanda. Farmers have developed effective informal groupings that work to everyone’s advantage. A symbiotic relationship between sugarcane producers and neighbouring crop and livestock farmers has evolved over time. The latter have access to sugarcane plots for production of sweet potatoes and beans, preparing the land for sugarcane production. Labourers who help with sugarcane harvesting are allowed to take bundled sugarcane leaves with them, which they use for animal feed and mulching of their own fields. The system has resolved initial problems caused by jealousy of sugarcane farmers for their larger plots and higher earnings.

The promotion of cooperatives is a key element of agricultural policy in Rwanda. However, outside attempts to organise farmers along more formal lines, introducing mechanisation and sugarcane cooperatives, may do more harm than good. Schrader said that governments and donors often propose new forms of production, organisation, regulation, and governance without sufficiently understanding the informal organisation of the production and marketing systems. Already, the informal sugarcane groupings have shown their ability to take collective action when they successfully negotiated a price increase with a buyer, hiring a lawyer to present their case. Informal arrangements should become the starting point for further competitive, sustainable, and inclusive sugarcane value chain development in the Nyabarongo valley, now the country’s biggest sugarcane production area.

Attempts at formalisation can be highly exclusionary

The main tool for managing food safety risks is through standards. Amos Omoro noted that in developing countries, there is a pronounced tension between aims to safeguard the welfare of poor

8. Some new state programmes, highly subsidised by international donors, have a biased discourse. Joost Nelen reports that Burkina Faso and Mali have established ‘growth poles’ and aim investments at ‘businessmen’, large-scale farming, and farmer cooperatives. The existence of trade networks and diverse farming categories are simply negated or put aside as irrelevant.

people (for example, through improved productivity or employment) and the need to mitigate safety concerns, mainly due to large income disparities. Richer citizens want to live by 'one standard', preferably benchmarked internationally. But that often excludes the poor and voiceless who participate in informal markets.

Mark Lundy commented that inclusive formalisation might be feasible in the context of effective public sector governance, provided that:

- the state has the capacity to actually enforce regulations that move towards formalisation;
- there is sufficient capacity to provide widespread access to the necessary upgrading services needed for formalisation; and
- financial support is available for the needed investments.

Given that these conditions are rarely met in formal markets where certain incentives exist for formalisation, Lundy felt that it is difficult to imagine how this might actually occur at a sector-wide scale. Most of the cases he has seen in Latin America – interventions aimed at either broadening the tax base and/or improving apparent food security – tend not to work well. He asked if perhaps we are 'seeking a mythical beast' in inclusive formalisation.

An example comes from Colombia where a decree forbade the trading of raw milk, equivalent to half of the market (see Box 6).

Alejandro Guarín also reported that inappropriate regulation can have unintended negative outcomes for consumers. Regulating the trade of beef in

Box 6. Exclusionary formalisation: unpasteurised milk in Colombia

The Colombian government decided unilaterally to decree that only pasteurised milk could be transported and sold in the legal market. This decree effectively 'disappeared' half of the overall dairy market in the country overnight (the raw milk market). It moved poorer producers and consumers into what became a clandestine activity. The rationale for this decision was food safety (based in no small measure on lobbying from the formal dairy sector) and the need for Colombian dairies to prepare to compete in a context of liberalised trade. The effects on food safety are unclear and the overall competitive position of Colombian dairy vis-à-vis the global dairy sector is at best unchanged.

Mark Lundy

Colombia against unrealistic policy goals and poor state enforcement abilities has led to some of the beef market being pushed further into informality. In this parallel black market, it is far more likely that the beef comes from sick or old animals, and there is even evidence that non-cow meat circulates too. These products make their way to the poorest markets, where vulnerable consumers bear the obvious health risks.

The risk of exclusion also applies to small-scale processors and traders. An example of government food safety policy that has locked small and medium enterprises (SMEs) out of the market comes from Honduras (see Box 7).

Box 7. Exclusionary formalisation: food processing SMEs in Honduras

In Honduras, a previous government decided to 'formalise' basic SME food processors by applying food safety standards and seals with the health sector. The rationale behind this decision was food safety and broadening the tax base (certification and seals were costly to obtain). But the effective result was the closing off of potential value-added opportunities provided by a range of urban and rural SMEs. This limited them to either informal markets or continuing as suppliers of raw materials to larger, more established businesses.

Mark Lundy

In China, the policy response to food adulteration is driving the consolidation of small-scale production – all in the name of improving product integrity and consumer assurance, notably in dairy (see Box 8). This process of restructuring may be much more 'inclusive' than shifting production to industrial mega-dairies, but still the policy is having considerable negative impacts on small farmers.

Amos Omoro also cautioned that vested interests might resist efforts to create strategies that would legitimise informal actors (see Box 9). Resistance also comes from vested interests in customs authorities, who would not want to lose payoffs from informal trade.

Institutional innovations to overcome downsides of informality

Some formalisation may be needed for the food sector to be safer, more efficient, inclusive, and better governed. Lundy observed that interventions to improve the informal sector can do one of two things. They can either build on market incentives (providing information on product demand to stimulate trade

Box 8. Restructuring production in response to food adulteration – cow complexes in China

Urbanisation and food safety legislation have drastically changed the face of China's agrifood sector in recent years. Nowhere is this more evident than in the dairy sector, once dominated by small-scale backyard farms, each with just three to five cows. These household-run operations sold low volumes of milk to small-scale traders for cash payment.

All that changed in the wake of the 2008 crisis over milk adulterated with melamine. The contaminated milk scandal prompted the government to radically overhaul the country's dairy sector. Backyard farms were replaced by large-scale centralised production units known as cow complexes. These highly structured units are often located long distances away, forcing many farmers to migrate. Like the cows, the farmers were also housed in complexes. Herd sizes and efficiency have increased, but at a high social cost to farmers and their families. Prompt cash payments are a thing of the past.

Xiangping Jia

Box 9. Resistance from vested interests

In Kenya, there has been a milk marketing battle. On one side are a few large, specialised, highly organised, and well-connected producer-processors with significant installed capacity. On the other are myriad, often part-time, usually haphazardly organised and voiceless small-scale producer-traders of raw unprocessed milk.

The result is a plethora of press reports highlighting the potential, but undocumented, health hazards associated with raw milk. These openly ignored scientific evidence, even when it was made available. The same reports downplayed or failed to mention the narrow reach of processed milk supply chains and the higher prices within them. The competition for market share between the two groups – each with considerably different levels of investment – was being fought on the basis, not of price (as it should have been), but of perceived quality and safety (even when this was proven false). So far, differential political power across the two groups has played a significant part in the contest.

Amos Omore

within a country or across countries to assure that food is available where it is needed). Or, they can try to regulate and control market excesses.

Care should be taken in deciding on one or other of these approaches. The capacities of the public sector to implement them are substantially different. Policy pacing is essential: in Asia, Latin America, and parts of Africa, where per capita incomes are starting to rise, there may be a case for helping informal producers and others in the food supply chain to upgrade, so that they can lower unit costs through economies of scale and increase profits.

In other parts of sub-sectors, this is simply not the case. The margins for 'upgrading' livestock and cereal trade in large parts of Africa are slim. Dairy markets are fragmented and milk producers do not necessarily increase profits from upgrading. Amos Amore and Joost Nelen stated that most dairy producers get far better prices in informal, 'proximity' markets than in more formalised circuits of dairy processors. An important challenge is defining what governments and local authorities

can do to facilitate progressive modernisation. Imposing regulatory structures will force informal actors out of the markets, and leave poor urban consumers without an affordable food source. A first step may be recognising the informal sector in legislation, as in Papua New Guinea with the Informal Sector Act.

Association of actors in informal markets

Association has a number of roles for informal market actors. It can defend rights and survival. It can build legitimacy and space for collective action, making it clear that legitimacy is not the same as formalisation. It can change perceptions of informal actors as subversive criminals to an entrepreneurial sector that provides employment and reinvests locally (unlike many in the middle classes, who invest their profits abroad). The 'enabling policy environment' is however contested and defended to 'enable' specific sectors and interests. As discussed earlier, policy interest in the informal sector can lead to negative outcomes unless market actors are able to shape and challenge the agenda, as with the National Association of Street Vendors in India, or the Kenya Smallholder Milk Traders Association (Box 12).

Box 10. Policy and formalisation: street vendors in Hanoi, Vietnam

In Hanoi, policy regarding street vending is ambiguous. With the support of our group of Vietnamese and international researchers, a dialogue between street vendors and municipalities was strengthened, and provided opportunities for training on food hygiene. But increased transparency made the large size of the informal sector visible to government, triggering a mix of legalisation and restriction. Since 26 April 2008, street vending has been made legal in certain roads, outside the 62 banned roads. But the problem is that street vendors do not know this. They still fear harassment by the authorities. These traders have an unfinished role in policy.

Paule Moustier

Upgrading informal traders

There are opportunities for NGOs and social enterprises to upgrade informal enterprises without formalising them (see Box 11).

The role that local governments can play was also highlighted. Ronnie Natawidjaja commented on the positive role that local authorities in Central Java in Indonesia have played in creating space for informal/traditional food markets in the context of tourism and the growing importance of gastronomy in attracting visitors. Decentralisation processes and

public procurement to match small-scale producer and low-income consumer needs and interests, as in Brazil, were also discussed. But such differentiated policies can, if poorly designed, also trap informal actors in poverty and impede long-term sustainability.

Appropriate standards and certification

'Light touch' interventions and legislation are risk-based and build on the informal sector's positive features. They can be more effective than clashing head-on with small-scale producers and traders and forcing them out of the marketplace.

In East Africa, Amos Omoro described how the International Livestock Research Institute (ILRI) intervened to help small-scale dairy producers improve standards for unpasteurised milk. Informal markets dominate because they serve the majority of poor sellers and buyers and, in many instances, offer low prices. The policy dialogue here therefore needs to bridge the gap among key players and stakeholders, perhaps not by pursuing 'double standards', but by promoting the view that standards can be aspirational. This is a possible 'win-win' strategy for bridging the regulatory gap. It could also respond to the increasing recognition that informal channels need to be embraced by policy without jeopardising associated public health risks that often dictate how standards are set. The appropriate response should avoid the compartmentalisation and instead analyse trade-offs between the welfare of poor people and risks.

Box 11. Linking vegetable farmers and street vendors in Bihar, India

In Bihar, India, almost 100 per cent of fresh vegetables are distributed through informal trade channels. Now a new model is addressing some of the major challenges of transport, handling, packing, and storage. The more structured approach, introduced by local NGO the Kaushalya Foundation, brings together vegetable producers and street vendors in an integrated supply chain.

Known as the Samridhii model, the system harnesses the entrepreneurial skills of vegetable vendors and the unskilled workforce, who have been excluded from modern retail chains. The model involves organising collection centres, inputs, grading, sorting, and distribution to assorted outlets. It addresses problems faced by farmers, who have very small plots, low productivity, low income, no access to formal financial services, and no way of getting their goods to market other than on foot, carrying produce on their heads. It also targets street vendors, who are not organised and are scattered throughout the city, relying on intermediary agents for supplies and earning very small profit margins. Vendors also live in constant fear of being stopped by the police and municipal authorities.

About 6000 farmers are involved. They have more than doubled their income, because they sell more and get higher prices. Farmers now receive training and extension services, improving quality and productivity. Packaging and branding has led to higher prices. Banks are now offering loans to farmers so they can improve production, and also to vendors so they can buy vegetable vending carts, which keep produce fresh by maintaining the optimum temperature of 8–15°C for 5–8 hours. They also generate revenue from advertising.

As well as producing higher revenues for both farmers and vendors, the system has helped to change the image of actors involved in the informal vegetable trade. Once considered as people with no hope and few prospects, those involved in the sector now have a much higher profile. The system is also being extended in six other states.

Kaushlendra

The same logic also applies to sustainability standards. They are another formalisation and 'greening' tool and the centre of much debate on impact on market access for small-scale producers.

The approach in Kenya has been to establish a training and certification scheme for traders (see Box 12). This also provides a differentiation mechanism for clients in small-scale milk markets and a basis upon which value addition and other marketing innovations can be built by the traders themselves.

Knowledge gaps: demystifying informal markets for effective policy

There was a general consensus by workshop participants on the need for a better understanding of the nature of informality. The informal market is an 'empirical black hole' compared to the formal market. Amos Omoro stressed that policymakers require well-documented justification for departing from prevailing procedures for the informal sector. A lot of people are looking at the 'problem' with informality before understanding it in their specific context.

Building an evidence base

To date, work on informal markets has been hampered by a lack of comparable data that would allow researchers and policymakers to better understand some of the big questions. If we do not want to reproduce stereotypes of informality, we need to understand better what is happening.

Dialogue with key public sector and donor agencies around more robust evidence on informal markets – the good, the bad, and the ugly – is also necessary. Otherwise constructs and terminologies, including the 'green economy' or 'climate-smart agriculture', will present problems when applied to these mainstream but poorly understood markets.

In general, we know relatively little about how informal trade (from local and small to national and large) functions in practice. For example, is formality in global retreat (Kudva and Benería 2005) despite the forces pushing in the opposite direction, including the growing dominance of supermarkets in the wholesale part of the chain, so that even small shops are dependent on big companies? Will this trend also spread to countries where it is not yet evident? What is the role of the informal economy in South-South trade? There are vested interests, in both 'informal' and 'formal' economies. How do their agents cooperate or oppose or become interdependent? A number of participants pleaded for better political-economic analysis of informal markets and trade.

How do the different food production and marketing systems compare in terms of resilience and environmental implications? Are the much-touted inefficiencies and waste in informal chains real or imagined? What value is generated by the formal versus informal sectors? Under what conditions are informal markets poverty traps, and when are they not? How does greater formalisation affect

Box 12. Training and certification of small-scale milk traders in Kenya

In Kenya, where traditional markets dominate the supply of milk, a training and certification scheme for small-scale milk traders has helped to bridge the gap between regulated and unregulated markets. Previously, the informal sector was actively discouraged, due to concerns about safety standards and a desire to move closer to international norms. This was despite the many benefits derived from traditional milk markets. As well as generating income and employment for traders, informal markets offer cheaper milk for poor consumers, satisfy traditional tastes, and pay better prices to producers.

The approach, largely pioneered by the Kenya Dairy Board (KDB) as a way of promoting self-regulation, resulted in the creation of a Dairy Traders Association (DTA) in 2009. This association has become a strong voice for the previously vulnerable small-scale milk traders. Risk analysis, and demonstration of how human health can be safeguarded from milk-borne hazards, proved a critical step in changing mindsets and influencing policy in a pro-poor direction. Remarkably, KDB, which once harassed raw milk traders due to concerns over milk quality and safety, now works closely with DTA. The organisation has more than 4000 members countrywide, who have now been trained and certified.

Training and certification is delivered through accredited business development service providers, improving milk hygiene and safety and addressing the concerns of policymakers. The training covers basic principles of hygienic milk production, milk handling, and simple milk quality tests. Certification offers a differentiation mechanism for customers and a basis upon which traders can build value addition and other marketing innovations. The approach has been piloted in Kenya with considerable success, and to a lesser extent in Tanzania and Uganda, mainly due to the limited growth in business development services in those countries.

Amos Omoro and Derek Baker

food security for the poor? What role do culture and ethnicity play in informal markets and associations? What are the specific constraints and opportunities for women and youth in the informal sector? What scope is there for networking among practitioners and researchers? How should policies be paced?

Gaining access and trust of these actors is, in itself, a research challenge. Building collaborative capacities, frameworks, and approaches (methods and tools) would be useful here. Several participants also stressed the need to include robust analysis on the consumers in informal markets and their preferred marketing channels. For example, Alejandro Guarín and Mark Lundy mentioned that in Latin America, there is a continued coexistence of small corner stores in the face of the onslaught of modern market channels – especially in lower-income communities. This raises questions about consumer needs and preferences. Guarín's opinion was that most academic and policy work about the informal sector focuses on the firm:

Consumers are rarely part of this picture; and if they are, it is as rather passive figures that happen to buy whatever is available in the market. This absence is all the more striking considering that informal workers are for the most part also consumers of informally produced goods and services. The limitations of this view were obvious when I started studying food retailing in Colombia. It became apparent that the needs and wants of poor urban consumers were a powerful force driving the peculiar system of food production, distribution, and retail in Colombia.

Supporting the concept of working with – rather than against – the informal sector

The workshop discussed some of the all too few policy interventions that have deliberately set out to work together with the informal sector, rather than clashing with it head-on. There is evidence from Kenya on working with informal actors in the dairy chain (see Box 13). Another example comes from Solo in Central Java Indonesia, where the then mayor successfully managed street vendors, regularly talking with them to understand their needs, agreeing with them about certain locations in the city that the vendors must keep clean, and providing electricity and water as part of the deal. This has encouraged culinary tourism in the city. The authorities in the capital Jakarta are now involved in a similar plan to relocate all street vendors to 23 centralised locations, 'as part of measures to both ease traffic flow in the capital and bring some order to the informal sector' (Nirmala 2013). Another effective approach has been to introduce training sessions on hygiene for street vendors in Hanoi, Vietnam. However, although this initiative produced good results, it also alerted authorities to the huge numbers of vendors and led them to restrict trading to a few specific streets.

Decentralised micro-level approaches may be more effective than top-down state-led interventions in addressing issues such as food safety and economies of scale, especially in rapidly growing urban settings. Public-private partnerships formed to tackle a particular problem in a particular part of a city can produce good results. Such interventions will almost certainly be fee-based, but informal actors are likely to be more prepared to pay when they can be sure the system is transparent, and that they will benefit from real and efficient services.

Box 13. Building evidence for policy change: the case of Kenyan dairy

In the Kenyan dairy policy shift example, the government's willingness to accommodate change was a key factor. Kenyan dairy development authorities realised the potential benefits of providing an enabling environment for small traders. They urgently required more information as a basis to develop locally derived food safety assurance regulations and standards that also define the required institutional and technical changes and trade-offs. This provided a research platform for development partnerships to address two important gaps:

- the evidence gap: to address the lack of accurate information on milk-borne health risks; and
- the action gap: the need for practical steps to optimise milk quality in informal milk markets.

The key question was whether evidence-based policy action and technology could form a basis for piloting to help bridge the gap between regulated and unregulated markets.

To respond to this question, a research and development partnership was forged between two international organisations, ILRI and the Food and Agriculture Organization (FAO), and several Kenyan public sector organisations. They aimed to take appropriate steps to enable informal traders to be accepted into the licensed milk trade. Risk analyses and demonstrating how human health can be safeguarded from milk-borne hazards was considered a critical step towards tilting mindsets and influencing policy in a pro-poor direction. A subsequent training and certification pilot with participation of the Kenya Dairy Board for small-scale milk traders achieved the 'seeing is believing' requirement to changing mindsets (see Box 11).

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Crafting a possible joint research and capacity programme

The final section of the workshop reflected on earlier discussions, looked at options for addressing knowledge and implementation gaps through research and practice, and considered suggestions from participants on possible joint research and capacity programmes. The discussions centred on three proposals:

Consolidate the evidence base

As set out in Section C, one of the key themes to emerge from the workshop was that much more investigation is needed into the informal agrifood sector. Some of the most glaring knowledge gaps include market resilience, urban–rural connections, urban food security, food safety in informal markets, costs and benefits for small-scale farmers to get involved in more formal organisations and commercial transactions, and consumer willingness to pay for better hygiene and presentation. But there are many other areas that need further exploration before realistic policies can be designed for the sector. Alejandro Guarín proposed putting together a special issue of a journal about informal agrifood markets, both to raise the profile of these issues and to showcase the range of research that we are doing on them.

The right investments in wholesale markets

David Tschirley reminded the group that investments in wholesale infrastructure are a common response of the state to the informal sector. But these investments have a high failure rate. It is very difficult to get investments right in these systems. Where, how, and why does government intervention work? What are good examples that have worked to the advantage of producers and consumers? What are other success factors, including a mix of public and private investment?

If nothing is done, then states may have to impose exclusionary standards. But if they do too much, then costs become too high and traders move outside of the market. Tschirley gave examples from Lusaka and Nairobi, where it is common for traders to start their own markets outside of the oversight of municipal authorities. This can lead to conflict with those authorities. Or the state may move the market without understanding informality, thereby creating a ‘white elephant’ market that traders bypass. Policy has to nudge the system along at a pace that consumers and retailers are willing to move at. Governments must not get ahead of the game and

impose costs of formality that push people into new informal spaces, but track what consumers and retailers are willing to pay, for example for improved food safety or a cleaner environment.

Informality and market resilience

The workshop observed that informal markets have many characteristics of resilience. ‘Resilience’ is defined here as the capacity to manage or buffer against risks and losses and to maintain supplies in the face of competition and a range of external stresses – including climate change, economic crisis, rising energy costs, consumer demand, or political instability. It also includes competing with and accommodating modernisation. John Conroy’s submission also stressed the importance of informal small-scale agriculture in supplying the food needs of urban workers in developing countries, keeping downward pressure on the urban cost of living, and improving international competitiveness. This has the potential to ameliorate the domestic political impact of international market-opening measures imposed on governments in international trade negotiations.

But there is a lack of empirical evidence of the comparative resilience of formal value chains and informal markets or the combination of the two (as can be found in many smallholder systems). This is particularly important now, as governments and donors are betting heavily on large-scale formal agribusiness, such as through development corridors. There are potentially two sets of research questions, the first focusing on domestic markets and the second on regional trade. For now, those questions are pooled, as follows:

- What can we learn about the nature of the resilience of ‘informal’ trade in domestic markets and regional trade to guide national policy, development interventions, climate policy, and South–South and regional trade? What systems are promoting resilience, such as governance of the chain relative to the risks to each actor, or the diversity of outlets? What shocks and stresses can markets moderate rather than just react to?
- How can regional trade be better organised to benefit the resilience of markets for producers and consumers? What can be re-imported into modern chains from informal trade to build resilience, and vice versa?

Closing remarks

The tide of development policy thinking has moved to considering informality as a public 'bad'. But the informal sector is growing in parallel with modern formal markets, and continues to provide the main link between small- and medium-scale farmers and low-income consumers. Informality is, and will continue to be, central to both rural and urban food security, livelihood generation, and job creation. It is also where much of the produce that reaches the formal sector originates.

Current framings of informality are poor at describing primary agricultural production. Should formality in smallholder agriculture be framed as commercial or corporate farming, supported by the formal institutions of contracts between agribusiness companies and organised producers? If this is the case, then formality is indeed out of reach for the vast majority of smallholders. Yet the formal model dominates much of contemporary agricultural policy and business thinking, to the point of fixation.

The workshop participants advocated less for singling out informality as the issue – which positions informality as an exception to the formal norm. They stressed instead the need to shine a light on the informal production and trade that feeds the majority of populations during a period of quite rapid population growth and urbanisation. It is poorly understood and even more poorly accommodated by policymakers and the development community. Powerful forces are at work to formalise agrifood markets, as seen in China, but 'inclusive formalisation' is much easier said than done.

The workshop participants called first and foremost for a bridging of the knowledge gap. They advocate for discovering a great deal more in terms of how the informal agrifood sector really works, what it contributes, and where there is room for upgrading. As Ted Schrader writes, *It is often 'us', development experts, who fail to understand how domestic/local markets are organised and regulated and how transaction risks and costs are reduced through trustful relations and informally provided services.*

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Meeting small-scale farmers in *their* markets

Understanding and improving the institutions and governance of informal agrifood trade

The informal sector is growing in parallel with modern formal markets. It is central to rural and urban food security, livelihood generation, and job creation. It is also where much of the produce that reaches the formal sector originates. But the tide of development policy thinking has moved, and considers informality as a public 'bad' – a deadweight that blocks the emergence of a modern private sector.

This report is the outcome of a workshop that set out to better understand the informal markets that link small-scale farmers and low-income consumers. It first asks how informality is framed in agrifood markets, in the context of smallholder agriculture and food security. It then addresses the factors that underpin the resilience and dynamism in informal agrifood trade. Finally, it asks what needs to be considered in approaches to improve the performance of the informal sector, recognising problems of food safety and quality, poverty traps, barriers to scale, lost state revenues, and issues of urban governance, while also recognising the risk of exclusion when intervening with new forms of regulation.

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