Determinants of Success for Market Linkage Projects

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My presentation

- Why link farmers to markets?
- The markets
- Choosing farmers to work with
- The private sector is central to success
- Capacity of the linking organization
- The role, if any, of subsidies
- Developing mutual trust
- Group organization
- Business orientation of farmers and their capacity to maintain linkages and manage groups
- Sustainability and replicability
Why are there projects to 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 sustainable links to markets
Why are there projects to link farmers to markets?

- Long-term business partnerships offer greatest scope for increased earnings
- Such partnerships usually require groups
- Group formation seen as requiring project assistance
- Private sector seen as being often unable or unwilling to work with farmers in this way.
Identifying profitable markets
Identifying profitable markets

- The starting point for projects has to be available and profitable markets
- Tendency for excessive donor and NGO interest in export and “niche” markets, to exclusion of local ones
- On the other hand, local interventions may swamp small markets to the detriment of all farmers
- Not only the market but also the marketing chain must be fully understood.
Choosing the farmers

- Farmers must have capacity to exploit market potential in terms of:
  - location and infrastructure
  - social structure and education levels
  - land area and tenure
  - agronomic suitability, climate, pests and diseases
  - assets and access to finance
  - access to extension, market information, etc.
  - capacity to meet market requirements
  - willingness to take risks
Choosing the farmers

- Often a contradiction between “making markets work for the poor” and capacity of “poor” to be assisted in this way.
The private sector is central to success of market linkage projects

- Linkages require working with the private sector, not against it
- Many NGOs lack a commercial orientation and suspicion of private sector continues
- Organizations cannot work with private sector if staff are suspicious of private business
- Small traders can be an effective linkage. They are also looking to respond to the new trends
The capacity of the linking organization? (NGOs; donors, extension services, etc)
The capacity of the linking organization (NGOs; donors, extension services, etc)?

- Difficulty of attracting right staff
- Recognition by NGOs and others that training and experience exchange is required
- Areas for training include contract negotiation, market research, value chain analysis, business management
- But all the training in the world will achieve little if staff remain hostile to the private sector!
A role for subsidies and direct provision of services?
A role for subsidies and direct provision of services?

- NGOs and others often too generous with subsidies
- Subsidies are generally incompatible with efforts to develop sustainable business ventures
- Subsidies can provide unfair advantages to selected farmers or businesses, to the detriment of others
- Direct service provision, such as marketing services, can squeeze out existing commercial services
- Available resources should be spent on linkage development, training, market assessment but not on farm inputs or marketing for farmers, on equipment for processors, etc.
Developing Mutual Trust
Developing mutual trust

- 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 by farmers of long-term benefits of honouring contracts
  - Easy potential for opportunistic behaviour
Developing mutual trust

Ways of improving trust

- Transparency – maximizing communication
- Clear transparency in grading and pricing
- Timely payments
- Arbitration procedures (e.g. through commodity associations)
- Encouraging visits by buyers to farms and by farms to businesses
- Working through farmer leaders
- “On-the-ground” presence of extension workers
- Contract flexibility
How can farmers work in groups?

- Farmers often reluctant to work together
- Groups best developed when already have group experience, e.g. from Savings and Loans Clubs, Church groups
How can farmers work in groups?

- Homogeneous groups (in terms of assets; skills; sex) seem to work better.
- Smaller groups (20-25) seem more cohesive, but larger groups have scale economies and are able to recruit necessary management skills.
- Economic benefits should come from profitable activities, not subsidies, i.e. groups should not be formed just to receive handouts.
- Business development at the same time as institutional development or farmers will see no point in the latter.
Managing business groups?

- Capacity of farmers to successfully manage business groups remains unclear.
- Where doubts exist, better to link farmers through existing channels or to limit group to activities not requiring financial transactions.
Managing business groups?

- Groups require strong leadership skills (but how can the availability of such skills be assessed?)
- At the same time farmers may become jealous if leaders get financial advantages
- 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.
As yet unclear whether such interventions can be sustainable, replicable and suitable for scaling up

“Repairs and maintenance” and lengthy “handholding” often required
Promoting sustainability

- Companies may have to invest in sustainability by having field staff and supporting groups or linkages may collapse after NGO leaves.

- Farmer selection is important:
  - Linking farmers to markets cannot be synonymous with social welfare.
  - Sustainability requires that business overrides equity approach.
  - Farmers lacking education, skills and basic productive resources cannot function commercially.
Promoting sustainability

- Let farmers concentrate on what they are good at...farming, and leave business activities to the specialists
- Too many cooks! Many external linkage activities have a large number of partners who may not always share the same approaches or motives
- Need for realism in planning and expectations
Promoting sustainability

- Project implementation and design should recognize need for flexibility and need to learn from mistakes
  - that’s how the private sector works!
- Need to avoid significant subsidies. If it’s not profitable it’s not sustainable!
- Need to address the requirements of farmers for finance by working with existing financial institutions
Promoting sustainability

- What time-scale is required? 2-3 years or 10?
- Have a clear exit strategy from the start
- Exit strategy should depend on progress but exit is usually dictated by fixed-term donor funding
Promoting Sustainability

- Assure capacity of service providers
- Ensure local and national authorities are fully supportive

*Sustainable small improvements are better than unsustainable large ones!*
LINKING FARMERS TO MARKETS

We present here a selection of brief case studies of ways in which farmers have linked with markets, through their own efforts and with assistance from others. Not all can be considered success stories, because in some cases problems have been encountered, but all illustrate different approaches to improving farmers' market access. This site is very much a "work in progress." Comments and additional case studies would be much appreciated. Please contact Andrew.Shepherd@fao.org.

Types of linkage

In this limited collection the following broad categories of linkage can be identified:

- Farmer-to-trader linkages
  Five case studies (from Colombia, Ecuador, Indonesia, Myanmar and Thailand) illustrate how traders and farmers have developed markets together, while one from Syria illustrates the role played by an external organization. Three other studies - from Bangladesh, El Salvador and Indonesia - illustrate the important role played by donors and NGOs.

- Linkages through a leading farmer
  Producers in Mindanao, Philippines, sell lettuce to Manila, coordinated by the leading farmer. In Chiang Mai, Thailand a vegetable growers' group markets through their Chairman, who acts as the buyer.

- Private company linkages
  Of the nine case studies presented here, six (from Brazil, Ghana, Indonesia, Kenya, Nigeria, South Africa and Viet Nam) show how private companies initiated linkages without outside assistance, while in two cases (South Africa and Zambia) donor or NGO support has been essential.
Thank you!

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