

Course on agribusiness management for producers' associations

Module 2 – Organization principles for producers' associations

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Contents

Acronyms and abbreviations	v
Acknowledgments	vi
Introduction	1
General study guidelines	3
The Producers' Association: concepts and traditional legal forms	5
List of topics	5
Setting the context	6
Case study: Situation Analysis of Various Producer Associations. See also case study: Situation Analysis of Various Producer Associations in Latin America	7
Elements for a case analysis	9
Producers' Association concepts	10
Traditional legal forms of Producers' Association in Asia	12
Standards and regulations	17
Constraints on the organization of small and medium agribusinesses in Asia	19
Conclusions on the case study	21
Group exercise	22
Summary	23
Unit assessment	24
Linkages between producers' associations and other actors in the chain	25
List of topics	25
Setting the context	26
Case study: Contract Farming for Seed Potato – Chambal Agritech Limited. See also case study: Contract Farming in the Horticultural Export Sector of El Bajío, Mexico	28
Case study analysis	29
Different forms of Producers' Associations	30
Creating linkages between actors in the food chain	33

Consultation mechanisms	34
Conclusions on the case study	37
Group exercise	38
Summary	39
Unit assessment	40
Glossary	41
Bibliography	45

Acronyms and abbreviations

ACFSMC	All-China Federation of Supply & Marketing Cooperatives
AFO	Area Farmers' Organisation-Malaysia
AMUL	Anand Milk Union Limited
APEDA	Agricultural Product Export Development Authority
CAL	Chambal Agrotech Limited
CDRC/IF	Cooperative Development Resource Centre of IF
CFCL	Chambal Fertilisers & Chemicals Limited
GKSI	Union of Indonesian Dairy Cooperatives
GOI	Government of India
ICA	International Cooperative Alliance
IF	IFFCO Foundation
IFFCO	Indian Farmers Fertiliser Cooperative Limited
JA	Stands for Japanese Agricultural Cooperatives
JA-Zenchu	Central Union of Agricultural Cooperatives of Japan
KUD	Primary level Agricultural Cooperative-Indonesia
MSP	Minimum Support Price
NAFAS	National Farmers' Association-Malaysia
NAFED	National Agricultural Cooperative Marketing Federation of India
NDDB	National Dairy Development Board-India
NHRDF	National Horticulture Research & Development Foundation
NGO	Non-Governmental Organisation
PPP	Public-Private Partnership
RISDA	Rubber Industry Smallholders Development Authority
SFO	State Farmers' Organisation-Malaysia
ST/GST	Sales Tax/General Sales Tax
SOPA	Soybeans Processors' Association-India
SAWADA	Name of locality in Japan (ref. JA-Sawada)
UNIDO	United Nations Industrial Development Organization
VAT	Value-Added Tax

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Introduction

This module, entitled *Organization principles for producers associations* is the second of four modules, which constitute the course entitled *Agribusiness management for producers' associations*. Its **purpose** is to present leaders of producers' associations with various options for legally formalizing their organization, and to develop possible strategies and mechanisms for improving linkages within the agroproduction chain.

The module has the following **objectives**:

- To discover the basic characteristics of a business-oriented organization and the different legal, labour, tax, environmental and health aspects that must be considered for successfully formalizing the organization's activity.
- To assess the importance of producers' associations as a strategy for improving competitiveness, identifying a number of different mechanisms to help tailor associative entrepreneurship to the characteristics of producers' associations.

To this end, the conceptual content of this module has been organized into two units:

- **Unit 1 – *The producers' association: concepts and traditional legal forms*** outlines the main characteristics, the most common legal entities, and the advantages of business registration.
- **Unit 2 – *Linkages between producers' associations and other actors in the chain*** highlights the importance of entrepreneurship as a strategy to complement the institutional development of producers' associations.

In terms of **methodology**, the units are organized in such a way as to give you the opportunity to discover each unit's specific course content and the skills you will attain. Included in the conceptual content of this module are **procedures and attitudes** that will help you to make the most of what you learn and to apply it to the day-to-day reality of your agribusiness.

Each unit is structured to help you to identify in advance your prior experience and interests and to enable you to combine your existing knowledge with the proposed course content to optimum effect. The aim is to build capacities by accumulating new knowledge in a pro-active and participative way.

In terms of **assessment**, we start from the principle that an assessment is of most value when it is used to take decisions for improving the teaching/learning process. With this in mind, we have included three phases:

- *Initial assessment*: this will enable facilitators or tutors to analyse and predict your capacity for learning. At the same time, it will give you an idea of what each unit is about and what it aims to achieve in terms of increasing your motivation, updating your existing knowledge and preconceptions, and planning your own learning process fully.
- *Formative assessment*: this will enable facilitators to take decisions to improve the teaching/learning process (regulation) and will enable you to take decisions to improve your own learning process (self-regulation).
- *Summary assessment*: this will enable you to link together the key ideas, to find out what progress you have achieved and to see where you stand as regards a new learning process.

Furthermore, the assessment instruments in this manual can be supplemented with any others that facilitators may consider appropriate to ensure that assessment also becomes a group process and that progress is made with the different types of course content (concepts, procedures and attitudes). At the same time, the assessment instruments are designed to allow you to offer your constructive critical assessment of the validity of the course material and the way in which it is taught.

Accordingly, the manual contains the following sections:

Section	Aim
➤ General guidelines	Promote the learning-to-learn process
➤ List of topics	To present the specific content of each unit
➤ Points to remember	To memorize what you have learned. Initial assessment
➤ Key competencies	To detail the key competencies you will learn
➤ Setting the context	To put into context the subject to be discussed, and update thinking on it
➤ Case study	To remember prior knowledge. Initial and formative assessment
➤ Explaining key issues	To present the priority course content and analyse it in detail
➤ Conclusions on the case study	To provoke thought on the real issues. Formative assessment
➤ Practice exercises	To put into practice the proposed course content
➤ Summary	To help to link, integrate and memorize the key ideas
➤ Unit assessment	To provide an opportunity for self-assessment of the material learnt
➤ Glossary	To clarify ideas on the meaning of selected terms and acronyms
➤ Bibliography	To provide information for personal research

Particular attention is drawn to the glossary, which helps to clarify some concepts not explained in the text. The terms figuring in the glossary are marked with an asterisk (*) the first time they appear in the text.

General study guidelines

To help you make optimum use of this material, a few hints and suggestions for planning and managing your own learning process are included below:

- Organize your time in such a way as to allow you to complete the proposed assignments by the appointed deadline. You are advised to study for at least two hours every day to optimize the teaching/learning process.
- Before starting work on a unit, try to remember what you already know about the subject, as this will help you to link new knowledge with your existing knowledge and will allow you to recognize the added value of everything you learn for your personal development.
- Complete the self-assessments, as well as the topics and proposed case studies, as they will help you to understand the course material and reinforce your learning.
- You may underline, construct graphic organizers, write summaries or use any other method to help you to understand the course material fully.
- You will get a chance to ask questions and request clarifications to enable you to exchange views with your fellow students and with the facilitator. An opportunity will be provided for airing different points of view. The aim is not for us all to think in exactly the same way.
- Do your own research. The proposed bibliography is only a guide. Do not forget that you can also find instant, up-to-date information on the Internet.
- Use the objectives and competencies of each unit to develop your own assessment instruments. Taking control of your own learning process will allow you to make decisions to improve it.
- Although studying is challenging and you will come across obstacles, in the end all the effort, sacrifice and time will be rewarded with greater knowledge and enhanced skills, aptitudes and abilities.
- As you are the key player in the teaching/learning process, you will need sound arguments and in-depth thinking to carry out the proposed activities, coupled with strong motivation and critical and analytical abilities.
- You will find the definitions for words marked with an asterisk (*) in the glossary.

*You can do anything you set your mind to.
Get started now, and have fun.*

The Producers' Association: concepts and traditional legal forms

UNIT ONE

LIST OF TOPICS

1. Setting the context
2. Case study: Situation Analysis of Various Producer Associations. See also case study: situation analysis of various producer associations in Latin America
3. Elements for a case analysis
4. Producers' Association concepts
5. Traditional legal forms of Producers' Association in Asia
6. Standards and regulations
7. Constraints on the organization of small and medium agribusinesses in Asia
8. Conclusions on the case study
9. Group exercise
10. Summary
11. Unit assessment

Points to remember



Some of the driving forces prompting producers to get organized into some form of association are: a desire to improve market access, reduce transaction costs, or to obtain external finance. Did you know that there is a range of different legal forms of organisation, each with its own specific operational requirements and mechanisms? In this unit we review the characteristics of each of these legal forms, in the light of your own experience.

The decision concerning the most suitable legal form of organization for your producers' association is a crucial one. Did you know that this depends on which type of taxes and tax system applies to you? Or that this legal form governs how much flexibility you have when it comes to hiring labour? Or that there are lines of credit that are available only to certain business entities? An important point to remember is that the mere fact that an enterprise has been registered with the

respective authority does not mean that it has trading rights. Registering with other authorities, such as national and local tax authorities, health authorities, standard boards, water and electricity boards, etc. may be necessary.

**By the time you complete this unit
you will be able to:**

- ☞ Identify from your own experience elements that will help you to see your association as part of a system.
- ☞ Identify which of your country's existing legal forms are best suited to the conditions of your producers' association.
- ☞ Identify the basic characteristics of producers' associations.
- ☞ Understand the need to formalise an association.



Setting the context

Organizing producers has been an important strategy in tackling the problems of the agricultural sector in general, and of micro- and small enterprises in particular.

Producer organizations have functioned as lobby groups to secure rights over scarce resources such as land and water, to fulfil social functions to their members etc. They have also been successful in carrying out social functions, organizing logistical support to members, giving technical advice, and negotiating sales and input supplies. Associations have become more market and business oriented and in more and more cases need formal business status to function properly.

Informality has become a complex economic and social phenomenon. Although it cannot be denied that the informal sector provides jobs and income for large sections of the population, it is also true that informal sector employers flout a number of other obligations, including labour obligations (minimum wage, working hours, retirement pensions), and often provide fewer services in such areas as health or the environment (e.g. waste management).

Case study: Situation analysis of various Producer Associations**M
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2****INTRODUCTION AND DISCUSSION****Beijing Fangshan District Farm Produce, Production and Marketing Association-China¹**

The Association, established in September 1998, is an NGO intermediary sponsored and organized by the Fangshan District Supply and Marketing Cooperative to serve agriculture, rural areas and farmers. It has a fixed worth of US\$645 161 and a membership of 4 000 farm households, 41 member units and 14 cooperatives* for cultivating, processing and marketing agricultural products such as persimmon fruit, dairy products, mushrooms, vegetables, small red beans, wild vegetables and coarse cereals. It annually produces, processes and markets 647 million tonnes of various farm products and earns nearly US\$54.2 million. The Association has thus become an industry. It was selected by the All-China Federation of Supply and Marketing Cooperatives as a 'Key Leading Enterprise' and cited by the local government as an 'Advanced NGO' in 2004. The Association also has a business relationship with firms in Canada.

Sawada Primary Agricultural Cooperative, Gunma Prefecture, Japan²

The operational area of the cooperative covers the North-Western part of Nakanojo-Machi. The cooperative produces a mix of paddy rice, vegetables, livestock, silk and mushrooms. The total membership of the association is about 900 with an average land holding of 0.75 ha per member. The cooperative is managed by a democratically elected board. It has started to add value to its products by venturing into processing activities. It also developed its own brand – Sawada –, which is recognized throughout the region.

Raw materials are procured through contract farming arrangements and spot market transactions. Marketing channels include own outlets, wholesale and retail shops. The cooperative follows a five-year development plan. The plan for comprehensive development of local industries includes: development of local industries, commodities, agriculture, and processing. It also plans to venture into herbs and spices, as well as promoting agro-tourism and seasonal festivals.

¹ <http://www.chinacoop.com>

² ICA, New Delhi (Course 15), 2002

Beekeepers' Association in the State of Punjab, India: Malwa Madhu Makkhi Palak Welfare Society¹

The association was formed in August 2005 and registered under the Societies Registration Act. The society has a membership of 22 bee-keepers from 18 villages in Sangrur district. In order to organize various individual bee-keepers, a meeting of the farmers was addressed by local leaders and scientists from the Agricultural Science Centre, Cooperative Development Resource Centre and the Punjab Agriculture University.

As a consequence, bee-keepers agreed to join hands and formed a society of their own to undertake the following activities: production of honey, packaging and marketing in both the open market and to bulk buyers/processors. Oversupplied markets had previously resulted in comparatively low producer prices, but the association has managed to negotiate better prices with bulk buyers, hence securing better returns for its members.

The association was recently able to deliver 1 451 kg of honey to a private processing company at a price of US\$1.15/kg as opposed to the market price of US\$1/kg. It has now opened an account with a commercial bank and all payments to producers are now made by cheque. The association has also developed its procurement, storage and transportation system.

CONCLUSION

An analysis of the above cases shows that producers' organizations can present a series of advantages and challenges for their members:

Advantages:

- increased capacity and bargaining power;
- access to new markets through alternative marketing channels;
- access to credit and support programmes;
- access to better technical and market information;
- more opportunities for exchanging experiences;
- greater access to training programmes.

Challenges:

- to achieve clear and efficient internal organization;
- to build trust in the managers' decisions;

¹ Cooperative Development Resource Centre of IFFCO Foundation, Sangrur, Punjab

- to get members to pledge to deliver products, abiding by previously agreed volumes, conditions and deadlines;
- to run associations profitably and efficiently;
- to design and implement efficient and transparent administration mechanisms;
- to establish proper communication and participation mechanisms;
- to comply with the legislation in force.

Organization is a process of bringing people together in order to achieve goals in a coordinated and concerted manner. Organization should lead to a more effective use of factors of production* than could be achieved individually.

Elements for a case analysis

Based on your personal experience, consider the following questions on the proposed case:

1. Do any of the examples described resemble your producers' association? How do the results achieved in the case study compare with your own results?
2. What do you consider to be the greatest advantages of producers' associations? And what are the greatest challenges?
3. A producers' association is one step in formalizing producers' business activities. In your experience, what are the biggest problems in achieving formal registration? In your view, what impact does informality have on the economy and on society?

Bear in mind that at the end of the unit you will be asked to answer the same questions in the light of the new knowledge you will have acquired.

Producers' Association concepts

In the case of a business-oriented producers' association, improving organization is a tricky task, and one which takes quite a lot longer than the average duration of rural development programmes. The complexity of organizational tasks is frequently underestimated. It is often assumed that producers will organize themselves efficiently and overcome obstacles, as long as they have a certain level of interest in a project or business. However, this is not how it usually works in practice due to power struggles and issues over leadership of the enterprise. Often business management aspects are unfamiliar and unclear to managers of the association, who can complicate the business venture and undermine its effectiveness.

The basic characteristics of a producers' association are as follows:

- membership is voluntary;
- members have such strong common interests that they take precedence over their individual interests;
- members own the business, and therefore own both the tangible and intangible assets (such as brands and reputation);
- members are jointly liable for the enterprise's conduct and actions (the scope of this liability varies depending on the legal form adopted);
- it is intended that the association will be permanent.

The enterprise is not only an economic production unit but also a specific type of organization. Its key function is to create value, meaning that the products or services it offers must be worth more than the factors used in producing them. Value is created when an enterprise makes efficient use of these factors of production or economic resources and, in so doing, makes a product that satisfies the needs of the consumers that the enterprise is seeking to reach.

The basic underlying principles summarized below apply to all types of enterprise despite their other differences.

Capitalization

Although they can secure a series of added benefits for themselves (cultural, social, professional and other benefits), associations must adopt an economic approach, which means that they must be able to generate profits (surpluses). These surpluses can be used for two purposes: i) they can either be distributed amongst the members of the association in the form of dividends, or ii) they can be

re-invested in capital goods that will help the enterprise to increase its production, productivity and profitability.

Profitability

Not only must an association produce surpluses in order to ensure its long-term survival as a production unit, its profitability (the surplus earned from each unit of capital invested) must be equal to, or greater than, the profitability of other activities in the economy as a whole. Otherwise the enterprise will be unable to finance the necessary factors of production (labour, inputs, capital) and will go out of business. This means that profitability is a strategic criterion when choosing which production activities an enterprise should carry out.

Competitiveness

The association must compete with others producing similar goods. It must, therefore, achieve a profitability rate comparable to that in the rest of the economy. Products must be of satisfactory quality in the target markets and they must reach the target market at the right time, in a suitable form and with prices and services similar to, or better than, those of its competitors.

Self-sustainability (self-management)

This is the association's ability to use its own resources to sustain itself in the market. This contrasts with artificial business constructs whose long-term survival relies on continuing access to non-reimbursable external resources (usually government funding or different types of international development aid).

The choice of the precise legal form for a producers' association is very important. It is the basis for defining the rights and obligations, liabilities and benefits that the enterprise and its members acquire, before the law, the State, and any other operators with which the producers' association forges links.

Union is strength

The Soybean Processors' Association of India (SOPA) is the only national body representing the soybean processors, farmers, exporters and brokers working towards the aim of strengthening soybeans as a viable crop. SOPA was established in 1979 with headquarters in Indore, Madhya Pradesh State, India's main soybean-growing region. It is represented on all the important committees of Government, export promotion departments and on various organizations dealing with processing, marketing and export of the commodity.

Through its contract-farming programme it provides quality-certified seeds and produces extension material for supporting soybean development. It also organises intensive training programmes and demonstrations for farmers as well as for agriculture graduates.

The association provides the latest information on current prices and reports from international and national markets. Additionally crop reviews on important soybean growing countries are made available for the benefit of members. It also sponsors and receives trade delegations in order to promote business.

Source: <http://www.agroalternativo.com.ar/docs/columnasociarse.htm>

Traditional legal forms of producers' association in Asia

The choice of which legal form a producers' association will adopt depends on:

- i) its production characteristics and objectives;
- ii) the form in which profits will be distributed; and
- iii) the commercial, tax and legal requirements of the market in which its products are sold.

There are a number of legally recognized forms of organization, each of which has its own well-defined operational and organizational framework. A review of these frameworks in India, China, Japan, Thailand, Indonesia, the Philippines and Malaysia has shown the following to be the commonest legal forms used to formalize commercial production, processing and marketing activities. Since our subject is producers' associations, we do not discuss sole proprietorship, which is the simplest form of business enterprise.

CORPORATION

In this type of enterprise, a number of people pool their resources for a common purpose, that is to say they contribute capital or work, or both, resulting in a legal status other than the members' original status.

Enterprises can be civil or commercial corporations. Civil corporations are non-profit making, are governed by civil or labour law and are not required to have base capital. However, as their name suggests, commercial corporations are profit-making and are governed by commercial law. Generally speaking, commercial corporations can be divided into three categories:

- Partnerships.
- General and limited partnerships.
- Limited companies.

Partnerships are a first solution to increasing a person's financial capability. Partnerships comprise a number of members who contribute their capital, and each member has unlimited liability to the extent of all their assets. Whenever a member dies or decides to drop out, the enterprise is dissolved and has to be reincorporated. The members bear very high risk. The most characteristic form of partnership* is the **general partnership***, requiring at least two members for incorporation.

General and limited partnerships are formed by two types of member: i) general partners with unlimited liability, and ii) limited liability partners whose liability is limited to their capital contribution. Such legal forms of organization are not very common. They are considered to be a preliminary stage leading to the formation of limited companies.

Limited companies are the most common legal form. They have one important characteristic: "the least asset risk for their members", whose liability is limited to the capital they contribute. In general, limited companies can be divided into two types: limited liability companies and public limited companies.

In **limited liability companies**, any debts incurred are backed only by the equity invested by the members but, unlike public limited companies, certain constraints are set on the transfer of ownership and on the size of the enterprise. It is a legal form designed for small and medium enterprises, and tends to be given more favourable tax treatment than public limited companies.

The modern limited company par excellence is the **public limited company***. In this type of company, the capital is divided into equal parts called shares. Each shareholder is entitled to sell shares and transfer them without affecting the company's course of business. This type of organizational form makes it possible

to harness the capital needed for large modern corporations. The members' liability is limited to the nominal value of their shares. The main problem with public limited companies is the separation, which many make between ownership and management.

SOCIAL ENTERPRISE

This is an alternative legal form to those above, and has a number of special characteristics: it allows a larger number of members to participate and its benefits go beyond purely economic ones. The most common forms of social enterprises are cooperatives and worker-owned companies.

Cooperatives comprise a number of people who come together to satisfy mutual socio-economic interests by carrying out a business activity. This might include: agricultural or agro-industrial production cooperatives, trade cooperatives, housing cooperatives, or savings and loan cooperatives. A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.¹

“The Cooperative Movement is one of the largest organised segments of civil society, and plays a crucial role across a wide spectrum of human aspiration and need. Cooperatives provide vital health, housing and banking services; they promote education and gender equality; they protect the environment and workers’ rights. Through these and a range of other activities, they help people in more than 100 countries better their lives and those of their communities.”

Kofi Annan, ex-Secretary-General of the United Nations

Cooperatives are non-profit companies and their members' liability is limited to the capital they invest. They require a minimum number of members, depending on the type of cooperative. In general the minimum is two or three members. The workers themselves invest the necessary capital, called the company capital. Cooperative members tend to be responsible for the administration and management of cooperatives.

In cooperatives there are two types of benefits for members – monetary benefits and services. Monetary benefits are limited and are calculated not on the basis of the capital invested but on the volume of transactions and on the use of each member's services. Services can include credit, sale of inputs and other

¹ International Cooperative Alliance, Geneva. <http://www.ica.coop>

products at low prices, housing or health programmes, and so on. Sometimes, too, at the end of the financial year, if the cooperative earns more than is required for distribution to members, the surpluses are earmarked for education programmes, reserves or benevolent funds.

Some examples of cooperative organizations in the agrifood system

Agricultural cooperatives* in Malaysia are under the registration and supervision of the **Farmers' Organization Authority (FOA)**. The objectives of FOA are to enhance and develop farmers' organizations and agro-based cooperatives. According to the FOA Act of 1973 the functions of FOA are: to promote, stimulate, facilitate and undertake economic and social development of farmers' organizations; to register, control and supervise them and to provide for matters related thereto; to control and coordinate the performance of their activities. There are 268 Area Farmers' Organizations (AFOs), 13 State Farmers' Organizations (SFO), and one national organization (NAFAS) which operates under the FOA authority. The total membership is about 681 010 members with a total share capital of US\$19 million in 2001. The total assets of farmers organizations is approximately US\$234 million and the total net worth of US\$81 million. The NAFAS deals in distribution of consumer items including fruits and vegetables. (<http://www.foa.org.my>).

The National Agricultural Cooperative Marketing Federation of India (NAFED), est. 1958, is the apex cooperative marketing body. It is a farmer-friendly organization dealing in foodgrains, pulses, oilseeds, horticultural produce, cotton, tea, jute, poultry products, chemicals and bio-fertilisers. It has its main office in New Delhi and operates four regional offices, 24 branch offices, 8 sub-offices and 18 industrial units and shops throughout the country. The 751 membership organizations include state marketing federations, apex level marketing federations, tribal and commodity federations, primary marketing/processing societies and the Government of India. During 2003–04 its turnover was US\$307.6 million. Exports were valued at US\$122.1 million. It is a major nodal agency for procurement of commodities like pulses, copra and potatoes on behalf of the government. (www.nafed.org)

The National Union of Indonesian Dairy Cooperatives-(GKSI) represents the dairy cooperatives in the country. Its main activities are to assist dairy cooperatives with pre-production, production, processing, and marketing activities. Other areas of intervention include the supply of heifers, acquirement of cattle feed, and members' education. GKSI has four major milk treatment plants: Bandung (West Java), Boyolali (Central Java), Pasuruan and Malang in East Java. Its major member is North Bandung Dairy Cooperative, which has a membership base of 4 297. It has four business units: marketing of milk, grocery stores, loans and savings, and animal feeds. The Union

Some examples of cooperative organizations in the agrifood system (Continued)

provides 24-hour veterinary and extension services, health insurance for members and scholarships for members' children. (ICA, New Delhi, 2005 [Course 19])

Anand Milk Union Limited (AMUL). The key to smallholder dairy production and India's 'White Revolution' has been the growth of a nationwide network of dairy cooperatives. The cooperative approach started as a successful local initiative in Anand (Gujarat) half a century ago. Since 1970, it has been replicated all across India through a three-phase programme known as 'Operation Flood' implemented by the National Dairy Development Board and backed by the Indian Government, AMUL, FAO and the World Bank. By 2002, more than 11.2 million households were participating in 101 000 village dairy cooperatives. (*Sources:* the State of Food Insecurity in the World, 2004, FAO, and www.nddb.org.in, and www.amuldairy.org.in)

Government-owned companies may or may not have the legal form of a public limited company, and are characterized by the fact that at least part of their capital is owned by a public corporation. Government equity holding is justified for: i) reasons of public interest such as provision of public services or to guarantee food safety; ii) economic reasons such as the shortcomings of private enterprises or market failure; or iii) social reasons such as alleviation of unemployment or hunger.

The principal advantages of legalizing producers' associations are listed below:

Legal backing: formality facilitates access to established channels of justice in the event of any sort of legal dispute, such as loan recovery or protection against unfair competition.

Access to institutional loans: formal companies have better access to credit than informal groups.

Clarity regarding property rights: when property rights are clear it promotes investment and saving. People tend to retain greater liquidity in countries where property rights are: i) frequently changed or ambiguous, or ii) their protection is uncertain. This reaction undermines the level of interest in the capitalization and reinvestment processes that consolidate business organizations.

Standards and regulations

MODULE 2

LEGAL FORMALIZATION

This refers to registering the company's deed of incorporation with the relevant public department; a formality which normally has to be done via a public notary. This deed also gives the company legal status*, meaning that it makes the company's existence official. The document is required thereafter to request provision of public services, financing and suchlike. Furthermore, the enterprise must register its production and business activities with the municipality under whose jurisdiction it falls, and thereafter pay any appropriate taxes.

Labour formalization

This refers to the relationship between the employer and the worker (as well as the worker's family), not only in labour matters but also in such areas as health, training and financial benefits. Labour formalization includes the following components:

- drawing-up employment contracts;
- paying social security contributions;
- complying with employers' fiscal contributions;
- issuing and enforcing internal rules of procedure for workers;
- issuing and enforcing rules on health and safety in the workplace.

Tax formalization

This refers mainly to an entrepreneur paying the required taxes to the Government, depending on the economic and commercial activity of the entrepreneur's business concern.

The main taxes payable are as follows:

Income tax: tax on the profits of legal entities. This is charged on any income earned on net current revenue that is liable to produce a net increase in assets and is not expressly exempted by law.

- **Value added tax and general sales tax:** tax on consumer goods, the provision of services and the sale and import of goods. In actual fact it does not represent a cost for entrepreneurs, who act solely as temporary tax collectors. The tax varies from 10 percent to 21 percent, depending on the product (or service) and the country.

In a number of countries, companies are treated differently regarding payment of this tax, depending on company characteristics. Normally there is a simplified or common scheme for small contributors and a regular scheme for larger contributors.

- **Financial transaction tax:** a tax levied on financial transactions that has been introduced recently in a number of countries.
- **Local taxes:** the taxes which a firm must pay to municipalities include:
 - **Business and industry license tax:** tax levied on industrial, commercial and service activities.
 - **Property tax:** this is a tax on land and buildings located within each municipality, payable by the owners, holders and joint-owners of the property. The tax is a percentage value defined by the municipality, normally based on the previous year's property assessment, increased in line with the consumer price index.

In addition, agricultural entrepreneurs have to bear in mind that, to properly formalize their business, they must comply with other requirements, such as the:

Environmental permit

In cases where a firm carries out activities, which harm the environment in some way, it must apply for the permit from the competent environment authority.

National registry of exporters

In cases where the firm carries out, or plans to carry out, business transactions with countries other than the one in which the firm was set-up and registered.

Health authorization

In cases where the firm produces food it must obtain a health permit for operating the processing plant – normally valid for one year after which it must be renewed.

Product authorization

To allow the firm to market its food, medicinal or cosmetic products, it must obtain a marketing authorization for each product. The code identifying this authorization is placed on the product label or packaging.

The cost and formalities for obtaining these permits and authorizations vary from country to country.

Constraints on the organization of small and medium agribusinesses in Asia

Barring a few exceptions, small and medium agricultural and agro-industrial producers in Asia have a very poor organizational level, as they are organizations whose original reason for joining forces was nearly always to resolve common problems. As a result, their management development is very rudimentary, and they have few mutual production and business interests to promote cohesion between them.

These characteristics of many first-tier organizations impact significantly on the scant presence of second-tier production and business organizations incorporating entrepreneurial elements.

There are other weaknesses which are the cause for poor business management common in many producer organizations. These relate to inadequate organizational structure and cohesion stemming from: i) a lack of leadership; ii) rivalry among organizations; iii) producers' lack of awareness; iv) low educational levels, and v) resistance to change. In addition, there are very few organizations with a real agribusiness orientation.

Despite the problems involved in organizing producers, it is common for government-run agricultural and agro-industrial development programmers to promote the creation of agribusinesses that have little chance of becoming self-sustaining – partly because the producers in charge have poor business management capabilities. In many instances, agricultural producers become entrepreneurs without having been suitably trained to carry out this new role. As a result, they have to resort to hiring external personnel, which is not always the best solution.

In addition to production and financing problems, further structural deficiencies have been identified that impede the organization and development of rural agribusinesses and prevent them from taking full advantage of globalization. They include: i) small markets; ii) poor technological development; iii) a poorly trained workforce, and iv) constraints on breaking into the export market.

Some of the strategies put forward by government and cooperation institutions for improving business management in rural agribusinesses include: i) specialized training and continuing professional development; ii) long-term financing programmes, and iii) the development of production and marketing support services.

Problems faced by Indonesia's coffee-growers' organizations

An analysis of the problems affecting the operation of Indonesia's coffee-growers' organizations shows that one of the causes is poor links **between the organisations' governing bodies – such as between** the participative structure (general meeting) and the executive (board of directors). In part this is due to the differing communication styles of the rural community and the enterprise. Another problem is members' lack of awareness regarding their role as members of an organization. Some coffee farmers view their organization *only* as an instrument for selling their coffee beans at a better price, without considering the solidarity and teamwork aspects.

Coffee grown in eastern Indonesia is considered to be of high quality and is sold in the domestic and international market as ROBUSTA coffee (brand name). Members of agricultural cooperatives in Sulawesi sell their products through their cooperatives and also to the private coffee procurement agencies. These cooperatives have poor organizational capabilities and are often short of funds to procure raw coffee beans.

Private procurement agents supply the product to multinational organizations for processing and subsequent marketing and export. The economic benefits of supplying coffee beans to major processors are retained only by the middlemen. Cooperatives and farmers do not share such benefits.

Lastly, a frequent problem latent in all self-managed organizations is the imbalance between the members' interest in obtaining immediate benefits from their organization to meet pressing necessities, and the need to maintain or increase the enterprise's financial capacity for which the enterprise must be capitalized as a joint long-term objective.

Despite these disadvantages, all members of the two coffee-growers' organizations who were polled answered that their current financial status was better than it would have been if they had been working independently.

Since the above problems were identified through a survey of members, the Association has increased linkages with its membership through frequent meetings and formal contracts. It has also increased the volume of procurement in order to approach processors on a stronger footing. Since the members realised the improvement in financial status through better organization, efforts have been made to raise awareness in order to motivate farmers to improve their teamwork in coffee cultivation, marketing and managing the Association.

Source: www.inkud.org.id; <http://www.merdekacoffee.com>

Conclusions on the case study

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Having compared your prior knowledge with the subject content of the unit, answer the following questions making optimum use of the new knowledge you have acquired.

1. Do any of the examples described resemble your producers’ association? How do the results achieved in the case study compare with the results obtained in your producers’ association?
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2. What do you consider to be the greatest advantages of producers’ associations? And what are the greatest challenges?
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3. A producers’ association is one step in formalizing business activities. In your experience, what are the biggest problems in achieving formalization? In your view, what impact does informality have on the economy and on society?
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Group exercise

Read carefully the following presentation on the Cavite Farmers' Feedmilling and Marketing Cooperative, the Philippines ICA, New Delhi (Course 12), 1998

The Cavite Cooperative comprises 44 members from Batangas, Quezon Province, Laguna and Metro Manila. Business activities are feed milling, sales of animals, retailing, and a nutrition laboratory. Capital is US\$1.79 million, assets US\$14.62 million, and investment US\$1.94 million. The cooperative does not receive government funding or any technical support. Planned business expansions are: market outlets, swine breeder farm, and increase in membership. The main products are poultry and livestock feeds plus related farm inputs.

Based on this information, and considering the context of your own country, state:

1. What would be the most appropriate legal form for an organization like Cavite, whose corporate base is a group of small farmers, most of whom have no title deeds for their land and are not registered with the financial or tax authorities, yet wish to sell their products to customers such as supermarkets, as well as to exporters?
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Now let us consider the situation of your own producers' association:

1. Is the legal form of a cooperative attractive for your enterprise? What would be its advantages and disadvantages?
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2. Which other legal form would be suitable for your enterprise, and what advantages would it have for your producers' association?
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Summary

MODULE 2

- Some of the main reasons why producers join forces are to: seek solutions to market problems; to have an opportunity to add value to products by means of processing; to be able to reduce costs, and to improve access to business finance or soft loans.
- Although organization presents a series of advantages for producers who decide to join with others, it also presents challenges. The advantages include the ability to access new markets, to jointly purchase inputs at better prices, to secure better opportunities for training and information, and so on. The challenges include:
 - i) establishing a clear and efficient mode of organization;
 - ii) managing the business, and
 - iii) complying with the legislation in force.
- Many of the problems in managing producers' associations stem from the fact that business tasks have been undertaken without due consideration of specificity and specialization, by organizations which were originally set-up for quite a different purpose.
- The key function of an enterprise is to add value through its business. Value is created when an enterprise makes efficient use of its factors of production and makes a product that satisfies the needs of its target consumers.
- In general, all firms share the same basic objectives: to achieve profitability, and to be competitive and sustainable.
- Producer-run rural agribusinesses can take a variety of legal forms of organization, with associations and cooperatives being the most common forms in Asia.
- Once the producer or group of producers has decided to set up a company, they must legally formalize their business and comply with the legislation in force, which includes legal, tax, labour, environmental, health, operational and commercial requirements.
- The main constraints affecting Asian producers' associations stem from poor social cohesion, which may in turn spring from factors such as: individualism, distrust, rivalry, poor education and resistance to change.

Unit assessment

Answer the following questions on additional sheets of paper:

1. Legal forms of organization define the obligations, responsibilities and benefits of agribusinesses and of their members. Given the characteristics of your rural producers' association and your country's legal environment, what do you think is the most suitable legal form for your producers' association?

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2. Did your producers' association start out with business objectives and was its organization defined with business in mind? Or did business activities start to be carried out on the basis of a (usually non-profit) professional or social organization, adjusting and adapting it as you went along? What is your experience in this matter?

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3. Which do you think should be the key objectives of a producers' association? Does the organization which you head meet these key objectives? Is there a key objective that it fails to consider?

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4. In addition to defining the type of legal form which a producers' association adopts, there is another series of rules and requirements which must be complied with in order to fully formalize the enterprise. In the case of your rural producers' association, which of these rules and requirements have been complied with? Which ones are yet to be implemented?

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5. In the context of your rural producers' association, which do you consider to be the greatest advantages of formalisation and which are the greatest problems or disadvantages?

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While attempting to answer these questions if you have any doubts or feel that you do not have sufficient information for the analysis, take another look at the manual, consult the student's handbook or contact the facilitator.

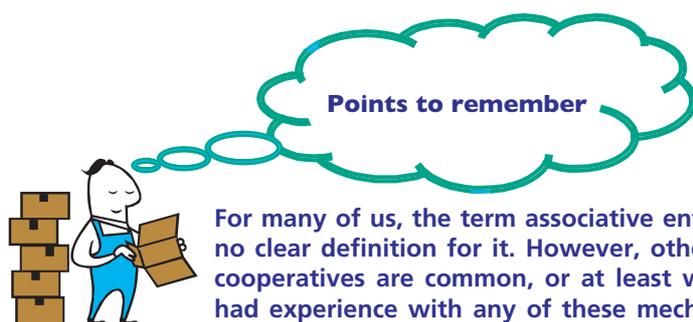
Linkages between producers' associations and other actors in the chain

UNIT TWO

Organization principles for producers' associations

LIST OF TOPICS

1. Setting the context
2. Case study: Contract Farming for Seed Potato – Chambal Agritech Limited. See also case study: Contract Farming in the Horticultural Export Sector of El Bajío, Mexico
3. Case study analysis
4. Different forms of Producers' Associations
5. Creating linkages between actors in the food chain
6. Consultation mechanisms
7. Conclusions on the case study
8. Group exercise
9. Summary
10. Unit assessment



Points to remember

For many of us, the term associative entrepreneurship is new and there is no clear definition for it. However, other terms like contract farming and cooperatives are common, or at least we have heard of them. Have you had experience with any of these mechanisms? and have you used them with suppliers, competitors, members or partners? Did you know that these are some of the most common forms of associations?

Other less common forms of associative entrepreneurship include joint ventures, collective actions, networks, consortia and competitiveness agreements. Do you participate, or have you participated, in any such types of agreement? What is your experience in the matter?

By the time you complete this unit
you will be able to:

- 🌀 From your own experience, identify alternatives for collaboration which you have implemented or could implement in order to improve your producers' association's links with competitors and with other actors in the agrofood chain to which you belong.
- 🌀 Recognise that trust is a basic principle for consolidating strategies and that trust develops in environments governed by respect and the fulfilment of commitments.
- 🌀 Define contract farming, joint venture* partnerships, collective actions, networks, and consortia* as forms of producers' associations.
- 🌀 Identify methodologies that facilitate consultation and partnerships.



Setting the context

In the current globalization context, the competitiveness of the production system relies greatly on the linkages and capacity between the actors of a chain. These can be turned into a strategy to enable the actors involved to cope with fast-changing economic and market conditions.

Mechanisms and instruments exist to support and facilitate associations. In recent years, a wide variety of such mechanisms and instruments have been developed and refined. Perhaps the simplest form has been contract farming*. The advantages of contract farming include higher productivity, sales risk reduction and higher product quality. The disadvantages of contract farming can include negotiation* imbalances between sponsor and contractor, information disparities and unequal distribution of business profits.

A joint venture is another means for enterprises or individuals to join forces, with each contributing capital, technology, information, infrastructure or market contacts. More recently, there have been institutional developments within agrofood chain s involving dialogue and consultation through round tables, advisory boards, councils, networks etc.

The main advantages of associations are :

- transaction costs are cut due to better use of resources and greater cooperation, which usually improves logistical efficiency;
- the number of operators involved in commodity marketing is reduced;
- exchange of information is increased which facilitate information flows in management and technology;
- coordination is improved and resources are pooled with visible medium-term results, not only in research and development;
- public-private dialogue is often improved.

In successful associations a number of conditions usually hold: trust between the actors, a shared medium- and long-term vision, tolerance, understanding other people's points of view and information transparency.

Case study: Contract Farming for Seed Potato – Chambal Agritech Limited

INTRODUCTION

Chambal Agritech Limited in India entered the global seed potato market in 2003, when Chambal Fertilisers and Chemicals Limited acquired a 51 percent controlling stake in a leading Australian Agri-Biotechnology Company – Technico Pty Limited (TPL). The firm commands a strong presence in Australia and China, and more recently it has started operations in Canada. It is a high-technology driven company specializing in using its technology for the rapid multiplication of early-generation, high-quality seed potatoes.

The Indian operations implemented by Messers Chambal Agritech Limited include a fully-integrated seed production programme – from the facility to the fields – with the supply of final seed products going to local and export markets, as well as to global potato processing firms. It is also assessing export opportunities in the Middle-East, CIS countries and Africa, as well as in neighbouring countries such as Sri Lanka, Bangladesh, Pakistan, Nepal and Bhutan.

The state-of-the-art facility for basic seed production is located at Manpura, in the lower Himalayas of Himachal Pradesh, India. The facility delivers 20 million tubers per annum which can produce 50 000 tonnes of high quality, early generation seed potatoes in just two seasons.¹

Production requires an advanced level of know-how, appropriate equipment and excellent farm management. Planting is entrusted to skilled farmers on a contract basis and all downstream operations are subject to stringent quality control under close monitoring by Chambal Agritech Limited's Agronomy Division.

DISCUSSION

Contract farming has tremendous benefits to offer, not only for the industry but also for the farming community. The key advantages are:

- i) linkages between scientists, industries, and farming communities;
- ii) exposure to international practices;
- iii) introduction of new seed varieties, equipment, other inputs, etc.; and
- iv) price stability for farmers.

¹ CAL Seed Potatoes, <http://www.agritech@glide.net.in>, <http://www.tecnituber.com>

Contract farming for production of seed potatoes has become popular, and over 95 percent of the raw material requirements of the company are produced under contract. These are formal, highly detailed and can range from sale and purchase contracts through to production management contracts. Under this contractual production system, firms pay more than 40 percent of the total production cost without collateral and without charging interest.

Case study analysis

Based on your personal experience, consider the following questions on the proposed case:

1. In the case study two types of associations were identified: i) contract farming, which takes place between producers and the seed company, Technico Pty Ltd., and ii) a joint venture between the procurement firm and an Australian firm. What advantages and disadvantages do you see in these arrangements for each of the parties?
2. What do you consider to be the biggest differences between the actors in the case study? Do you think this affects the type of agreement they conclude?
3. Has your producers' association implemented any such arrangements? Which advantages do you think the organisation gains from making this sort of alliance?
4. From the case study, can you identify attitudes and principles, above and beyond business strategies, which have helped to achieve the results described?

Bear in mind that at the end of the unit you will be asked to answer the same questions in the light of the new knowledge you will have acquired.

Different forms of Producers' Associations

Associative models are nothing new. In many areas they are common business practice, but in others there is a poor record of cooperation between farmers and agribusiness companies.

There are different forms or models of associative entrepreneurship, the best known of which are: contract farming, joint ventures*, production alliances*, collective actions, networks and consortia*.

Contract farming: This model has existed for many years as a means of organizing commercial agricultural production. Interest in contract farming continues to grow, particularly in countries which formerly implemented a central planning policy and in countries that have liberalized marketing by closing down marketing boards. Contract farming can be defined as an agreement between farmers and processing and/or marketing firms for the production and supply of agricultural products under forward agreements, frequently at predetermined prices.¹

Contract farming often includes support in terms of inputs and technical advice. Such agreements are based on a commitment by the farmer to provide a specific commodity by the appointed deadline in quantities and of a quality determined by the purchaser, and a commitment by the firm to support the farmer's production and to purchase the commodity.

The intensity of the contractual arrangement varies according to the depth and complexity of the provisions in each of the following three areas:

- **Market provision:** The producer and buyer agree to terms and conditions for the future sale and purchase of a crop or livestock product.
- **Resource provision:** In conjunction with the marketing arrangements, the buyer agrees to supply selected inputs, including on occasions land preparation and technical advice.
- **Management specifications:** The farmer agrees to follow recommended production methods, input regimes, and cultivation and harvesting specifications.

With effective management, contract farming can be a means to develop markets and to transfer technical skills in a way that is profitable for both the

¹ Eaton, C., Shepherd A. 2001. *Contract Farming - Partnership for Growth*. FAO AGS Bulletin No. 45.

sponsor and the farmer. The approach is widely used, not only for tree and other cash crops but, increasingly, for fruit and vegetables, poultry, pigs, dairy produce, and even prawns and fish.

JOINT VENTURES

This is a more modern type of associative entrepreneurship. Joint ventures are defined as a contract for conducting a joint business venture by which a group of two or more firms provide a whole range of contributions, not involving the loss of their identity and individuality. Typically a joint venture contract would include an agreement between two or more firms to contribute resources for a joint business venture. These resources might include raw material, capital, technology, knowledge of the market, sales and distribution channels, staff, financing, or products.

PRODUCTION ALLIANCES

These are cooperation agreements or links established between two or more actors who share a strategic objective. These links enable the actors to coordinate the tangible and intangible resources, efforts and expertise of different business sectors in order to jointly tackle the complex problems involved in the production phase.

Production alliances are important because they help to integrate agricultural producers into agrofood chains to overcome problems of market access, information, financing, infrastructure, technological innovation, and so on. It is important to see a production alliance as a process rather than an end in itself, given the dynamic and changing nature of the partners' various exchanges, objectives, goals and expectations.

BUSINESS NETWORKS*

These are groups of enterprises working together to market their products, buy inputs, acquire joint services or organize themselves for production – becoming specialized and complementing one another. Networks are also defined as a means of voluntary cooperation between producers where the members maintain their own legal independence and managerial autonomy, with the aim of obtaining individual benefits via joint actions.

Business networks can be classified as either horizontal or vertical. Horizontal networks are alliances between a group of firms offering the same product or service. An example of a horizontal network might be a group of small enterprises in the textile sector, which retain their individuality and serve their markets, but at the same time cooperate with one another via the network to buy inputs and/or to meet an order that exceeds a firm's individual capabilities. Vertical networks

are cooperation arrangements between firms, which are positioned at different but successive stages in the agrofood chain, which join forces to gain competitive advantages that they could not obtain individually. In this respect, vertical networks are organized in much the same way as agrofood chain s.

CONSORTIA

These are defined as business groups comprising legal entities whose purpose is to jointly conduct a specific business activity. An export consortium, for example, is a voluntary alliance of firms with the objective of promoting the goods and services of its members abroad and facilitating the export of these products through joint actions. Members of a consortium realize that cooperation must prevail over competition in order to access key markets and the latest technology.¹

The advantages of export consortia include: cost reductions for their members, because they can distribute fixed costs; a broader portfolio of products to offer the market; the possibility of hiring specialized support services, which most firms could not afford to do on their own, and greater bargaining power with agents, distributors, importers and customers. Some of the most significant characteristics of export consortia are as follows:

- products which firms contribute to the consortium are normally mutually complementary and tend to share the same distribution channel, as well as joint promotional events;
- firms adopt a mutual economic and/or commercial undertaking and define rules governing what each firm must contribute and their respective rights and obligations;
- an export consortium should be seen as a secondary instrument of the firm itself, which only defends the interests of the members.

COLLECTIVE ACTIONS*

The collective action is another form of associative entrepreneurship, in which public sector actors can also participate. Collective action is an initiative by a group, motivated by a shared goal to achieve a common or group interest.

Collective action strategies can be classified as being aimed at:

- i) improving revenues or another aspect of the immediate physical well-being of the groups involved;
- ii) altering social relationships in specific rural populations and, in particular, the balance of power (e.g. gender relations); and

¹ UNIDO. A Guide to Export Consortia. <http://www.unido.org/file-storage/download>

- iii) influencing government policy in order to expand development opportunities.

Collective actions help to build individual capacities (human capital) and organisational capacities, instigating networks and social consultation and entrenching rules and values (such as solidarity, reciprocity and trust), which help to enhance social capital.

From a production and commercial standpoint, collective action is of special importance in resolving problems arising in the relationship between actors in agrofood chains.¹

Creating linkages between actors in the food chain

Building alliances along the food chain is a medium- to long-term process for drawing-up and adopting commitments and for facilitating the required collaboration to access resources, foster the creation of mutual capacities between the parties and to lay the foundations*ⁱ for innovative solutions to achieve results that would be hard to achieve in isolation.

The process of building such alliances can be divided into four phases and is illustrated in Figure 1:

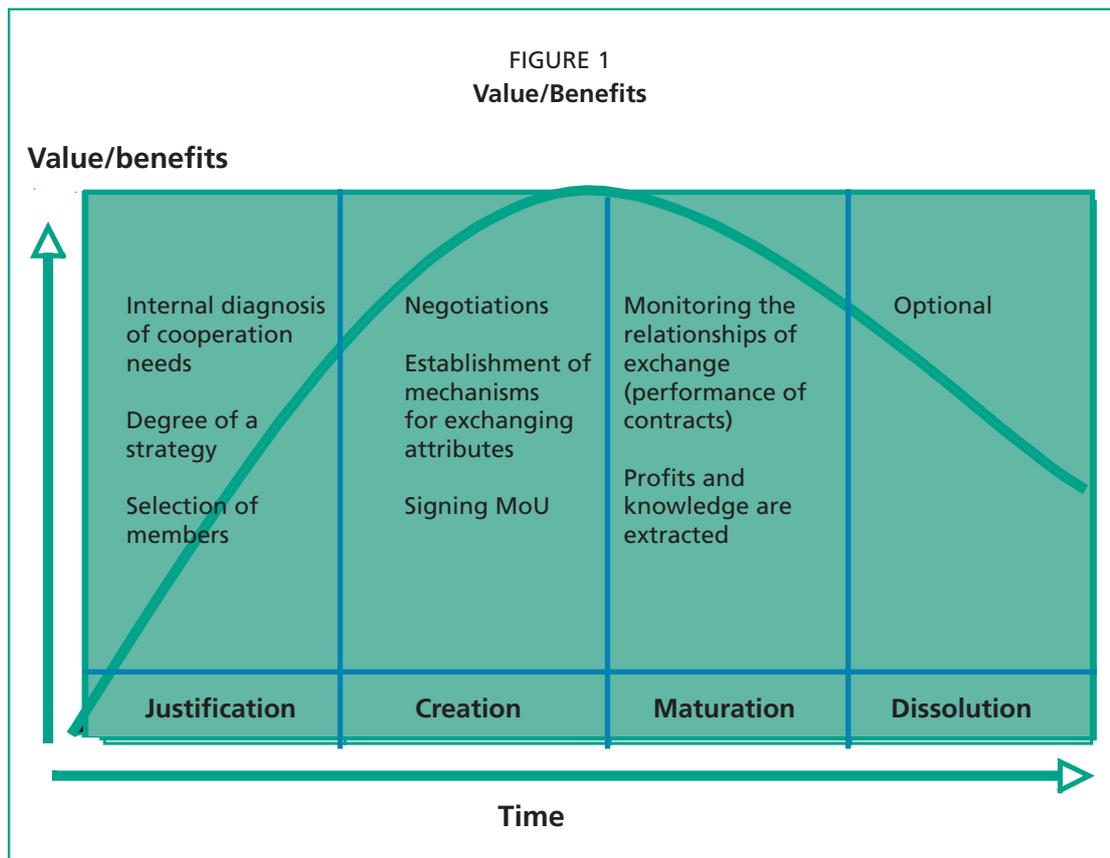
Justification: involved parties draw up their cooperation requirements, design a strategy and select their potential counterparts.

Creation: exchange mechanisms between the parties are established on the basis of transparency, credibility and flexibility.

Maturation: exchanges are developed and monitored and profits obtained. Success will depend on how clearly the parties' rights and obligations have been defined in advance.

Dissolution: this happens once the proposed objectives have been achieved or when the established mechanisms prove dysfunctional.

¹ www.nead.org.br/download.php



Source: Regional Office for Latin America and the Caribbean of the Food and Agriculture Organization of the United Nations (2003). Proyecto de Cooperación Técnica "Apoyo a la Promoción y Desarrollo de Alianzas Productivas"

Consultation mechanisms

Policies which support not only the farming sector but also the food chain in general, have included the development and strengthening of a variety of cooperation mechanisms designed to improve the competitiveness of the food chain.

Dialogue fora, negotiation and consultation can be created between primary producers, processors, marketing firms and public and private support agencies.

Consultation mechanisms range from cooperation agreements, to industry round tables*, advisory boards and food chain councils*, which can lead to public-private partnerships* or competitiveness agreements*.

Negotiating techniques are important elements of entrepreneurial cooperation agreements*. They involve at least two members or two firms and are a process whereby interested parties agree upon courses of action, bargain for individual

or collective advantage, and/or attempt to engineer outcomes, which serve their mutual interests.

A negotiation process includes the following phases and components:

Preparation: the phase where the parties set their objectives, define what they want to achieve and how to achieve it.

Discussion: the exchange or introduction phase, where issues dividing the parties are explored in order to identify positions and interests.

Signals: in negotiations, positions continually shift, sometimes converging while at other times getting farther apart. A signal is used by the negotiating parties to indicate their willingness to negotiate on something. It is a message that the receiving party has to interpret.

Proposals: these are the parties' offers or positions for discussion.

Bargaining: this is the most intensive phase of the whole negotiating process and calls for great vigilance on the part of both parties. Proposals or concessions should have conditions attached.

Closing of agreement or Memorandum of Understanding: the aim of the negotiation process is to reach an agreement after satisfying the other party's requirements. The objective of a negotiation process is to reach the best possible agreement between the two parties

Some common consultation fora and mechanisms are listed below.

Industry round tables/food chain councils: these differ according to the formality of their proceedings and are consultation bodies for different actors in the food chain. Examples are:

- The All-China Federation of Marketing and Supply Cooperatives¹ is not only the national body for supply and marketing cooperative, but is also the consultation body for the government and cooperatives.
- The National Agricultural Cooperative Marketing Federation² in India, the Agricultural Produce Export Development Authority³, and the National Dairy Development Board⁴, are consultation bodies under the Ministry of Agriculture.

¹ www.chinacoop.com

² www.nafed-india.com

³ www.apeda.org

⁴ www.nddb.org

- In Malaysia organizations such as the Farmers' Organization Authority¹, and the Rubber Industry Smallholders Development Authority² are government-appointed institutions responsible for agroproduction chain coordination and consultation.
- In Japan, in association with the Japanese Agricultural Cooperative Movement and the Japanese Consumers Cooperative Union, the Government has been promoting a policy of organizing food chains and creating national and regional competitiveness agreements, regional agribusiness hubs and production alliances.

Competitiveness agreements: are outcomes of a consultation process between the various actors in a chain – such as farmers, manufacturers, marketing firms and national and regional governments. Discussions are held on the trends and current status of the food chain, and the strategies and course of action for improving the chain's competitiveness and meeting performance indicators in terms of markets, productivity and profitability.

Public-private partnerships* (PPP): are cooperation agreements, defined by contract, between a public and a private actor. The partners' contributions complement each other in a way that enables both to achieve their goals more efficiently than on their own.³ For PPP in development cooperation, the following additional criteria are frequently quoted:

- The public partner does not finance the private partner's core business but offers support.
- The PPP does not distort trade.
- The private partner's commitment exceeds the duration of the project.
- The PPP enables private partners to pursue their economic goals (such as profitability and opening new markets) and public partners to pursue their development policy goals (such as job creation, conservation of natural resources and poverty reduction).

¹ www.foa.org.my

² www.risda.org.my

³ www.inforesources.ch

Conclusions on the case study

Having compared your prior knowledge with the subject content of the unit, answer the following questions making optimum use of the new knowledge you have acquired.

- 1. In the case study of Chambal Agritech Limited, two types of cooperation were identified: i) contract farming, which takes place between producers and firms, and ii) joint ventures, which takes place between firms and investors. What advantages and disadvantages do you see in these arrangements for each of the parties?

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- 3. What do you consider to be the biggest differences between the actors in the case study? Do you think this affects the type of agreement they conclude?

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- 3. Has your producers' association implemented any such arrangements? What advantages do you think the organisation obtains in making this sort of alliance?

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- 4. From the case study, can you identify attitudes and principles, above and beyond business strategies, which have helped to achieve the results described?

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Group exercise

Let us return to the case of the Cavite Cooperative in the Philippines presented in the previous unit.

Its production structure has been strengthened and it has broadened the market for its products, but it still does not have sufficient capacity to cope with the growth in demand from supermarkets and neither has it established a strategy of linkages with other organisations to cope with this demand.

Bearing in mind that alliance-building is a multiphase process (justification, creation, maturation and dissolution):

1. Propose a simple strategy explaining the steps which Cavite should take to formalize an alliance with a similar firm enabling Cavite to increase its production capacity to meet new demand.

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2. Suggest which type of agreement Cavite ought to propose to another agribusiness in order to supply a larger market, which would be beneficial to both parties and would not jeopardize the two firms' individual businesses.

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Summary

In the current globalization context, the competitiveness of the agro-food system relies greatly on the linkages and cooperative entrepreneurship capacity among the actors in order to cope with fast-changing economic and market conditions.

- The main advantages of cooperation mechanisms are that they:
 - cut transaction costs;
 - improve information exchange;
 - promote coordination and encourage pooling of resources and efforts between the public and private sectors;
 - promote rapprochement, dialogue and consultation between the private and public sectors.
- For successful cooperation, a number of conditions must be met, such as:
 - i) trust between the actors; ii) a shared medium- and long-term vision, and iii) willingness of all parties to establish agreements. Factors leading to the failure of this type of linkage include: failure to apply such values as respect, tolerance, transparency and compliance with commitments, as well as differences between the objectives of agribusinesses.
- There are different forms or models of associative entrepreneurship*, the best-known of which are: contract farming, joint ventures, production alliances, collective actions, networks and consortia.
- The process of building a production alliance includes four phases: justification, creation, maturation and dissolution.
- Consultation mechanisms range from entrepreneurial cooperation agreements, where negotiating techniques are used, to industry round tables or councils, which lead to competitiveness agreements, in most cases involving public-private partnerships.
- Collective actions help to build social capital in communities and to develop and consolidate networks of linkages between communities, thereby strengthening their social fabric.

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Unit assessment

Answer the following questions on additional sheets of paper

1. Has your producers' association established any of the types of agreement described in the unit as mechanisms of associative entrepreneurship? What has been your experience? If you have not established any agreements, why not?

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2. Define in your own words: (a) contract farming; (b) joint venture; (c) industry round table; (d) food chain council; (e) competitiveness agreement; (f) public-private partnership.

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3. Which stages are required to establish a production alliance? How do you visualize this strategy in the case of your producers' association?

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4. Which values must underpin the processes of building and maintaining alliances and agreements between producers' associations?

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While attempting to answer these questions if you have any doubts or feel that you do not have sufficient information for the analysis, take another look at the manual, consult the student's handbook or contact the facilitator.

Glossary

Agricultural cooperatives

Cooperatives which carry out their activities by individually or collectively exploiting land and land-related products, within the broadest contractual framework, even allowing for the conclusion of trusts with members or third parties.

Food chain councils

Official dialogue and consultation bodies, comprising representatives of the stakeholders in a country or region's food chains.

Associative entrepreneurship

Mechanism for cooperation between organizations, in which each organization maintains its legal independence and managerial autonomy, deciding voluntarily to pool their efforts with other partners to achieve a common objective.

Business networks

Groups of firms that organize themselves to carry out joint activities, exchange information and experiences, or facilitate horizontal cooperation. Business networks can be used to organize specialized and complementary activities.

Collective action

Initiative of a group motivated by a shared goal to achieve a common or group interest.

Competitiveness agreements

Written instruments setting out the results of a consultation process between the various actors in a production chain. Competitiveness agreements can be national or regional.

Consortia

Business groups comprising legal entities whose purpose is jointly to conduct a specific business activity.

Contract farming

Agreement between farmers and processing and/or marketing firms for the production and supply of agricultural products under forward agreements.

Cooperative

Non-profit producers' association, whose aim is jointly and efficiently to produce or distribute goods or services to meet the needs of its members and of the community in general.

Entrepreneurial cooperation agreements

Mechanisms for cooperation between firms in which each firm maintains its own legal status (therefore excluding mergers from the definition) but the firms collaborate together on research, production or marketing projects.

Factors of production

Factors of production are resources which a firm or person uses to create and produce goods and services. In economic theory, there are considered to be three main factors of production: capital, labour and land.

Foundation

Legal form for establishing an organization to administer capital for a social objective.

General partnership

Legal form by means of which two or more people undertake to contribute money, work or other type of goods, with the aim of sharing in the company's financial income.

Industry round tables, or advisory boards, or agroproduction chain councils

Consultation bodies where the various agroproduction chain stakeholders can meet. They are known by different names in different countries.

Joint venture

Contract by means of which firms provide a whole range of contributions to conduct a joint business venture for a limited period to produce an economic gain.

Legal status

Recognition granted by the Justice Department, or equivalent national office, that associative entities are *de facto* legal entities authorized to acquire rights and contract obligations. Legal status is needed to formalize any act of a profit-making or non-profit organization.

Negotiation

Process whereby interested parties agree upon courses of action, negotiate for individual or collective advantage, and/or attempt to engineer outcomes which serve their mutual interests.

Partnership or corporation

Legal forms arising from a consensus, requiring contributions in cash, kind or business.

Production alliances

Cooperation agreements or links established between two or more actors sharing a strategic objective. These links enable them to coordinate resources, efforts and expertise, and to tackle problems or exploit production and business opportunities.

Public limited company

Legal form, established with a minimum number of people – as defined by each country’s regulations – which contribute money or work with the aim of sharing in the company’s profits (or losses).

Public-private partnerships

Cooperation agreements, defined by contract, between a public and a private actor. The partners’ contributions complement each other in a way that enables both to achieve their goals more efficiently than on their own.¹

¹ Inforesources. Rural Development through Public-Private Partnership.

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WEB SITES RELATING TO MODULE 2

<http://www.agritech@glide.net.in>
<http://www.amul.org>, amuldairy.org.in
<http://www.apeda.org>
<http://www.chinacoop.com>
<http://www.faidelhi.org>
<http://www.fao.org>
<http://www.foa.org.my>
<http://www.ica.coop>
<http://www.iffcofoundation.org>
<http://www.inforresources.org>
<http://www.inkud.org.id>
<http://www.merdekacoffee.com>
<http://www.nafed-India.com>
<http://www.nddb.org>
<http://www.nead.org>
<http://www.nhrdf.org>
<http://www.risda.org.my>
<http://www.safar.motherdairy.com>, motherdairy.org
<http://www.sopa.org>, sopa.net.in
<http://www.tecnituber.com>
<http://www.unido.org>
<http://www.zenchi-ja.or.jp>
<http://www.zuari-chambal.com>

Exchange rates: local currency to 1 US dollar. December 2006

China	...	RMB Yuan	7.8
India	...	Rupees	46.00
Indonesia	...	Rupiah	11 000
Malaysia	...	Malaysia Ringgit	3.5
Japan	...	JapYen	121.1
Philippines	...	Pesos	48.5
Thailand	...	Baht	40