



Strengthening market linkages to farmers through NGOs

Lessons from experiences to date

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The context

- Transformation in agri-food systems:
 - less open-market sales
 - greater linkages
 - emphasis on quality, standards and traceability.
- Changing consumer demand
 - types of product
 - form of product
 - quality and safety

Why link farmers to markets?

- Production push focus is no longer viable
- Ad hoc sales of small surpluses not a realistic long-term approach. Farmers need to respond to market demand
- Long-term business partnerships offer greatest scope for increased earnings.



Potential advantages of improved linkages for farmers

- Input supply and credit
- Access to research, extension and technology
- More assured market and less risk
- Better access to transportation, logistics and primary processing
- Better knowledge of market demand
- Possibly, advanced knowledge of price
- Quality control



Potential problems for farmers

- Contractual arrangements may break down, with no other market available
- Asset specificity and loss of flexibility
- Risk that buyer will renege on agreement
- Price manipulation by buyer or staff

Benefits for traders and agri-food companies

- Economies of scale in purchasing
- Increased and more reliable supplies
- Ability to control quality
- Overcome land constraint
- Politically and socially acceptable

Possible disadvantages for buyers

- High transaction costs
- Input diversion
- Extra-contractual marketing
- Traceability problems when buying from many farmers
- Supply interruptions

There are many different types of linkage, including

- Farmer to domestic trader, with or without external catalyst
- Farmer to modern retailer
 - Direct
 - Through wholesaler or agent
- Linkages through leading farmer
- Linkages through cooperatives
 - Direct to the private sector
 - With an external catalyst

Different types of linkage (2)

- Farmer to agroprocessor
 - Initiated by the processor
 - With an external catalyst or facilitator
 - Initiated by the government, such as oil palm schemes.
- Farmer to exporter
 - With external catalyst
 - Developed by the participants themselves

Factors contributing to successful linkages

- Profitable markets (without a market there is little point to any other activities)
- Capacity of the linking organization
- Avoiding subsidies
- Mutual trust
- The enabling environment
- Group organization
- Business orientation of farmers and their capacity to maintain linkages and manage groups
- Ensuring sustainability

Markets

- Markets must be available *and profitable*
- Potential risks include:
 - rapid price fluctuations;
 - highly competitive markets;
 - limited number of buyers.

not only the market but also the marketing chain must be fully understood

So what are the opportunities for market development?

- Developing the local market and import substitution
- Promoting local consumption
- Adding value
- High-value products
- Niche marketing
- Organic product marketing
- Fair trade

but always a risk that margins will be squeezed

What is the capacity of the linking organization?

- Many linking organizations (e.g. NGOs) lack a business orientation
- Difficulty of attracting right staff
- Recognition by NGOs and others that training and experience exchange is required
- Residual suspicion of private sector
- Areas for training include contract negotiation, market research, value chain analysis, business management

Can linking organizations avoid paying subsidies?

- NGOs and other linking organizations have in past often had a subsidy orientation
- Subsidies are incompatible with efforts to develop profitable and sustainable business ventures
- Available resources should be spent on linkage development, training, market assessment but not on farm inputs or marketing
- Large-scale equipment support to agroprocessing ventures is also questionable

How can mutual trust be developed?

- Trust between parties is essential for sustainable long-term linkages
- Many linkage activities break down because of disagreements
 - Parties are remote from each other
 - No social capital
 - Lack of understanding of farmers of long-term benefits
- From agri-food company perspective major problem is extra-contractual marketing

Mutual trust (2)

- From farmer perspective
 - Lack of transparency in grading and pricing
 - Late payments
- Ways of improving trust
 - Arbitration procedures (e.g. through commodity associations)
 - Transparency – maximizing communication
 - On-time payment
 - Peer pressure of farmer groups
 - Working through farmer leaders
 - Support from extension workers

What makes a suitable enabling environment?

- Policy should facilitate linkage development both directly by the private sector and through project interventions. In doing so, governments need to avoid:
 - Choosing target enterprises – this should be done by the market
 - Undermining commercial service providers
 - Absorbing costs and so creating artificial and non-sustainable business conditions

An enabling environment (2)

- Stable macro-economic environment, good governance, low corruption are all necessary to attract agrifood investors
- Legal and regulatory framework
 - Farmer groups and cooperatives
 - Laws of contract
 - Enforcement
 - Regulations and institutions relating to organic, GAP, geographic origin, etc. certification; pesticide control.

An enabling environment (3)

- Infrastructure
 - Rural roads and storage
 - Power and water supplies
 - Port and airport facilities
 - Communications
- Market information and extension
- Market-led agricultural research

How can farmers work in groups?

- NGOs and donor generally consider it necessary to organize farmers into business groups:
 - Need to overcome reluctance to work together
 - Works best when already have group experience
 - Economic benefits must be clear
 - These benefits should come from profitable activities, not subsidies
 - Business development at same time as institutional development or farmers will see no point in the latter.

Groups are a modality that may or may not be needed, not an objective in themselves!



PHOTO: OAKLE

What is needed for farmers to manage business groups?

- Capacity of farmers to successfully manage business groups remains unclear
- Where strong doubts about this capacity exist, better to link farmers individually through existing channels
- Entrepreneurial training (Is it really possible to create entrepreneurs?)
- Clarification of group legal status to facilitate contracts, bank accounts, etc.
- Training in group organization and management, account and record keeping, contract negotiating, planning and logistics, etc.

How can sustainability be promoted?

- As yet unclear whether external linkage interventions can be sustainable, replicable and up-scaleable
 - Linking farmers to markets cannot be synonymous with social welfare
 - Sustainability invariably requires that a business approach overrides an equity approach

Sustainability (2)

- Too many cooks! Many external linkage activities have a large number of partners who may not always share the same approaches or motives
- Be realistic in planning and expectations.
- Be flexible and learn from mistakes.
- Resist tendency to subsidize farmers. Don't do things for farmers - let them do things for themselves
- Make it clear from the outset that no subsidies forthcoming. If it's not profitable it's not sustainable!

Sustainability (3)

- Address the need of farmers for finance by working with existing financial institutions
- What time-scale is required? 2-3 years or 10?
- Have a clear exit strategy from the start
- Assure capacity of service providers
- Ensure local and national authorities are fully supportive

Sustainable small improvements are better than unsustainable large ones!

Last, but certainly not least!

Work closely with the private sector

- organizations cannot work with private sector if staff are suspicious of private business
- Linkages require working with the private sector, not against it
- Small traders can be an effective linkage. They are also looking to respond to new trends and can link with farmers in a culturally acceptable, low-cost manner

Private sector (2)

- Establishment of new businesses by an NGO (e.g. for agroprocessing) unlikely to be as successful as working with existing companies.

THE STARTING POINT FOR ANY LINKAGE IS THE BUSINESS THAT WILL BUY THE PRODUCT!

In conclusion...

- There is no single recipe for success but, at the same time, more needs to be done by linking organizations to share successful experiences through workshops such as this and through web sites and to develop generic training materials;
- There must be a focus on profitability;
- The private sector must be seen as a partner, not a necessary evil;
- Let farmers concentrate on what they are good at....farming, and leave logistics, processing and marketing to the specialists

Thank you!

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