

Towards self-sustaining and market-oriented producer organizations



The middle class in many developing countries and regions is expected to continue its rapid growth, driven by improved economic policy and governance. Coupled with more business-friendly policies, population growth and rapid urbanization (McKinsey Global Institute, 2011), this sustained increase in consumer demand and spending means that today's markets offer better opportunities for farmers, including small farmers. However, smallholders struggle to keep up with new market demands for larger volumes, consistency of supply and higher quality, finding themselves at a disadvantage because of their high transaction costs and low bargaining power.

Producer organizations (POs) offer smallholders a space for collectively responding to the increasing demands of modern agriculture. POs continuously search for new ways to improve smallholders' competitiveness through joint actions such as bulk buying of inputs, collective marketing, negotiating of credit and contracts, and lobbying of policy-makers. Depending on the local context, commodity and market structure, various organizational models can be adopted to support smallholders' integration into markets.²

FAO has been working with a range of POs at the federation and district levels across the Africa, Caribbean and Pacific (ACP)³ regions, to develop institutional mechanisms that improve smallholders' equitable participation in value chains. Key outcomes of this work have been the identification of critical success factors for strengthening smallholder organizational models and policy recommendations that promote self-sustaining and market-oriented producer organizations.

1 Adapted from FAO, 2012b.

2 See Mangus and de Steenhuijsen Piters, 2010, chapter 2 for a detailed overview of various forms of smallholder-market organizational models.

3 Insights and cases noted in this paper are based on activities carried out under the EU-funded All ACP Agriculture Commodity Programme (3ACP) to integrate smallholder farmers into value chains across a range of ACP countries. www.euacpcommodities.eu/en and www.fao.org/economic/est/aaacp/en/

Success factors and good practice cases

- **Good leadership and management systems:** Successful POs are highly dependent on good leadership, first-rate knowledge about target commodity markets, and transparent financial, management and operational systems capable of delegating tasks to experienced staff. Key to this good practice is the recruitment of professional staff trained in agribusiness skills at reputable technical institutes and universities. Box 1 describes a successful case from Cameroon.
- **Understanding of the needs and risks of agribusiness companies:** Agro-enterprises face a number of risks when buying from smallholders – from inconsistent quality and quantity of supplies to side-selling and reputational risk arising from public perceptions of smallholder exploitation. As described in Box 2, POs can help minimize these risks by remaining in constant dialogue with buyers and guiding smallholders in responding to market requirements.



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The Konye Area Farmers' Cooperative (KONAFSCOOP) in Cameroon

BOX 1

is a successful market-oriented PO that consistently records positive growth and regularly pays bonuses to its members, owing largely to its efficient and transparent management systems. To support the dissemination of similar good practices among other cooperatives in Cameroon,

FAO supported an internship programme at KONAFSCOOP, where interns noted: i) simple but functional accounting systems; ii) qualified staff; iii) efficient delegation of tasks during managers' absences; and (iv) disapproval of nepotism when hiring staff.

FAO's Inclusive Business Models (IBM) approach

BOX 2

promotes regular business meetings between POs and buyers, which have proved to be a simple, low-cost and effective tool. Project participants reported that the meetings enabled POs and buyers to agree on important market criteria, improved farmers'

understanding of target markets, and improved buyers' understanding of the constraints that farmers face. Implementation of the IBM approach led to the formalization of contracts, with better terms of trade for smallholders across 14 ACP countries.



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- Political independence:** In some countries cooperative terminology is still associated with the legacy of government-run farmers' organizations, which were prevalent prior to the structural adjustments that started in the 1980s. As described in Box 3, although most groups are not politically aligned, past connotations continue to be a serious impediment to increasing PO membership.

Linkages between cotton cooperatives and ginneries in Kenya

BOX 3

were hampered by poorly functioning cooperatives plagued by internal conflicts and political strife. Membership also suffered because of the political stigma associated with the cooperative movement of the pre-structural adjustment era. In consultation with local ministries, smallholder cotton

marketing groups were organized outside these structures, to avoid association with politically aligned groups. The groups designed membership rules that suited their own needs and the marketing requirements for cotton, contributing significantly to an improvement in smallholder-ginnery relations.

POs in Cameroon

BOX 4

struggled to compete in the area of their core business – growing and supplying oil-palm fresh fruit bunches (FFBs) to the market. Instead, they decided to invest in medium-scale processing units to capitalize on the high price per litre of crude and processed [OK?] oil during the food price crisis of 2007-2008. However, a

feasibility analysis supported by FAO revealed that returns on investments per kilogram harvested were higher when the PO members sold their raw product directly to the processing industry. As a result, the POs reoriented their business model to supply FFBs to industry and engage in dialogue with FFB buyers.

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- **High-quality service provision:** To retain and recruit farmers, PO membership must be perceived as being valuable by providing high-quality services, some of which may be outsourced. These services include identification of market outlets, storage and transport provision, bulk input purchases and distribution, financial services, training, technical assistance and advice.
- **Social and enterprise strategies:** In the absence of local social services and safety nets, POs often have to address local communities' welfare and social needs. To avoid diverting scarce resources from the PO's core goals, social activities should be managed separately from agribusiness-related activities.
- **Network membership:** Primary-level organizations need to be part of a wider network that provides members with information on new technical ideas, markets and funding opportunities outside their own communities.
- **Focus on core business:** POs need first to excel at their core function of supporting members in improving productivity, production planning and marketing; and second to acquire appropriate marketing and management capacities before they diversify activities and divert scarce resources into additional income-generating enterprises. Box 4 describes a case in Cameroon where POs abandoned a strategy for diversifying activities to refocus on their original core business.
- **Low-cost value addition through organizational innovations:** POs can play an important role in adding value to their members' produce through organizational innovations and support to activities such as sorting, grading, production planning and logistics, which do not require high-cost capital investments.
- **"One size does not fit all":** PO models can range from traditional marketing cooperatives and bargaining associations for farmers to informal groups. The models identified as the most likely to succeed are based on local cultural contexts and the marketing needs of members.



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Policy recommendations

- **Building the institutional capacity of agricultural universities and technical colleges:** Successful POs are highly dependent on good leadership and the capacity of staff running their day-to-day operations. Building the institutional capacity of agricultural universities and technical colleges to make them fertile recruitment grounds for appropriately qualified staff will reduce POs' dependence on donor support and improve their good governance and management systems.
- **Easing the cost of doing business:** Small and medium agricultural enterprises (SMAEs) can provide POs with reliable market outlets. However, their role in rural development is often not given due credit and recognition. A general easing of doing business locally for SMAEs can contribute significantly to POs' role in linking smallholders to markets.



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- **Ensuring coherence with local cultural and market contexts:** Support should focus on dismantling over-bureaucratic legal rules for voluntary organizations and promoting the design of membership and organizational rules that are coherent with local cultural and market contexts.
- **Promoting self-reliant and market-oriented POs:** Support in the form of subsidies, equipment or credit funds is commendable, but if inappropriately targeted will unduly subsidize activities and can create a syndrome of dependency on public support, threatening the long-term sustainability of a PO or local business service provider.
- **Creating an enabling environment for private sector investment:** Targeted support should not distort local market conditions or crowd out potential private sector investment. Conditions should be created to allow POs and SMAEs to mobilize their own resources for investing in agribusiness.
- **Long-term public commitment with short-term interventions:** POs learn and grow, sometimes fail and often take a long time to mature. Organizations need long-term commitment from the public sector, based on short-term sustainable interventions with clear exit strategies.
- **Supporting broad-based innovation:** This means providing institutional strengthening for agriculture and business service providers and locating industrial technology and innovation centres as close as possible to SMAEs and POs.
- **Fostering linkages between POs and agricultural universities and technical institutes:** Graduates of agribusiness courses are the ideal recruits for staffing POs. Improved linkages between these institutions are needed to ensure that training and skills respond to the needs of POs, and that graduates view POs as providing viable opportunities for professional development and career growth.



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