Dealing with small scale producers

Linking buyers and producers

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Authors
Ellen Mangnus
Bart de Steenhuijsen Piters

Graphic Design
Evelien De Mey

Illustrations
Hajo de Reijger

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Foreword

Despite its limited geographic size, the Netherlands is one of world' s biggest exporters of agricultural produce. Very intensive farming development has produced a vibrant economic sector that continues to a functions key contributor to national GDP. What is behind this success? Strong farmers' organisations that connect effectively to the private sector, thus managing highly competitive value chains. The cooperative movement in the Netherlands has a history reaching well into the 19th century of bringing smallholders together into larger organisations that were able to advocate, negotiate and share knowledge. One may therefore state that the success of Dutch agribusiness is due to its ability to organize, both between producers as well between value chain players.

In the current debate about developing agribusiness in Africa, often references are made to the success of the Dutch cooperative model. How to learn from the Dutch experience and to apply its lessons in Africa? To answer this question, one has to understand the historical context of the Dutch cooperative movement, as well as recent experiences with cooperatives in Africa.

Without going into too much detail on the Dutch cooperative movement, it is worth to mention one striking phenomenon. Coherent organisations are social constructions that pursue a common goal, but often encompass more than only material interest. Dutch cooperatives were, for example, organized along religious lines. In one region both Catholic as well as Protestant cooperatives emerged, both with exactly the same commercial purpose and goals. Their cohesion along religious lines helped them create strong organisations that were based on common values and principles that, in turn, could further guide management and operations. This particular aspect is often forgotten in current debates about farmer organisation in Africa.

Agricultural cooperatives were abundantly promoted in post-colonial Africa, as part of national socialistic policies aimed at organising the countryside. It was believed that collectivity should be promoted in order to effectively provide public services and build the nation. Again, cooperatives had to serve dualistic goals of organising smallholders into larger, productive entities and facilitation the formation of the state. In many situations, cooperatives were utilised as instruments of control by governments, through which national interests had dominance over individuals. During the 1980s almost all state cooperatives in Africa were dismantled, leaving behind a collective sense of antipathy towards this organisational model.

Nowadays, the private sector is struggling to establish business collaborations with smallholders in Africa. There are growing opportunities for African agriculture to market its produce, be it to huge urban conglomerations or to a world market with constantly increasing demand for agricultural inputs. But African agriculture cannot seize this opportunity as it is still dominated by smallholders, which imposes constraints in terms of trade volume and product quality. In order to benefit from the opportunities of consumer demands, African smallholders need to become better organised. But what kind of organisation is most appropriate? During the past decade Western NGOs have insisted on establishing formal member-based producer organisations as key to rural development. There have been many successes with this approach, but maybe even more failures. What is generally observed is that formal organisation takes time and investment; the private sector does not have the time. Newly established producer organisations are often not a product of genuine local development. They are often based on monolithic interests and thus lack social cohesion. As the Dutch cooperative movement shows, successful and strong organisations need to be based on more than pure material common interest.

Africa is known for its strong social cohesion along lines of kinship, religion and tradition. Why is this social capital, which is abundant, not mobilised to facilitate organisation of smallholders and business collaborations?

This book will speak about smallholder organisation in developing countries. It presents models, successes and limitations, while, at the same time, sharing personal insights of a number of experts with extensive on-the-ground experience. The book will elaborate on a range of potential forms of organisation that could be considered for agribusiness development. The book provides a snapshot of approaches to organising smallholders and leaves it up to you, the reader, to select which approach is most appealing and useful. I would like to thank the author for her unbiased approach in providing us with a most interesting display of current knowledge and personal views on smallholder organisation in developing countries.

Bart de Steenhuijsen Piters

Acknowledgements

Recently we observed that development practitioners and private sector actors struggle with linking farmers' organisations to businesses. While the debate is in full swing and many experiments are taking place world wide, we think that more knowledge on the topic is needed in order to support evidence-based decision making. We publish this bulletin as a response to this demand for sharing more knowledge on the topic. This publication was made possible through financial assistance of the Dutch Ministry of Foreign Affairs and resources contributed by the Royal Tropical Institute. We hope that this publication will inspire those who work with farmers' organisations or are on the verge of doing so.

Special thanks go to all experts that were willing to share their vision on themes related to the topic of this bulletin. They provide the reader with a variety of valuable insights.

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Ellen Mangnus
Bart de Steenhuijsen Piters

Dealing with small scale producers

Both the private sector and the small scale producer have a stake and reap benefits from their collaboration in the value chain. This relationship can be coordinated and maintained by a producer organisation. And a producer organisation can play a central role in enhancing this cooperation. In many cases, however, this is not achieved; either the business actor or the producer is not fully satisfied. There is great diversity in producer organisations and also in their capacities; consequently, there is confusion about which form of organisation is appropriate for a particular business aim. The underlying goal of this publication is to contribute to the understanding of producer organisations and the potential benefit that they can bring to enhance particular business relationships.

Content

1.

Deal or No Deal??

Introduction

1 Introduction

Buyers and sellers in value chains are increasingly becoming interdependent. Changing market conditions and consumer demands require them to closely align their activities. Chain actors benefit by working together to coordinate their transactions.

The private sector and the small scale producer share a common interest: to bring a product on the market. However, it is not easy to establish and maintain smooth working relations. Both the private sector actor and the producer operate in a specific context and face constraints that make it difficult for one to respond to the needs of the other.

Small scale producers generally do not have access to all factors that are needed for delivering a product that responds to market demand. They often face strong economic, social and physical disadvantages: in some areas the infrastructure is poor, while in other areas up-to-date market information is not always available to everyone. Another challenge is the difficulty in accessing technical advisory services, agricultural inputs and financial services. Agriculture is a risky business and lack of post-harvest facilities makes it difficult to deliver a consistent supply of good quality produce. Women are often in an even more difficult situation. An example to illustrate this is the difficulty they face in accessing services based on land titles. Often women lack formal land ownership.

Private sector actors operate in a different context. Regardless of the problems faced by their suppliers, they have to respond to market requirements. Depending on the product and the market these can be either strict or more flexible. The private sector looks for reliable business partners who are able to deliver the required volumes of produce, at a good price, on schedule, and in compliance with quality standards.

In order to benefit from each others capacities, the producer and the private sector should overcome the obstacles that inhibit cooperation. A producer organisation can play a central role in enhancing this cooperation, either as a full-fledged chain actor or as an external actor that facilitates the link between chain actors.

What is a producer organisation? The large diversity in producer organisations makes this a difficult question to answer. Producer organisations differ with regard to origin, legal status, membership base, functions, purposes, services provided and scale and level of operations. Each organisation is socially embedded and has a unique history of development (Coe et al., 2008). Nevertheless, all producer organisation share some joint characteristics: they are rooted in rural areas, they are member-based organisations and they have a democratic structure that allows members to control the operation of their organisation (Bijman, 2007; Wennink et al., 2007). The producer organisations in supply chains have another distinguishing feature: their economic function. Some organisations market produce, some organisations buy farm inputs and sometimes an organisation also proceses the produce. In other cases the producer organisation only coordinates the collection and sale of the produce. While producer organisations in a supply chain may also pursue social or political objectives, their primary objective is to support producers in accessing markets for their produce.

What added value can a producer organisation provide to private sector actors and producers?

Private sector actors place a high value on reducing transaction costs. A producer organisation can provide them with a single contact point instead of many fragmented producers. As a chain actor a producer organisation can collect the produce and fulfil key responsibilities, such as grading, processing and transporting. As a chain-link facilitator a producer organisation can disseminate information and assist in the provision of technical advisory services and credit.

From the perspective of producers, membership in producer organisations offers many opportunities for improving market access. Increasing economies of scale bring clear advantages in cost reduction for the individual producer, e.g. bulk produce transport -- using one truck to take the produce of several producers to the market. Organisation increases bargaining power, stimulates solidarity and supports the producers in engaging in higher risk actions. A producer organisation can also support activities that provide added value and provide access to credit and technical assistance (KIT, 2007).

Clearly, a producer organisation can add value to cooperation between producers and business actors and provide benefits for both parties. However, in practice this is not always the case. What is going wrong?

First, market oriented producer organisations are not equally accessible to all producers. Membership of an organisation involves costs, e.g. fees and time. Moreover, producers need to produce a surplus of produce and should be able to comply with the quality and quantity requirements. For many producers these are big challenges. Producers who cannot access a producer organisation are often obliged to produce for inferior markets. The more stringent the requirements of the private sector, the more exclusive is the organisation.

A second factor is connected to the perspective of the buyer. The private sector actor who is seeking collaboration with organised producers is not always aware of the local dynamics. The logical step is to look for an organisation that is legitimated by national legislation or that is supported by a donor. Both cases, however, do not guarantee that the organisation will have sufficient capacity to fulfil its obligations as a business partner. In many developing countries formal producer organisations are linked to political actors and producers are suspicious because of past negative experience. Many producers choose to avoid these formal organisations. To only deal with formal organisations means to exclude many efficient producers. As a result, the private sector actor might miss an opportunity to work with efficient producers.

In one way or another, producers are most often already organised. Lack of awareness of these local dynamics can lead to strategies that are not pro-poor: private sector actors may opt for vertically coordinated arrangement, like estate farming. In some cases, the private sector may take steps to organise producers or requests a donor organisation to undertake this initiative. Organisations founded by external actors often engage in too ambitious activities and unsustainable business practices (Berdegue, 2001; Hellin et al., 2007). A new organisation may even be in conflict with existing local organisation structures. Some societies have clear age hierarchies where decisions taken by the elders are automatically accepted and put into practice. In this context, an organisational structure with democratic voting could not function.

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The private sector is interested in the output; the small scale producer is interested in improved market access. Organising producers bridges these two symbiotic needs, but it is not a matter of simply being "organised" –- how producers are organised is essential!

"The message of this booklet is: open your business eyes to innovative producer-business linkages!"

This booklet will highlight the role of producer organisations in value chains and the. increasing need for cooperation within these value chains.
What follows next, is a brief explanation of the 'Value Chains' and 'Contracts' concepts.

1.1 Value chains

Agricultural marketing systems have changed a lot since the 1980's. Market liberalisation and integration, together with changing consumer demands and flourishing information technology, had a substantial impact on the structure of agricultural and food markets all over the globe. As markets became more integrated also the structure and governance of supply chains changed. Chain actors became part of closed supply chains. The concept ´value chain´ was introduced. A value chain is 'the full range of activities required to bring a product or service from conception through the intermediate phases of production to deliverance to consumers and final disposal after use' (Kaplinsky, 2000). A value chain is a supply chain in which the different parties are vertically allied or form a network. Each chain actor is independent but the different actors work together to reach common goals and share risks and benefits (Hobbs et al., 2000).

A value chain is not a closed system; it is influenced by policies, social structures and environment (Altenburg, 2007). Each economic actor in the value chain is located in its own specific context, bound to this location by fixed production assets as well as by less tangible assets, e.g. social relationships and cultural practices (Coe et al., 2004; 2008).

The producer organisations outlined here are part of pro-poor value chains. Value chains are pro-poor only when the economic benefit for producers is higher than if they were not participating in the chain. Higher profits can be obtained through vertical integration, i.e. producers taking on additional activities in the value chain (like processing, grading and packaging) and horizontal integration, i.e. producers becoming involved in chain management (KIT, 2006).

1.2 Contracts

The more the activities of different actors within a chain are alienated the more coordination is needed. Agreements between different chain actors are often sealed through a contract.

Contracts in agriculture are agreements between a producer and a buyer on the production and supply of agricultural produce, often at predetermined prices (Shepherd & Eaton, 2001). Contracts are used to solidify partnership on different levels: between a cooperative and its producers, between a cooperative and a company but also directly between a company and an individual producer. A contract is used to coordinate both parties and to enforce the parties' compliance to the terms of the agreement.

A contract stipulates the agreed upon quality and quantity, at what time and place it should be delivered, and the reimbursements. Through a contract, the parties seek to mitigate market weaknesses regarding credit, insurance, scarcity of production inputs and information exchange (Key and Runsten, 1999). Some contracts only specify price, quality and quantity; others also include agreements on input provisions or credit. In the strictest type of contract, the buyer supplies all inputs and manages the production process, while the producer primarily functions as an agricultural labourer.

Many contracts are informal and it is only worthwhile to invest in a contractual arrangement if the benefits outweigh the costs. When is it best to utilise contracts?

As they are a form of legal enforcement, they are best suited when there is a need to coordinate and enforce transactions. For example, when a buyer requires produce that satifies a particular quality standard or when the produce is perishable and needs efficient coordination with regard to harvest and delivery. The level of required coordination and motivation is not only dictated by type of produce, it also depends on the market. Quality sensitive markets often require more formal control (Bijman, 2008).

Although contracts aim to support transactions, they can be disadvantageous to one of the contracting parties. Sometimes buyers manipulate quotas or quality specifications. Producers who rely on buyer provided advances risk indebtedness. Yields of newly introduced crops can be disappointing, or the new crop technology may be unsuitable in the local context. Also the buyer can face misfortune, examples are land availability constraints, social and cultural constraints, producer discontent, side selling and input diversion (Key and Runsten, 1999; Shepherd and Eaton, 2001).

Contract farming does have primarily positive effects on the producers' income (Bijman, 2008). Its impact on rural development, however, depends on the type of producers included (Key and Runsten, 1999). Some buyers prefer to contract large-scale growers, as financial constraints do not hamper them from making investments and in general they need less technical assistance than small-scale producers. In other cases, working with small scale producers can provide cost reducing advantages, for example with labour intensive crops. Some buyers prefer to contract a mix of producers to prevent becoming dependent on a few large suppliers (Swinnen and Maertens, 2007). In the and of this chapter Miet Maertens and Jo Swinnen reflect on the world of contract farming in high value food chains. Jos Bijman will tell us about the role of producer organisations in contract farming.

This publication is seeks to guide the reader through the diverse world of producer organisation schemes and, in turn, to provide insights and stimulate reflection on the different arrangements being used to connect the private sector and the small scale producer. Chapter two describes the archetypical producer organisation and its (dis)advantages in business arrangements. Chapter three reflects on chain characteristics and chain-context factors that influence the organisation efforts of producers. Chapter four explains how to analyse the business capacity of a producer organisation. Chapter five finalises with a discussion on the trade-offs of different strategies aimed at achieving positive impact on the small scale producer. Each chapter will also provide insight from experts who have extensive experience in researching and working in the field, and are thus able to provide firsthand knowledge regarding the different producer organisation models and their impact.

Miet Maertens - professor Agricultural- and Development economics at the section Agricultural and food economics of the University of Leuven.

Vertical coordination in high-value food chains

What are the current developments regarding supply chains?

During the past decades the global food system changed dramatically: increased trade in high-value food products, increased exports from developing countries, increased consolidation and dominance of large multinational food companies, and increased proliferation of public and private food standards. As a consequence, global food trade is increasingly organised around vertically coordinated supply chains rather than around spot market transactions. This is most apparent in contract-farming between agro-industrial firms and local primary producers. In the most extreme case primary production is completely vertically integrated in upstream processing and trading activities.

Are high-value export chains exclusive to small scale producers?

This has created concerns that smallholder agricultural producers, especially the poorest ones, are excluded from high-value export supply chains. Often companies enter contracts with large and capitalised producers who are better able to comply with stringent standards and to make the necessary investments. Sometimes companies shift to complete ownership integration and operate large-scale estates. An additional concern is that these smallholder producers are exploited in contract-farming schemes with large, often multinational, food trading and processing companies due to the disparity in bargaining power in the chains. However, empirical evidence shows that in general more smallholder producers are involved in contract-farming in these high-value export chains than would be expected based on the arguments above. Food companies often have no choice but to source from small producers because they constitute the majority of the supply base and due to the limited availability of agricultural land that can be used for integrated estate production Food companies may also choose to source from smallholders –- and to provide the necessary inputs, credit, technical and managerial advise to the constrained smallholders as part of contract-farming arrangements –- for various additional reasons: to reduce the dependency on a small number of larger buyers, it is easier to enforce contracts with smallholders, or the higher productivity on small farms. In addition, most empirical evidence shows that farmers involved in high-value contract-farming schemes benefit in terms of improved productivity, improved access to inputs and credit, improved access to technology, and ultimately higher farm incomes.

What is the impact of increasing vertical coordination on small scale producers?

Even if smallholders are not included in contract-farming schemes and high-value export production is realised (partially) on large vertically integrated estate farms, there are important benefits for rural households, mainly through labour markets. The employment opportunities created in these agro-industries –- on the estate fields as well as in processing plants –- are especially attractive for the poorest households and for women. It has been shown that the wages earned in these industries can make an important direct contribution to household income, increase the bargaining power of women in the household budget, and can lead to investment spillover effects on household farm activities.

Jo Swinnen - professor of Development Economics and Director of the LICOS-Centre for Institutions and Economic Performance at the University of Leuven.

In summary, empirical evidence points to the important poverty-reducing effects of high-value export development and high levels of vertical coordination. These effects come in part through product markets but the effects of employment and labour markets are important, particularly for the poorest rural households. This implies that strategies to improve the welfare effects of high-value trade need to include strategies that create inclusive food supply chains (ones that do not completely exclude smallholders) as well as strategies for the development and improved performance of rural labour markets. Finally, the separation is not always that strict. Agro-industrial and smallholder are not always mutually exclusive; there are many cases where the two models are combined.

Jos Bijman - assistant professor in management and organisation at Wageningen University.

Contract farming and producer organisations: a natural combination?

Contract farming arrangements are increasing in number and scope in developing countries. The rise of supermarkets leads to higher demand for large quantities of uniform products. As supermarkets often require quality assurance systems, their suppliers increasingly source from producers who can deliver large quantities of uniform and guaranteed quality. Contract farming arrangements are used to safeguard these supplies.

What products are often found in contract farming arrangements?

We can distinguish three groups of typical contract farming products: (1) high-value products for which consumers (or companies) are willing to pay a premium, but in return demand a guaranteed quality of the product; (2) highly perishable products, which require farmers and companies to coordinate the timing of harvest and delivery; (3) products with technically difficult production that need companies to provide technical assistance and specialised inputs to the farmer. Typical products in contract farming schemes are fruits and vegetables, organic products, spices, flowers, tea, tobacco, and seed crops. In animal production contract farming is common for dairy, because of the high perishability of milk, and for poultry, because of the specialised inputs and technical assistance required. A growth in the consumption of these types of products also implies a growth in the use of contract farming arrangements.

Can smallholders fit in contract farming schemes?

For the purchasing company, making contracts with smallholders entails high transaction costs. Smallholders are geographically dispersed; they have different levels of competence leading to differences in product quality; and they produce small quantities. Companies prefer to do business with larger farmers, particularly when they are supplying supermarkets. Also when the contract deals with specialty products, like organics, monitoring compliance by a plethora of individual producers leads to high transaction costs. Still, smallholders can be attractive for companies. First, crop failure of one or two farmers has a small effect on the overall supply. Second, smallholders can more quickly respond to changes in consumer preferences. Third, as smallholders mainly use family labour they can better ensure quality, as demanded by the company. Fourth, smallholders have fewer alternatives, so they are more likely to stick to the contract.

What is the role of producer organisations in contract farming arrangements?

Producer organisations can play an important role in reducing transaction costs. By dealing with a producer organisation, the company does not have to do business with a large number of farmers. Producer organisations may support contract farming by arranging or channelling the technical assistance needed to help producers increase product quality and uniformity. Existing producer organisations can make use of existing social capital, which supports low cost information exchanges and social mechanisms that prevent non-compliance. Finally, producer organisations can improve the power balance between producers and companies, thereby strengthening the incentives for both parties to continue with bilateral contracts.

Does contract farming lead to inclusive or exclusive producer organisations?
Given the importance of quality assurance in contract farming schemes, not all small scale producers will be able to participate. This poses a challenge for producer organisations, as their membership is comprised of producers with varying abilities to comply with higher quality requirements. Also the democratic decision-making structure may pose obstacles to quality improvements. Two types of solutions can be found. The first is the establishment of a new producer organisation by those producers who are able and willing to supply the higher quality produce. The second is the development of different product pools within the producer organisation that would target different markets.

2.

A journey through a world of producer organisations

The Archetypes

2 The Archetypes

All producer organisations have some shared characteristics: they are rooted in rural areas, they are member-based organisations, they have a democratic structure that allows members to control the operation of their organisation (Bijman, 2007; Wennink et al., 2007), and they have an economic function (when functioning as a part of a value chain).

Producer organisations are based on the principle that acting collectively improves the position of the individual producer. Conditions for successful and sustainable collective action are multiple and complex, under the strong influence of socio-economic and politico-cultural contexts (WDR, 2008).

Before studying the conditions that support successful collective action one needs to explore the diversity in producer organisations. This journey will demonstrate how business oriented collective action is expressed in different organisational forms. The advantages and disadvantages of different types of organisations will become clear: we will visit cooperatives, associations, registered groups, informal organisations and network organisations (outgrower schemes and trader networks).

2.1 Cooperatives

One of the best known type of producer organisation is the cooperative, 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' (ICA 2010). Although modified to adjust to different legal and local circumstances all cooperatives are built on generic principles (Williams, 2007).

The traditional cooperative

A cooperative is characterised by three principles: user benefit, user control and user ownership (Barton, 1989). The purpose of a cooperative is to provide services to its members with regard to inputs, outputs and marketing. Cooperatives have an open membership and are democratic whereby each member has one vote. As members do pay contribution they also own the cooperative (van Dijk and Klep, 2005). Economic benefits are distributed according to the members' level of economic activity in the cooperative not according to his capital equity (IFAD, 2007). Traditional cooperatives are producer oriented and work on securing outlets for the producers produce, without taking much stock of market demand.

Cooperatives have two or three levels. The primary level is the members who exercise decision-making power on profits and major issues. The secondary level is composed of the leaders who represent the members; they are the board of directors. The board of directors establishes policy and oversees business affairs. In case a cooperative is very big or when the board of directors lacks business and management skills, professional managers can be hired, which adds a tertiary level. In this case, the board of directors is not involved in the day-to-day operations, they only supervise the management. The risk of hiring external managers is that the personal interests of the manager may diverge from the interests and needs of the members.

Many traditional cooperatives have difficulties in raising investment capital. As members have equal ownership and voting rights, there is little motivation to invest in the cooperative. Furthermore, cooperatives establish a lot of rules and regulations which can make them inflexible (Oxfam, 2007).

Cooperative structures in change

To survive in this globalising world with changing consumer behaviour, technological development and increasing chain integration cooperatives have to pursue competitive strategies. Many cooperatives have shifted from working based on their produce supply towards catering to market demand. To be able to respond to market demand, for example by adding value to produce, a cooperative needs to be flexible. Often, the need for capital exceeds the capacity of the members. Organisational innovations are applied to adapt to the changing circumstances and attract more capital. In developed countries cooperatives are evolving into new organisational models. There is great diversity in models due to differences in market structure, policy and culture.

The crucial aspect of these new cooperative models is the increasing distance between the cooperative management and its members. Management has become more complex and thus confusing for members. Also, with the expansion of a cooperative it is impossible for management to be in personal contact with all the members. There is a risk that diverging interests may emerge. As size or complexity increase, the relationship between the board of directors and the management changes. To be able to immediately respond to changing market demand management might require more decision-making power. When cooperatives become more complex, questions are raised whether the producers have the capacity to function as members of the board of directors and to oversee the management.

Regarding 'ownership rights' the new cooperatives can be grouped in five models (Cook and Chaddad, 2004). The first model is the *proportional investment cooperative model* members contribute equity capital in proportion to their use of the cooperatives services (How often do they use the storage facilities or the processing machines? How many kilograms do they sell to the cooperative?). Ownership of the cooperative is restricted to the members. Members cannot transfer their ownership and the share they own cannot increase or decrease in value. The second cooperative model is the *member-investor cooperative*. In this model ownership again is restricted to members only, but they receive returns, either dividends in proportion of shares or appreciable shares. A very popular model in agriculture is the third model, the *new generation cooperative*, where members have to purchase delivery rights. These rights assure producers of an outlet and the cooperative of a stable supply of its primary input. Delivery rights are tradable and can fluctuate in value. New cooperative members are only allowed to join when members sell their rights or when the cooperative expands.

These are examples of models that maintain the user-ownership structure of the traditional cooperative. There are also cooperatives that apply a more complex structure, that provide ownership to non-members and attract external capital. These cooperatives, presented below as the fourth and fifth model, combine features of traditional cooperatives and private companies (Oxfam, 2007; Bijman and Bekkum, 2006).

The fourth cooperative model acquires outside equity capital by establishing a *separate legal entity*. The external capital does not enter the cooperative directly; it flows into a legal entity affiliated to the cooperative that later channels the capital into the cooperative. The members keep ownership of the cooperative. The separate legal entities exist in the form of subsidiaries, strategic alliances or trust companies. In the fifth model, the *investor-share cooperative*, external capital does enter the cooperative. External investors have status of direct owner, but the cooperative issues different classes of shares to different owner groups and most often the producers hold the majority of the shares and therefore the ownership of the cooperative. The risk of having outside investors is that they may have diverging interests with the producers.

Some cooperatives convert from a cooperative into an investor owned company, thus changing the ownership structure from a member owned/controlled organisation into a proprietary organisation with shareholders.

Changing the structure of a cooperative is a difficult process, especially when the cooperative has a very heterogeneous membership. The size of the individual firms and the attitude of individual members towards taking risks differ, which brings different preferences regarding the structure of the cooperative and its the market choices (Kalogeras et al., 2009).

Unlike the independent producer controlled and financed organisations in developed countries, cooperatives in developing countries were mostly created by governments, through state-led input distribution and output marketing systems (IFAD, 2007). Producers were forced to become members and were required to sell their produce through the cooperative marketing organisation (Ton and Bijman, 2008). Currently, because of negative past experiences with these arrangements, many producers in these countries are suspicious of cooperatives (Oxfam, 2007).

In the interview at the end of this chapter professor van Dijk will reflect on the preconditions and development path of cooperatives.


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OUR COOPERATIVE IS COOPERATING VERY WELL

2.2 Associations

An association is an organisation that joins individuals who have a shared interest, activity, or purpose. Contrary to a cooperative, an association is a flexible form of organisation. Members decide on the structure and the rules of the organisation.

Associations that engage in marketing are often referred to as bargaining associations. Whereas cooperatives are vertically integrated in the value chain, for example by processing or marketing produce, bargaining associations enhance the economic benefit for the small scale producers by horizontal integration, i.e. collectively selling the members' produce (Bijman & Wollni, 2008). Some bargaining associations also engage in processing or retailing, but in general a bargaining association does not take ownership of the final product (Bijman, 2002).

Bargaining associations are most often seen in situations where a number of producers grow the same crop and sell their produce to the same buyer. Mostly these are crops for which spot market activity is little compared to trading by contract (Hueth and Marcoul, 2006). Bargaining associations play an important role by regulating the terms of the contract between growers and handlers. They lobby on behalf of the producers regarding prices, quantities, qualities and delivery conditions (Iskow and Sexton, 1992).

A disadvantage of associations is that in many countries they are not permitted to distribute business profits to members or to generate profit at all. The members are personally liable for the debts of their association. It is difficult for an association to access capital. Some associations resolve this problem by setting up a separate trading company that can donate its profits to the association. Generally speaking, an association is poorly suited to act as a full-fledged producer organisation in business collaborations (IFAD, 2007).

2.3 Registered producer groups

Many developing countries apply legislation that facilitates small groups of producers in registering and engaging in business activities. Sometimes these registered producer groups are an intermediate form that can later develop into an association or cooperative. In other cases they remain in operation as a group but are required to ally with apex organisations that are able to support them gaining access to markets. Often the law specifies a maximum size. Registered producer groups are able to access credit.

2.4 Informal producer organisations

Informal producer organisations are all producer organisations that are not formally registered. Most producer organisations start informally and only register when the perceived benefits of formal registration are higher than the associated costs (Oxfam, 2007). Registration is often expensive and in some cases the forms legally permitted do not suit the needs of the small scale producers.

What are the characteristics of an informal organisation? A grouping of individuals who interact based on shared norms and values and who aim to achieve specific joint objectives constitutes an informal organisation. The boundaries of the organisation are not formalised, but members do share a sense of belonging which makes it possible to distinguish between them and non-members. The more this sense of 'belonging to an organisation' intensified, the the more the members interact with each other and collaborate. Sometimes informal organisations can be very exclusive.

An informal organisation is more flexible than a formal organisation as it is not bound by additional legally prescribed policies and rules. In an informal organisation, the members themselves develop the internal structure. In practice, however, informal organisations are not always that flexible and are often resistant to change because they are bound by customs, conventions and culture (e.g. it can be difficult for youngsters to express their talents, also traditional structures often include strong leadership).

An informal organisation has some shortcomings as a potential business partner. The organisation cannot sign contacts; contracts have to be signed with individual members. Also, it is difficult to access credit (Ton and Bijman, 2008). Informal organisations are suitable in markets that do not require credit or contracts. An example is a group of bean growers that transports and sells collectively to a local selling point. One of the members organises the transport, all of them contribute to covering the costs and afterwards profits are divided.

A formal organisation is recognised and sanctioned under law. In a producer organisation in the value chain, the formal status assures that the business the members share is legally safeguarded. The organisation has access to credit and is allowed to trade. Membership in an informal organisation is risky in the sense that the liability of the organisation and its members is unclear, e.g. members are left unprotected in case of fraud.

There is an increasing tendency towards 'formalisation'; groups are supported by private and public actors to register and become legal. But formalising does not only mean 'acquiring a formal label'; it structurally alters the internal organisation, replacing or changing informal relations and decision-making structures by establishing formal rules and regulations. Formalisation often opens doors to public and private services. Nevertheless formalisation has its trade-off, as some members drop out after the formalisation process. Either because they do not comply with the requirements of the formal organisation or because they do not perceive potential benefits. In the following interview Mark Lundy reflects on the importance of informal organisations.

2.5 Network organisations

By 'network organisation' we refer to groups of organised producers that do not fit our definition of producer organisation. They do not have membership and a democratic structure, but the individual producers do share a common interest. Network organisations have loose boundaries, even looser than informal organisations, and are not registered.
What exactly constitutes a network organisation? A network organisation is any type of organisation of producers that improves their position within a value chain by supporting their individual farms. Network organisations exist in a context in which producers have individual contracts with the same buyer.

One example is an extension group. Extension groups are informal groups of producers that produce the same crop in the same geographic area and that join to share labour, exchange information or receive extension services. Some of these extension groups are linked with contracts to a local trader, others to a company in an outgrower scheme.

2.5.1 Outgrower schemes

An outgrower scheme is an arrangement in which a company contracts an individual producer to grow a crop. Sometimes companies initiate outgrower schemes in order to obtain a supply of new crops that cannot be obtained on the spot market. Sometimes crops are present but the company uses an outgrower scheme to be ensured of a reliable constant supply or a certain level of quality.

Outgrower schemes provide numerous advantages to companies. An outgrower scheme makes large scale production possible, without having to invest in land and infrastructure. It ensures the supply of quality raw material and the traceability of produce. Instead of focussing on production, the company can focus on processing and marketing. It enhances the positive public image of the company by demonstrating producer engagement and participation.

For producers an outgrower scheme provides the advantage of an ensured outlet for produce. The payment procedures are in general more transparent compared to selling on the spot market. Often companies provide inputs, assistance and knowledge. However, there are also risks involved. The company may incorrectly assess the market, and, if it is unable to sell the produce, it may also be unable to pay the producers. Another risk is that new crops can disrupt traditional farming system (Eaton & Shepherd, 2001).

Certain contextual conditions are favourable to outgrower schemes, for example geographically concentrated producers who are relatively far from a market, or buyers who demand higher standards in a context were existing standards are inadequate.

An outgrower operation involves a start-up investment and requires a long-term vision to achieve positive returns; it takes at least a few years to achieve economies of scale before costs begin to decrease. As an outgrower operation does not reduce supply costs, this should not be the starting point (Action in Enterprise, 2009). In some contexts, outgrower operations face difficulties in accessing finance services.

One of the major risks of investing in an outgrowing operation is side selling. In a competitive market producers might be inclined to sell their produce to other buyers. Also, the crop yields can fall short of expectations if producers do not use the inputs or advice provided by the company (Eaton & Shepherd, 2001). Applying an outgrower scheme to different geographical regions helps spread out weather related risks.

A weakness of an outgrower scheme is its inflexibility; the relationship between the company and the small scale producer is based on one single commodity (IFAD, 2007).

2.5.2 Local trader

Many companies do not trade directly with producers or producer organisations; instead they work directly with intermediate traders or processors. These traders buy produce at spot markets or directly from producers. In many cases traders have a strong network of suppliers (KIT, 2008).

In general, traders and producers work with informal contracts that are self-enforcing. How can contracts be self-enforcing? There is a mutual interdependency between both parties, they rely on each other for their income. Also, expected benefits from future cooperative behaviour keep promises in place. Contracting partners are careful to safeguard their reputation as trustworthy reliable partners. Sometimes producers or traders do not break contracts because of the existing values, norms and customs within their community. The relationship intensifies with increased contact: the more the producer and the trader interact the better they are able to assess each other's strengths and weaknesses (Bijman and Wollni, 2008).

In some case, the trader can benefit from producer organisation, for example by enjoying reduced transaction costs, secured through collective transport arrangements. Traders support these organisation efforts by providing group credits or establishing a collection infrastructure.

Gert van Dijk - professor of Entrepreneurship at Nyenrode University and director of the Netherlands Institute of Cooperative Entrepreneurship at the Business School of the University of Tilburg. He holds a chair in theory and practice of cooperation at Wageningen University.

The evolution of cooperatives

What are the preconditions for a prosperous cooperative?

The first requirement for a cooperative is that it should bring direct and notable advantage. A cooperative should facilitate producers to compete with each other on quality instead of price. For example, one strategy is to establish two different quality grades: producers who supply high quality should be rewarded. When there is no performance incentive, members will approach the cooperative as an entity giving them a right to sell instead of it functioning as an enterprise that belongs to them and that they should manage in response to market demand. Voluntary membership is another requirement; without it producers can again fall victim to opportunism. Well known examples of organisations that impose membership are the state cooperatives for export crops in Africa; these should not be called cooperatives.

To be successful a cooperative should provide room for entrepreneurship. A cooperative is not a public service and it requires entrepreneurs who can guarantee the survival of the enterprise in a market context. Another prerequisite for success is good governance and control. Members can outsource both functions, but it is important that governance and control are always within their reach. A cooperative cannot survive without the commitment of its members.

Shielding members from liability is a risk for the cooperative type of organisation: whenever the cooperative faces into problems, its members are not liable. This problem can be alleviated by requiring members to invest in the cooperative or by allowing the cooperative to use its reserves. Why is some level of liability necessary? This is necessary in order to attract external stakeholders, e.g. banks, and to stimulate member commitment.

Is there a blueprint for the cooperative model?

No. Formats of organisations that are functioning in the west are often implemented in completely different contexts. Staff is hired to run this western type of organisation. Working within a cooperative should be seen as an opportunity to develop one's capacities; however, it is often the case that hired outside staff sees the job as a right to salary, not as an enterprise that is his/hers and that offers opportunities. During all my travels I have not seen two cooperatives alike. The cooperative format is always contextualised and the most creative solutions are used to make a cooperative possible.

"During all my travels I have not seen two cooperatives alike"

Do cooperatives develop according to a pattern?
There is no empirical evidence yet, but a general pattern of development can be sketched. There are three aspects of cooperatives that determine development: commitment, relevance and governance. In general, cooperatives start small as a response to opportunistic market behaviour. In the first stage commitment is very high; the members believe that together they can reach markets that they cannot reach alone. Relevance is high and members are eager to control the management of organisation. In a second stage, when the cooperative has existed for several years, the relevance is less visible; new members do not have such a strong solidarity feeling, and the interest to exert control over the management decreases. In a third stage member commitment further decreases. Control and management are outsourced and professionalized. Successful cooperatives use a 'voice-mechanism' to ensure commitment. Members are given member benefits and as a reciprocal act are asked not to exit without giving notice and explaining the reasons for exiting to the cooperative. Reciprocity between a cooperative and its members is key. When there is reciprocity the members are committed and the cooperative has a clear view on its expected results.

Concerning membership, should it be homogenous or heterogeneous?
Regarding type of individual businesses of the members -- homogeneous. A cooperative with livestock producers who look for low grain prices should not also have members who are grain producers looking for high prices. Regarding the size of the individual businesses of the members: heterogeneous. A strong organisation facilitates for a mix of small and big producers to take advantage of the same cooperative. The big producers are necessary to keep total cost costs low in order to access markets and exert countervailing power. The challenge for cooperatives is to keep these bigger producers. Studies have shown that the costs of membership are higher for bigger producers than they are for smaller producers. In many cooperatives the principle of 'the one who makes the costs bears the costs' does not work very well. This is the reason why many cooperatives in Latin America fail: big producers prefer to work independently and therefore cooperatives mainly consist of small scale producers who, even together, are not powerful enough.
So why is the Netherlands a country of cooperatives? My hypothesis is that this is a consequence of the Dutch compartmentalisation in the past. A catholic big farmer felt a stronger bond and solidarity with a catholic small scale producer than with a protestant big farmer.

Mark Lundy - Researcher at the International Center for Tropical Agriculture (CIAT) in Colombia.

Informal producer organisations

When is it suitable for small scale producers to organise?
Organising only makes sense when the costs are lower than the benefits. The benefits of organising might include lower costs of inputs, access to more profitable markets or access to donor or government support. Without a reasonable benefit, it makes little sense to promote producer organisations. With regard to producer organisations, there is excessive focus on formal organisations. The focus seems to be on organising farmers; however, regarding market access farmers are already organised, either around a trader or another type of leader.

How can a buyer procure from an informal network?
This is what currently happens: companies contact traders and these traders activate their network or their lead farmers. There is a big gap in knowledge regarding informal networks. We don't know the costs and benefits of such informal type of organisations so it makes it impossible to compare them with formal organisations. I argue that it is not necessary to have a formal organisation to be able to get high-quality products. Informal networks often cost less and are able to meet precise quality and food safety standards. Formal models supported by donor funds tend to become much more complicated than necessary and can lead to inefficient use of resources. Many formal organisations do not provide sustainability or profitability. There should be a cost-benefit model to measure and decide how you want to organise the procurement from small scale producers.

An example is Hortifruti, the fruit and vegetable branch of Wal-Mart in Honduras. Hortifruti informed traders of its requirements and traders supplied it with quality products. By increasing their demand Hortifruti provided incentives to build supplier networks around these traders, and they responded by involving their neighbours as producers and teaching them how to meet Hortifruti standards. No donor organisation was involved. Initial assessments showed substantially lower costs for the incorporation of new farmers under this model, versus NGO managed formal association models.
The limitation of this informal model is that the poorest might not be reached. Formal organisations are likely to be more socially inclusive. There is a big gap of knowledge regarding the differences between informal and formal organisations regarding impact. How can a formal organisation be less expensive? And how can an informal organisation be more transparent and socially inclusive?

Can an organisation be a temporary entity?
We should be more realistic. It is natural that an organisation is born, maturates, and dies. The organisation is not the objective, but rather a means to support the improvement of the livelihood of small scale producers. The focus should not be on the survival of the organisation, but rather on enhancing the capacity of its members.

> "An organization is not an objective but rather a means "

What model do you propose?

Currently we are working on 'social intermediaries'. The idea of social intermediaries can be visualised in a Venn diagram with three angles/inputs: (1) The capable farmer who is able to comply with the requirements, (2) the buyer who is willing to buy from small scale producers, and (3) a favourable donor and policy environment. The social intermediary can be any arrangement: a cooperative as well as a corporation. The output of the social intermediary is sustainable development impact for the community as well as a profitable sustainable business that is able to reach the market. There is a lack of knowledge on how to structure an organisation (social intermediary) so that both impacts are guaranteed.

How do you foresee working with small scale producers in the future?

The emerging issue is: how much of this social intermediary concept can be incorporated into powerful businesses? What incentives does a company like Cargill or Bungee need to include social intermediaries in its business model? I argue that social intermediaries will become more and more important. Having a sustainable impact is no longer only a Corporate Social Responsibility marketing ploy. Instead, it will be necessary for surviving as a business and for securing high quality products. No longer will we talk only of preferred suppliers; the future will also witness the emergence of the preferred buyers.

"Besides preferred suppliers the future will witness preferred buyers"

Hans Overgoor - retired, experienced manager in the food industry. He is a board member of DO-IT

Sustainable relations within organic chains

DO-IT is a Dutch company. DO-IT has a leading position in importing and exporting organic food ingredients and consumer goods. The company believes it can contribute to a sustainable world through organic farming and trading in organic commodities and consumer brands. DO-IT aims at quality certified organic products, premium quality for the farmer's life and preservation of the earth for future generations.

How does DO-IT identify its suppliers?
DO-IT first decides which product it wants to put on the market. Subsequently, the company investigates where the produce is grown and which actors are active in the sector. The world of organic production is small and connections are easily made. In some cases the producers are the first contact, while the industry for further processing of the produce is selected at a later time. Often, however, the first contact is established with a domestic company, trader or processor who buys or is able to buy the produce directly from small scale producers. The company identifies a district that can provide potential farmers or farmer groups, favourable policies and good infrastructure. DO-IT and the domestic company always work in close collaboration with local governments. First, the village is informed of the plans and the village leaders play a role in organising the producers. DO-IT presents its ideas and shows the producers examples of the final products derived from their produce (e.g. showing grain producers a finished loaf of bread).

What relation does DO-IT have with the small scale farmers?
DO-IT tries to be as close to the small scale producer as possible. However, many products require further processing and, consequently, the processor is the closest contact.
Contracts differ per crop and per situation. Most contracts last for one year, but organic farming is a long-term commitment. It takes 3 years to become a full-fledged organic farmer and therefore long term relationships are preferred. Because there is mutual dependency DO-IT places high importance on securing trustworthy partners. DO-IT never requires producers to grow more then 2 cash crops; this assures that producers don't produce more then 1/3 for export. DO-IT also supports the community through concrete projects (e.g. donating sewing machines etc.)

There is little competition in the organic market and in general the conventional market pays less, so there is little risk of side-selling.

Poppe Braam - owner of a leading trading company in organic food ingredients and consumer goods.

How are producers selected and what about exclusion?
Farmers are selected based on the opinion of agronomists. These agronomists investigate the farmers' environment; producers who operate in areas with pollution or near GMO-crops cannot be selected. There is no formal selection on grounds of socio-economic status, but there is always a self-selection mechanism based on existing social relations, farmers who invite neighbours or kin to join the group.

However, for most organic crops it is important to secure the commitment and participation of an entire area in the project, it does not make sense to have neighbouring plots engaged in conventional farming. DO-IT requires producers to be certified as organic. DO-IT prefers the Eco-social certification, which is a contextualised certification system: it is adapted to local circumstances and the label does not have a centralised office that would dispense certifying agents to the field to conduct audits.

3.

Conditions for organising

Factors of influence

3 Factors of influence

This short journey in the world of producer organisations clearly illustrated the great variety and the unique business advantages and disadvantages of the different models of organisation. None of the models is ideal, and it is heavily dependent on the context, product and chain specifics of each unique case.

Let us start examining the issue in greater depth by focusing on the first factor: What conditions in the environment of both the producer and buyer define and shape the organisation of producers?

3.1 Enabling environment

An enabling environment is crucial for successful business collaboration. When selecting the sourcing location, the private sector actor is guided by several selection criteria: natural resources (Where is it best to grow sunflowers and where vanilla? What are the climate risks?); infrastructure and technology (How are the roads? Is there consistent electricity supply and good telecommunication links?); the stability of the financial system and the political climate; the physical environment (How are the producers spatially distributed? How easily is it to reach them?). Scattered producers are better suited for a network model of organisation.

The environment consists of formal rules and informal rules that provide incentives or constraints to organisations. Formal rules are embedded in constitutions, laws, charters, statutes and codes. These formal rules define which types of organisation can be legalised and which activities are allowed. By reducing registration costs, some countries stimulate producer groups to form formal legal bonds and to access markets. But there are also countries in which only certain types of organisations are allowed to engage in trade. The coffee sector in Kenya is one example: the cooperative is the only type of organisation that is permitted to sell coffee beans.
The informal rules refer to other societal aspects that regulate collaborations: the cultural values, norms and taboos. In some places producers are very reluctant to engage in contract farming. In the African context, contract farming was experienced by the smallholder producers as disrupting power relations and increasing tensions within farm households (Carney and Watts, 1990). In other contexts, collective business approaches have resulted in negative experiences and producers embrace individual contracts and outgrower schemes.

To summarise, in some cases the preferred type of organisation is largely predetermined by the producers' political, social, physical and economic environment. Before supporting organising schemes, it is necessary to carefully study the context and to be aware of potential changes!

In addition to the producer's environment, also the specific characteristics of the product and the market for this product influence the organisation of producers.

3.2 Product and Market

How important is it to consider the type of produce? The answer is: very important! The type of produce provides a lot of information about the type of organisation that is suitable and the capacities required from a producer and producer organisation. Does the product require a post harvest procedure and therefore an organisation with strong management, e.g. palm oil needs to be refined before storage. Or can it be stored rather easily, e.g. cassava can be harvested by the individual household and stored for a very long time?

The example of an international potato chip company can illustrate the point. The company produces its own potato seeds and provides training to producers to guarantee high quality potatoes. This requires traceable and large scale production, producers who are able to produce a high quality product, and strong buyer-producer relations to prevent producers from side-selling. Which type of organisation model does this imply? Regarding the requirements for scale of production the company can work with a few large-scale producers or with many small-scale producers. Let us assume that the company opts for many small-scale producers. As the company provides seeds to the producers and also wants to be able to trace back the potatoes it chooses for individual contracts, the company does not need to work with a formal organisation that has a strong organisational structure. However, as the company provides seeds and training some level of organisation is desirable; leaders are needed to organise the seed distribution and potato collection and someone should manage communication and planning with the individual producers. The network organisation model is best suited for this type of production.

A general distinction can be made between the following crop types:

- *Staple crops:* Commodities that are a basic dietary item in a specific region, examples include cassava, rice and cereals. Most small scale producers produce staple crops foremost for subsistence. Staple - crops are bulk products that are relatively easy to store and transport.

- *Perishable crops:* This produce is vulnerable and perishes quickly, such as fruits and vegetables. They need specific storage and transport.

- *Cash crops:* These crops require additional processing, such as coffee and cocoa. They can be also perishable but the difference with so-called perishable crops is that they are not a basic item in the local diet and often primarily associated with exports.

- *Niche crops:* They can come from any of the three categories above and are grown with specific traits for a specialised market, for example organic or Fairtrade products.

Conditions for organising

Different types of crops demand different levels of cooperation and coordination between producers. Although organising producers of staple crops, does offer some advantages with bulking, quality control, or accessing storage facilities and inputs, the incremental benefits from collective marketing are often not sufficient to offset the transactions costs associated with organising (Berdegué, 2001). An informal network type of organisation might be better suited. Perishable and potentially high-value products are more likely to offer sufficient returns that will warrant establishing organisation models (Coulter, 2007; Hellin et al., 2009).

The specifics of the market are as important as the product in determining the type of organisation model, because the market sets quality and quantity requirements. Local markets are the easiest to access but they also offer lower potential gains from organisation. Markets with higher demands (such as developed country markets and local supermarkets) offer higher returns but also involve higher transaction costs (Bijman, 2008; Kaganzi et al., 2009). They are more stringent in terms of quality control, transport and market risks. They require intensive information exchange and often rely on formal contracts (Narrod et al., 2009).
The buyers of crops that are produced for a fair trade or organic market often demand of producers to be organised. These crops require auditing and individual auditing of small scale producers is too costly; thus, it requires an organisation structure that is able to coordinate and execute a strict internal control system (Organic business guide, 2010).

Generally speaking, cash crops cater to export markets while niche crops cater to markets with high demand. Staple and perishable crops can have local, national as well as international markets and are differentiated according to degree of processing. Naturally, the product-market relationship is not static. Improving post-harvest methods or storage facilities can make products appropriate for higher quality demand markets. There are many examples of producer groups that, often with assistance, shifted from cash crops to organic cash crops.

Clearly, before engaging in discussion on appropriate methods of organisation, the context, the product type and market characteristics have to be carefully examined. This initial investigation will most likely already provide several options for organising that would need to be further scrutinised.

Paule Moustier - a food market specialist at CIRAD, a French research centre specializing in tropical agriculture.

How producer organisations help small farmers in reaching supermarkets

What is the importance of producer organisations in chains supplying supermarkets?

To answer this question I would like to refer to recent research in Vietnam. In parallel with urban and economic development, Vietnamese consumers express growing concerns regarding quality. Modern trade, including supermarkets and convenience stores, is estimated to have grown by 20% per year between 2001 and 2006 (it represents less than 10% of total food supply). We have conducted case studies to investigate whether farmer organisations are able to help small-scale farmers to obtain access to supermarkets. Four food distribution chains that supply Vietnamese cities were chosen: vegetables to Hanoi, vegetables to Ho Chi Minh City, litchis to Hanoi, and flavoured rice to Hanoi. We tracked the origins of vegetables, litchis and flavoured rice retailed by supermarkets in Hanoi and Ho Chi Minh City and compared them to the situation in traditional retail markets. The importance of farmer associations is clearly visible in chains supplying supermarkets. Collectors or wholesale traders operating in wholesale markets -- the key actors in traditional retail markets -- play a much more limited role in the supermarket chain. With regard to vegetables, we estimated that Hanoi supermarkets receive 80 percent of their supplies from five cooperatives located in two peri-urban districts of fewer than 450 farms and 50 hectares of land. Supermarkets selling litchis obtain some of their supplies from the Thanh Ha Litchi Farmers' Association. Sixteen percent of the supermarket supply of flavoured rice is from a farmer association that is selling through two companies.

"The importance of farmer associations is clearly visible in chains supplying supermarkets"

Accessing high-value markets: why organise?

The first advantage of collective action for farmers is the centralisation of marketing operations. It provides economies of scale in terms of quantities collected, contacts and negotiations with purchasers, investment in a common operator with adequate skills, the time devoted to marketing tasks, participation in flexible contracts with supermarkets, shops and schools. The second advantage of belonging to a farmer organisation is that it enables the farmer members to have access to training regarding quality improvement. A third related advantage concerns joint investments by members of farmer organisations in the areas of quality development, labelling and certification. These investments are necessary to satisfy the quality requirements placed by supermarkets. For example, the members of litchi and flavoured rice associations have developed a common production protocol to ensure stable quality of their products, especially with regard to the appropriate timing and quantities of fertilizers and pesticides and the choice of seed. Experienced farmers act as internal inspectors.

What is the impact on producers and their organisations from their participation in supermarket supply chains?

In the case of Vietnam, supplying supermarkets via farmer associations increases farmers' profits per kilo compared to traditional chains. However, the quantities supplied to supermarkets remain limited. Changes in farmer organisations are not primarily due to supplying supermarkets, but rather to public and international support for improving food quality, which has positively affected supermarkets. The supply of supermarkets by farmer organisations is still constrained by a lack of rigor in the internal and external control of food safety as well as a lack of diversity in the range of proposed products.

How exclusive are chain supplying supermarkets?

Supermarkets exclude poor consumers, at least in the first stages of their development, when prices are higher than in traditional markets and the poor lack transportation to buy in supermarkets. They also exclude in terms of employment as they use labour-saving technologies (e.g. self-service). As for poor farmers, they lack direct access because of the supermarkets' strict requirements regarding safety, quantity, and invoicing records. For instance, we did not find any poor farmers in the vegetables and litchi chains that supply supermarkets in Vietnam, even though they represent more than twenty percent of the suppliers of traditional chains. The only cases when poor farmers were included was through farmers' associations, e.g. in the case of flavoured rice, which implied the involvement of public sector support.

Célia Coronel - advisor on value chain development at Institut de Recherche et d'Application des Méthodes de Développement (IRAM), France, since 2003.

producer organisations in business

What type of organisation among producers can provide better links with markets?
Small-scale producers generally have an interest in organising themselves in order to obtain access to markets and to obtain better selling conditions. In contexts characterised by uncertainty and by price volatility, collective strategies are even more crucial and also more difficult to implement than individual ones. In such contexts, opportunistic and 'survival' strategies develop instead.
Depending on the characteristics of the produce and the markets, different forms of collective action usually work better for the producers. Those imply different degrees of coordination and solidarity. The most common form of collective action is the joint marketing of products. Being able to sell produce in bulk is often a minimal requirement for attracting buyers and securing bargaining power. In addition, controlling the flow of produce is a way for the organisation to control quality and, for perishable products, a way to process them and thus improve marketability.

Many producers think that a cooperative that buys products from its members and finds the right market for them will serve them better. Yet, this type of collective marketing often does not produce the desired results as it requires good management capacities, understanding the workings of the market, evaluating demand and buyers, the capacity to take financial risks, etc. There are cases where producers cooperate to better integrate access to markets without actually sharing the marketing operations. A producers' organisation can facilitate the grouping of produce and linkages with the market: collecting orders from buyers and disseminating information to its members, negotiating minimum prices and setting a delivery date. Every producer is then responsible for the selling of his/her products. This works particularly well for perishable products or products in high demand, where coordination between both vendors and buyers is crucial.
The breeders' organisation Udoper in Benin managed to impose more transparent transaction rules in livestock markets, to the benefit of all stakeholders. More breeders visit the market as their price share has improved; intermediaries have smaller margins but volume of activity has increased and trust has been restored.

What are the consequences for producers who are not included?
Joint marketing in theory only benefits producers who are members of the organisation. Yet, if the cooperative is a key actor its marketing activity can influence the behaviour of other buyers, to the advantage of non-organised producers. Where market demand is low, competition can lead to the exclusion of the non-organised producers. In Fairtrade cooperatives for example, only organised producers can access this market. In addition, in this global market where demand remains a limiting factor, mostly better organised, larger cooperatives are able to seize the opportunities.

How can individual producers access markets?

Some types of collective actions can have a spill over effect. For example, technical advice or market information can be disseminated. Improved market infrastructures and rules will also have a greater outreach (the case of Udoper in Benin potentially affects all producers in that region). In contexts where producers organisations are not in a position to influence the market structure and rules, individual producers might take advantage of other forms of coordination, such as 'out grower schemes', where, in order to complement their own production, large producers subcontract to small-scale produces. Thus. small-scale producers gain access to markets they could not otherwise reach and sometimes they are also provided with technical assistance. This generally works well for high-value products, such as horticultural products.

> “ Collective action can have pill over effects”

4.

Understanding producer organisations

Assessing capacities

4 Assessing capacities

As the sections above aptly convey, the world of producer organisations is very diverse and context specific. The enabling environment, the type of product and the market exert significant influences, thus shaping the choice of organisation type that is most appropriate. There are no blue prints. Before engaging in business collaboration, the parties should answer the following questions: What does the environment require/permit? How should producers organise in light of the specific product and market? Does it make sense to incur high organisation costs? What other models are applicable? What is expected of the producer organisation to accomplish?

However, this is not a mathematic equation where enabling environments, product and market characteristics need to be calculated and the correct result is computed. Organising involves real life small scale producers who need to support and participate in the effort. Organisations will not develop and function when producers do not share an interest.

What are the favourable conditions that support producer organisation and collective action?
Incentives for producers' collective actions include; more opportunities of obtaining support for producing a marketable surplus through access to technology and extension services, access to financial support, reduction of marketing costs, and assistance in bargaining for better prices. Collective action can be defined as 'voluntary action taken by a group to achieve common interests' (Olson, 1965).

The involvement of producers in collective action depends on their individual preferences and interests and how they perceive the benefits of collective action. What characteristics of groups of producers are conducive to supporting collective action?

There are numerous examples of group characteristics that support collective action. Small group size provides for strong internal cohesion and makes it easier to know and monitor other members (Coulter et al., 1999). Low levels of poverty are also conducive. Some believe that homogeneity of socio-economic status and values of group members is necessary, while others state that the necessary leadership only emerges when membership is heterogeneous. Leaders are important for collective action. Leaders should be trusted, able to motivate the members and should possess business and network skills. Clear rules that can be easily enforced are also a facilitating factor.

" Social capital is the shared norms, values, rules and roles that promote social cooperation Fukuyama, 2001 "

Organisations function best when they are built on the base of existing social groups, which have already generated solid social capital (Heemskerk and Wennink, 2004). Social capital is crucial for all forms of collective action and is distinguished by trust, reciprocity, exchanges and common rules and actions.

However, one should tread carefully, as imposing marketing activities on an organisation originally established for other purposes, can erode social capital. It is difficult to balance the original community inspired norms with the business norms that require professionalism and competitiveness (Bernard et al., 2008). Newly established groups have the advantage that their structure and norms can be shaped in line with the needs of the business collaboration.

It should be mentioned that social capital is not linked to social inclusion. Also community based groups can be very exclusive. Sometimes the producers themselves chose to stay outside of the group, while in other cases the organisation is reluctant to involve particular producers (Bernard et al., 2008).

In the end of this chapter Bertus Wennink will share some of his experiences and insights on collective action and access to markets, Bart de Steenhuijsen Piters reflects on social capital.

4.1 Capacity of organisations

For a buyer and a producer organisation to establish a fruitful cooperation, it is crucial to establish trust between the two parties. Therefore, it is essential for the buyer to better understand the capacity of the producer organisation, in order to initiate the process of building trust.

Depending on the specifics of the collaboration, some capacities are more important than others and therefore an analysis of the required capacities should precede each business collaboration. From the buyer's viewpoint this implies examining the expectations and identifying what are the necessary capacities that the organisation has to meet. From the producers it implies a self-assessment of the required capacities but also a thorough analysis on what is required to improve the position of its members in the value chain. Different tools have been developed for assessing organisations. These assessments assists in analysing what capacities are present and performing well and which need to be further strengthened.

4.1.2 Components of Capacity

The capacity of an organisation can be assessed based on the overall result: its performance. When is an organisation seen as performing well and how to measure this performance? Performance of an organisation can be measured by its effectiveness, its efficiency, its financial viability and its relevance. Effectiveness is the extent to which an organisation is able to fulfil its goals. There are different indicators for effectiveness, depending on the type of organisations. For a producer organisation that provides services to producers, indicators can be the quality of the services or the number of producers served. Efficiency is the ratio of the outputs vs. incurred costs in delivering these outputs (e.g. will the costs of hiring a manager result in more profit for the organisation)?

That an organisation is effective and efficient today does not guarantee that it will continue its good performance in the future. To survive an organisation has to be financially viable and relevant. A financially viable organisation is able to raise funds for its functioning in the short as well as in the long run. Relevance to its members is another prerequisite for survival. An organisation can continue functioning as long as it has the support and meets the requirements of its stakeholders.

Understanding producer organisations

The organisation's performance depends on effectiveness, efficiency, financial viability and relevance. Different types of indicators are used to measure these parameters. Examples of indicators include 'do the members regard the services as improving their market access?' and 'does the organisation deliver good quality produce?'

What are the necessary capabilities that distinguish an effective, efficient, financially viable and relevant business oriented producer organisation? The following paragraphs highlight the key capacities that enable producer organisations to function well as chain actors.

Leadership

The performance of an organisation greatly depends on the presence and the performance of the leadership within the organisation. 'Leadership is the process through which leaders influence the attitudes, behaviors and values of others towards organisational goals' (Vecchio, 2007). Standard leadership activities include tracing the direction for development, networking and ensuring output. A leader should be able to determine where the organisation should be in the future and how to guide it there. However, leadership is not a strictly formal function; informal leaderships also plays an important part within an organisation. Informal leaders are people who possess an expertise or resource that is needed by others within the organisation (Handy, 1997)

> "A leader is one who knows the way, goes the way and shows the way"
> J. Maxwell

We conclude this chapter with an interview in wich Rajeev Roy demonstrates the importance of entrepreneurship in producer organisations.

Organisational structure

Most producer organisations have two layers: a governance layer and an operating layer. The governance structure represents the ownership of the organisation (the investors and members). The governance structure sets the direction and is responsible for all associated activities (policy setting, budget approval etc.). The operating structure is the real system of working relations. It is the division of tasks, people and groups. An organisation usually performs better when its members are involved in decision making, as they are often closest to the information needed to make decisions. Also, by participating they will feel involved and be motivated to take responsibility for their actions.

To survive as an organisation, the management should be able to simultaneously both manage the internal organisation and guide the organisation to respond to the demands of its stakeholders and the changing environment. An organisation that is market-oriented should be able to cooperate and collaborate with actors outside of the organisation itself.

Process management
Many producer organisations function as multi-purpose organisations and consist of different sub-groups or teams. To make sure that these different groups work together towards the organisations' goals, common systems are set in place, for example: planning systems, communication procedures, problem solving mechanisms and decision-making structures. The maintenance and adaptation of these systems is called process management, which takes place throughout the entire organisation. Good process management is supported by information exchanges and shared understanding among members, but also by planning policies and procedures that give direction to the organisation. Good process management supports the efficiency and effectiveness of the organisation. Decisions based on group consensus usually produce better results than decisions that are taken by a sole leader

Financial management
The ability to manage its finances is critical to the performance of an organisation. It includes planning, accountability and the use of financial systems. Financial planning is the ability to forecast the organisations future monetary needs and to account for the use of resources. The financial systems allows the governance structure to understand the current financial status, and thus to take appropriate actions that will guarantee financial viability.

A group should be able to organise its relationship with external actors, networking with other chain actors and actors outside the value chain, for example financial institutions and agricultural services. Being able to exchange information with and establishing trust with these external actors are prerequisites for success. Organisations that are too inward focused run the risk of losing their innovative edge and their efficiency.

On the important role played by the context, the product and market characteristics now the organisational capacity of producers is also added as a key variable. Thorough assessment of multiple characteristics can assure good collaborations and prevent disappointment!

4.2 Becoming the ideal business partner
In many cases there is an existing producer organisatios that can market products or support an emerging business collaboration However, before initiating support to this particular organisation more organisation analysis is needed.

To recap, the components that determine the organisation's performance are effectiveness, efficiency, financial viability and relevance. These components are supported by capacities like leadership, process and financial management, organisational structure and social capital. All relate to the current performance of an organisation. However, in order to improve performance it is necessary to dive deeper into the personality of the organisation and analyse its motivation.

Why is it that in difficult contexts some organisations perform well while others that have all possibilities within reach falter? Why are some organisations rapidly advancing, while others keep failing and restarting again? It all depends on the organisations' motivation!

Understanding producer organisations

How to analyse the motivation of an organisation? This can be accomplished by studying its history, its purpose and its culture.

The organisation's history explains a lot about its performance today. What is the organisation's raison d'être? What changes has it made and what milestones has it reached? It is believed that all organisations, although at different rhythms, go through a similar life cycle. In the first stage members are euphoric and motivated to move forward, there is room for entrepreneurial leadership. During adolescence organisations develop structure and rules. At a mature age an organisation has completed its structure and rules and has divided roles and responsibilities. If the organisation does not renew the last stage will be decline. Knowing the ongoing state of development of the organisation provides insight into the appropriate strategies that can steer the organisation into the desired direction.

The next step is analysing the organisation's purpose. Why? Because the vision and mission of an organisation informs about its personality and its ambitions! How successful is the organisation in pursuing its purposes, and would it move closer to fulfilling its purpose through the proposed business collaboration?

> "In the realm of ideas everything depends on enthusiasm. In the real world all rests on perseverance"
> J. Goethe

The motivation of an organisation is also supported by its culture and its incentive system. The culture of an organisation is the assumptions, values and beliefs shared by its members. Analysing organisational culture is critical in trying to understand the motivational forces that support or oppose change. Incentives are used to motivate the individuals within an organisation. What are the incentives an organisation uses to motivate its members? Can these incentives be altered and thus provide better motivation? Only a motivated organisation can be a good business partner!

We can conclude that in order to cooperate with an existing organisation it is necessary to understand this organisation. Only after a thorough analysis that has demonstrated good collaboration potential it is beneficial to approach the organisation and support its development into a good business partner.

4.3 Supporting change

There are many different strategies for improving the performance of producers and organisations. Training is one valuable strategy, examples are training in financial management or in strategic leadership.

And when the organisation is performing well, training can still be needed regarding the specific product or market; examples of product related trainings are good agricultural practices or integrated pest management. Market related trainings can address certification and quality requirements. Together with the producers, it has to be analysed what type of training is needed to deliver the desired product to the identified market. Credit can support the performance of a producer organisation by providing investment opportunities.

4.3.1 Who is responsible?

The company and the producer organisation together decide that in order to foster their business collaboration change is needed. They identify what needs to be changed and design a strengthening process. Is the primary need concentrated around training? Or is it credit? The following question to be answered is who is going to provide assistance? Agricultural services can be outsourced, i.e. contracting out the services that are not the core business of the company. Other stakeholders might provide the support more effectively, efficiently or cheaply. One can think of specialised NGO's or research institutions that provide training. Different partnership constructions exist that can organise support to a producer organisation. For example, in a company that is partly owned by its suppliers they can use their shares-certificates as deposits to access loans.

Bertus Wennink - senior advisor on institutional and organizational development for enhancing demand-driven services for pro-poor development at the Royal Tropical Institute (KIT)

Collective action and access to markets

Why is it important to examine initiatives for collective action?
Social capital is essential for collective access to markets. Collective action and social capital are inseparable; collective action requires social capital and, at the same time, collective action enhances existing social capital. There are many organisations that have a lot of social capital and fulfill an economic function (in addition to other functions) but have not yet gained access to markets, e.g. saving groups or funeral groups. The strength of these groups is worth taking into account when working with groups of producers.

Should collective action initiatives be formalised in order to access markets?
Along the chain there is a mix of informal and formal organisations. Organisations on the local level are mostly informal and they play an important role in the chain. These organisations are characterised by strong social cohesion, well functioning control mechanism, and smooth communication. More formalised organisations are found higher up the chain. These organisations are in contact with external actors and have the capacity to negotiate contracts. Both play a role and can support each other. In Mali and Burkina Faso informal groups of producers bulk their produce. Without formalised procedures producers seem to find each other and are able to supply their bulk, surplus produce to a formalised cooperative. This cooperative has formal contracts and sells the produce. In practice the cooperative outsources some of its tasks to the informal organisations that have traditional roots. There is no need to formalise these organisations. Up till a certain level, there is no need for formality and social capital is sufficient.

When soft and hard infrastructure develops you see all kind of local dynamics developing. You cannot channel these in a blue print development model.

It is important to note that it is not always necessary to have a fixed organisation to secure market access. Producers can organise for a certain activity and be out of contact for the rest of the year. Reality also shows different mixes of different organization models. One example is a contract farmer who works with individual farmers. After noticing that farmers need to improve their production techniques he initiates farmer field schools.

What role NGO play in linking producer organisations to markets?
This is ambivalent. NGO's is a term encompassing all institutions that are not governmental. There are NGO's that indeed do have the capacity to link producers to markets, that are able to facilitate processes or to build capacity. In Rwanda there are for example centres that are specialised in supporting cooperatives. The producers pay, as clients, for the services provided by these centres.
However, there are many examples of NGO-interference that did not lead to a well-functioning producer-market link. An NGO should know its role really well. There are two rules. First, an NGO should never become part of the value chain; it should not start selling the honey or the soap of a producer organisation. Second, an NGO should have from the beginning a clear exit-strategy. Dependence on donor money often precludes this important step.

Bart de Steenhuijsen Piters - Leader of the Sustainable Economic Development group at the Royal Tropical Institute (KIT).

Social capital and collective action

How does social capital stimulate or limit the business capacity of a producer organisation?

Social capital is a pre-condition for the functioning of producer organisations. Producer organisations are based on more than solely on economic interest. The incentive for a market-oriented producer organisation is to collectively supply volume and take part in value chains. This supply should comply with the market's quality demands. Pure economic interest is not sufficiently binding or regulative. An organisation should stimulate its individual members to control and correct each other. Social capital is a key promoter of communication and compliance.

There is however also another side of the coin. As social capital is the shared norms and values, it also includes traditions, stereotypes, and prejudices and in some cases institutionalised inequalities. For example, communities in which the elders have final decision-making power may leave little room to young innovators. Collective action only arises when social capital is present; however, for successful collective action social capital has to be combined with a shared interest.

What is the development with regard to informal -> formal organisations?

There is trend for organisations to formalise. Motivation is often access to...... this can be access to certification schemes, access to services (like extension and credit) and access to markets. The process of transforming into formal structures is rather complex, it involves internal changes, costs and often excludes some of the members. Is it sufficiently beneficial to warrant formalisation? The fact is that the economies of Africa are mainly informal and services are not yet attractive enough to make formalisation worth while.

Is social capital equally important for each type organisation?

In informal organisations social capital is the enforcer of rules. In case organisations are formalising, formal rules and regulations can partly substitute social capital. But formal rules cannot completely replace social capital. Actions that are enforced by relations of trust, reciprocity and reputation are always stronger than actions enforced solely by formal rules.

Should the private sector consider working with informal producer organisations?

A better understanding of informal organisations is necessary: How do these organisations function? How do they make decisions? What is their business capacity and how can private sector actors mobilise such organisations? An example of an informal organisation is a funeral organisation, present in many West-African villages. These organisations are not driven by economic rationale; they're built on social capital and have some management and bookkeeping skills. The private sector needs a consistent supply of good quality produce and this seems: best guaranteed by the most often used method of formal contracts Could a relationship based on trust also function?The members are most probably producers, the question is: is it possible to trade with such a type of organisation? As this is difficult to grasp for a private sector actor, local moderators who understand the prevailing norms and values are necessary.

Rajeev Roy - teaches entrepreneurship at Xavier Institute of Management Bhubaneswar, India and in several institutions in India, USA and Thailand.

Entrepreneurship in Producer Organisations

How important is entrepreneurship within a producer organisation?
Entrepreneurial individuals within a producer organisation (PO) have a very important role to play. Some of the most effective POs were established when a few entrepreneurial individuals saw the importance of creating the PO as a means of pursuing business objectives effectively as a community.

Entrepreneurial individuals are an asset to the PO in every stage of its development. A PO becomes strong and resilient when a number of its outreach activities are carried out by members from within the community as opposed to individuals recruited from outside. These entrepreneurial individuals can provide business development services, can coordinate with suppliers and can help in the marketing of the produce. But they also have other important roles within the PO. They are likely to be more productive, and can serve as motivating examples for the PO to encourage other producers to join. They are more likely to try out new technologies and methods, so they are also the innovators who are essential to further the evolution of the PO.

> "Entrepreneurial individuals are an asset to the PO in every stage of its development"

How is entrepreneurship within an organisation supported?
There are several ways in which a PO and its partners can support entrepreneurship:
Conducting management and technical training for members;
Arranging study tours and exposure visits for members; these tours can be to production centres, markets and R&D locations, etc.;
Facilitating access to financial support; entrepreneurial ventures will need funding and the PO can facilitate loan financing, rolling funds or group credit guarantees.
The presence of basic business infrastructure and business development services will encourage entrepreneurs to try out new ways of doing business. PO can be instrumental in developing both.
Encouraging younger producers to take an active role in managing the PO will directly engage potential entrepreneurs.

Smaller POs have an advantage because they are less hierarchical and are more likely to allow or encourage entrepreneurial activities; however, this does not mean that larger POs are at a disadvantage.

Larger POs will see more entrepreneurs emerging because they can attract more financiers, sophisticated suppliers and service providers, which are all essential for the development of entrepreneurship. Larger POs are also more likely to provide management and technical training arrangements for their members.

What is the importance of entrepreneurship in business relations?

POs often interact directly with large private sector buyers. This seems to be an ideal win-win situation for both. POs cut out the middlemen and the buyers can access a large number of producers by dealing with a single central organisation. Nonetheless, this is not always successful. Enhancing the value for producers in the supply chain is crucial for building long-term productive relationships. Adding simple activities like grading, sorting and storage can already serve to create value.

Private sector buyers are wary of large POs and are worried that the influence that the PO wields over the producers can be detrimental to them, in case influential members of the PO would harbour bias against them. Therefore, buyers may be reluctant to invest in the PO. It is only when the buyer is able to identify entrepreneurial individuals in the producer community that he/she is willing to invest. The buyer offers to the entrepreneurs an enhanced role (agent, franchisee, broker, etc.) and in turn the entrepreneurs act as advocates for the buyer within the community. This forms the basis for a long-term, non-exploitative, fruitful relationship.

Jur Schuurman - deputing managing director and head of the monitoring and evaluation department fo the Dutch Agri-Agency Agriterra.

Assessing Producer Organisations

Agriterra is a Dutch Agri-agency that supports producer organizations in developing countries. Agriterra is convicted that small-scale producers can empower themselves through organizing. Agriterra believes that strong representative producer organizations are a requisite for promotion of democracy, a better income distribution and the economic development of a country.

Why conduct an assessment of a producer organisation?
Agriterra's core business is strengthening producer organisations. The success of Agriterra can only be proven when the organisation is able to measure how much its assistance has strengthened the partner organisation. In order to measure the level of improvement, two activities need to be conducted:
1. Identifying critical capacities that indicate the strength of a producer organisation; and
2. Measuring through time -- by measuring at regular intervals it is possible to analyse progress.

Agriterra defined 8 relevant organisational capacities. These were adapted from the Internal Organisation Model and based on discussions with different producer organisations. A questionnaire helps to measure the capacities.

How are the results used?
For Agriterra these results provide a valuable evaluation system that can reveal the success rate of Agriterra's support. At the same time, the results serve as input for an informed dialogue with the producer organisation concerned, analysing together with the organisation the reasons behind the weak results demonstrated by a particular indicator. The relevance of strengthening the indicator is discussed, along with the strategies for accomplishing this goal. If those indicators are considered relevant for fulfilling the organisation's mission, all subsequent projects have to contribute to strengthening these weak indicators.

What criteria are important for a market-oriented producer organisation?
Agriterra primarily works with advocacy type of producer organisations, which lobby on behalf of their members. The profiling tool is most often used to assess organisations on a national level. At the moment Agriterra is developing an assessment tool for measuring the business capacity of a producer organisation. An important measure is the organisation's capacity to manage its finances. An example of such an indicator is the financial report, while knowledge of a foreign language could serve as another indicator. A producer organisation that wants to be an independent and internationally oriented business should not rely on NGO's or other brokers for its networking and external communication.

5.

Pro-poor business

Organising for impact?

5 Organising for Impact?

This booklet showed that in order to build successful business collaboration between a buyer and a producer it is necessary to conduct a thorough analysis of the type of producer organisation and the capacities required for a successful partnership. The environment, the product, the market and the business capability of the producer organisation are key influencing factors.

Pro-poor collaboration is not pure business; it is a partnership between a private sector actor and a group of producers that is based on a shared interest that transcends pure profit interests. Both the producer and the private sector actor are interested in improving the position of small-scale producers. This last chapter reflects on the pro-poor impact of these business collaborations.

"A business that makes nothing but money is a poor business."
H. Ford.

Increasingly, private companies are adjusting their business models -- i.e. the way they organise their business and its relations -- to integrate sustainable development goals. No longer is contribution to society by companies only expressed in philanthropic activities, support is increasingly being incorporated in the company's core business activities. A sustainable business model means that a company aims to deliver economic, social and environmental benefits to society as a whole and/or the suppliers in the value chain (Vorley et al., 2009).

5.1 Impacts

Benefits to small scale producers are connected to their inclusion, their self-determination and their wellbeing (Annona, 2010). Inclusion means that a business stimulates the participation of no-dominant groups. Regarding self-determination, a company supports its producers to have the capacity and authority to be self-reliant and independent. Wellbeing refers to producers that are healthy, satisfied and prosperous.

Is it possible to target pro-poor impact through a producer organisation and what are the trade-offs?

5.1.1 Inclusion

The level of direct impact through business collaboration depends on the number and type of producers included. Only a small percentage of small scale producers is developing countries are organised. Working with existing producer organisations means that a large number of producers are left out.

A company should reflect on the connection between the scope of producers involved and the sustainable development goals. Including big numbers of producers sounds impressive but may not provide the best impact. Do producers improve their position within a value chain by participating? Or is the impact stronger when a smaller number of producers is involved and trained in activities that add value to their produce? These are difficult questions that should be studied in the local context.

Often the goal is also to enhance the position of women by including them in the business collaboration. It is understandable that companies are inclined to work with formal organisations to achieve this goal as statutes can very concretely promise leadership positions to women and set quotas for female membership. But do gender mainstreamed formal structures ameliorate the position of women in practice? Imagine a cooperative that promises 40% membership of female farmers but when it comes to real participation it turns out that the women are never present in meetings! It is important to realise that the wellbeing and self-determination of women is not automatically improved simply by including women in the organisations. It pays to take a moment to analyse the specific context and to assess the potential impact of strategies geared at improving the position of women!

It should always be re-examined whether the wish for inclusion is in line with the produce and market requirements. If the latter require strict coordination and therefore strong leadership, the number of producers included should depend on the number of leaders available. Sometimes produce and market specific requirements impose limits on the type of producer included. No matter the aspirations, in most cases it is impossible to include the poorest producers. It might be better to deliver benefits to this group through philanthropic activities. Practitioners working with producer organisations should always keep in mind that an organisation that is part of a value chain should be able to coordinate the collaboration on its own, independent of any donor.

5.1.2 Self-determination

Self-determination can be supported by demanding that the producer organisation ensures the participation of its producers. This involves participation in decision-making processes but also ownership, for example by giving producers the opportunity to own shares. A producer organisation can only provide shares when it is legally registered and has member liability.

Self-determination also concerns the capacity to be self-reliant. How can this be targeted through a producer organisation? Producer organisations can facilitate trainings or workshops for members. Producer organisations could also integrate capacity development into their structure by enabling staff to acquire knowledge and skills or by giving members access to leadership positions.

5.1.3 Well-being

How to improve the wellbeing of small scale producers? Wellbeing means that producers are healthy, prosperous and content. Wellbeing can be enhanced through the value chain activities where the producers are directly involved. For example, a company can require producers to apply Good Agricultural Practises to make sure that they work in healthy circumstances. They can make sure that processing facilities are safe and that producers receive a fair income.
Also a buyer can indirectly contribute to wellbeing. Long-term prospects stimulate producers into making investments and improving their situation. This can be achieving by building long-term relationships but also through providing producers with credit which gives them the opportunity to invest and improve their business.

A concluding note: impact is only sustainable when the producers value the impact as an improvement of their situation!

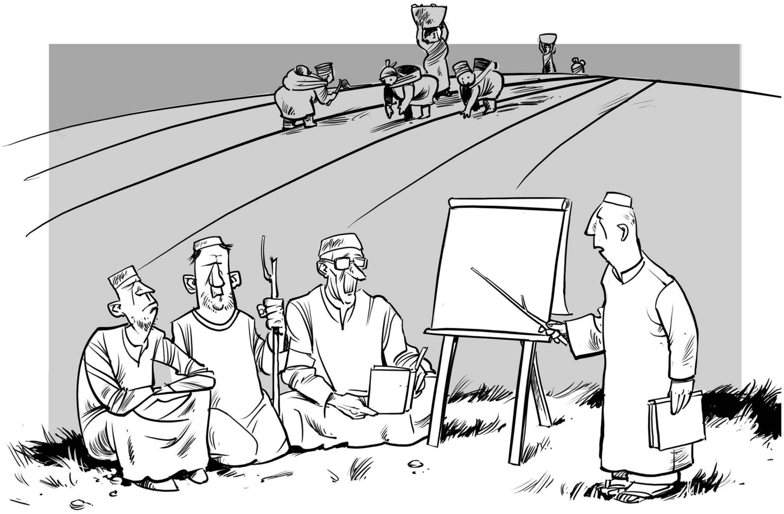
5.2 Communication

Communication is key to providing successful support and, ultimately, for the success of the organisation. The producers and the company have to agree on the changes and support needed. Also during the collaboration good, clear communication is key as it supports good performance. For example, timely and transparent information on market development, prices and profits allows an organisation to anticipate and handle effectively changes in market conditions and deliver products that respond to the buyers' requirements (Devaux et al., 2009).

5.3 A closing reflection on sustainable impact for small scale producers

Aiming to improve the livelihood of producers through business models requires sound reflection on What is human development? It is important to realise that not all producers aim to remain a lifelong producer. An improvement of a producers' position might support him to invest and take on other income providing activities. For the long-term prospect of business collaboration it is necessary to investigate the producer's potential. A stable environment and a promising market demand are necessary, but most important is the produce and the producers. Ask the question: is producing also attractive for the younger generations, what are their needs and interests? Seize upon the market opportunities that arise from these answers and support the development of the producers towards their own sustainable goals.

Good Agricultural Practices are a collection of principles for on-farm production and post-production processes (to be applied through sustainable agricultural methods). They help produce safe and healthy food and non-food agricultural produce, while taking into account economic, social and environmental sustainability (FAO, 2004).



TRAINING GOOD AGRICULTURAL PRACTICES ..?

Jon Hellin - researcher at the International Maize and Wheat Improvement Center (CIMMYT).

Organising Producers

Is it possible for an external actor to activate a producer organisation?
While there are many success stories of producer organisations leading into effective participation in value chains, numerous attempts to foster these organisations have failed. The process of establishing viable producer organisations is not simple. It is often a challenge to establish collectively-agreed rules, to secure the members' commitments to abide by the rules, and to monitor and enforce compliance. In some cases, the establishment of producer organisations incurs such transaction costs that producers may be better off not organised. Often the establishment of producer organisations is instigated by outside agents such as government and NGOs who seldom have a clear understanding of the costs and margins along the value chain and seldom incorporate these into their cost structures. When the producer organisation encounters financial difficulties, there may be a tendency to provide further assistance, thus externalising some of the organisation's costs. Both the private and public sectors have key roles to play. Governments are of central importance in determining how markets should function, especially in creating an enabling policy environment. Development agencies are especially important in the early stages of producer organisations but as these organisations evolve, it is critical for them to establish lings with private sector actors.
We need to better understand when producer organisations make sense, when they do not, and how to best establish and maintain them. Three critical factors need to be addressed: (1) determining whether organization makes less or more sense in the case of different products and markets; (2) analysing whether the public or private sector is best placed to support farmer organisations; and (3) identifying the most appropriate type of organisation.

For which crops or markets does it make sense for producers to organise?
There is evidence that producer organisations make less sense in the case of market access for undifferentiated commodities as opposed to higher value products (Berdegué, 2002). In the case of the former, value chains are often characterised by low transactions, and the benefits of producer organisation in reducing these do not outweigh the costs. Furthermore, resource poor producers often lack essential assets for successful cooperation such as basic education, management and entrepreneurial skills, and financial capacity (Pingali et al., 2005).

How does an appropriate type of organisation look like?
There are many different types of producer organisation, co-operatives are but one model. Contract farming is, perhaps, the most common form of private sector-led producer organisation. Other models also exist, for example the lead farmer model that has been promoted by specialised wholesalers in Central America (Hellin et al., 2009). In this case, wholesalers encourage lead farmers to organise and to support their neighbours in meeting quality and quantity demands. There is little investment beyond the incentive provided by market opportunities. Lead farmers provide various services that may include production planning, technical assistance, access to inputs, market intelligence, sorting and packing, transportation to markets and financial administration. The lead farmer model requires significantly lower external support but much higher investment from the farmers themselves. When deciding on the best type of producer organisation, the key question is how to structure producer organisations so that they are (1) effective in terms of linking producers to markets; (2) profitable both for producers and other value chain actors; and (3) scaleable and generating results for a large number of producer families.

Ruerd Ruben - professor of Development Economics and director of the Centre for International Development Issues Nijmegen (CIDIN).

Impact of FairTrade

The producer organisation: a permanent entity or a temporary arrangement to support individuals who will become strong and independent?

There are two types of producer organisations: commercial producer organisations and advocacy producer organisations. In the first type, producers organise to collectively sell or to arrange services that contribute to enhancing their production and market access. Members enter and leave according to the relevance of the organisation to their individual household. The second type of producer organisation lobbies to improve the position of producers in the political sphere. Also this type of organisation experiences fluctuating membership. Organisations should continue as long as they are relevant to a minimum number of stakeholders.

Is there a risk of dependency on Fairtrade?

Fairtrade is a label that supports the organisation of producers through trade for better prices and premiums. Research proved that Fairtrade is an excellent method for strengthening producer organisations. However, Fairtrade should be a temporary label that after a certain period is replaced by a private label. The Fairtrade market cannot absorb all Fairtrade certified products; only 10% is sold under the Fairtrade label, all the rest is sold as conventional. One of the biggest cocoa cooperatives (Kuapa Kokoo from Ghana) only sells 3% of its certified beans as Fairtrade. There is a risk that producers over specialise by concentrating on certified products. Research has shown that the label switch should be made after 5 years; cooperatives that are 20 years in Fairtrade do not perform better than new cooperatives.

> "Fair Trade should be a temporary label that after a certain period is replaced by a

Fairtrade supports small scale producers; does this mean organisations with homogeneous membership?

No, Fairtrade approaches the organisation as a whole; bigger producers can also participate. Actually heterogeneity is a must for a strong cooperative. Collective action is stimulated by unequal individuals; a coalition of poor does not have much to offer.

Fairtrade requires a cooperative type of organisation, does this exclude other types of organisations?

The Fairtrade label is becoming more flexible. In many countries the cooperative is politicised and the term cooperative has a negative connotation. Independent producer initiatives are often registered under different names; for example association or producer group (they do however apply the same principles as cooperatives). Fairtrade does take these cooperative-like groups into account.

The difficulty comes with estates. UTZ and Rainforest alliance are labels that also certify estates. The label in those cases focuses more securing better wage and labour conditions than on securing better prices and premiums for produce. The reason to work with estates is the market: sometimes markets demand volumes that are impossible to supply with groups of small scale producers.

Bill Vorley - head of the Sustainable Markets Group at the International Institute for Environment and Development (IIED) in London

The Impact of sustainable business models on producers organisations

What does a sustainable business model imply?

It means that a company not only contributes to sustainability (economic, social and environmental) within its company but extends this aim towards its suppliers and other business relations within a value chain. In general, a company trades with intermediary suppliers and does not deal directly with small scale producers. However there are sustainability goals that embrace all actors within a chain, e.g. collaboration, transparency, shared investments and shared risk. A company should aim to deliver a positive impact on these shared themes.

What sustainable development impacts can be achieved through a producer organisation?

Generally the desired impact revolves around inclusiveness: the aim is to link the dispersed and resource poor producers with large companies. It is often thought that sustainability goals are best reached through either contract farming or through niche chains like Fairtrade. However there are other models of working with small scale producers that deliver impact. In many value chains the producer organisations' interfaace is critical. Some examples of activities include aggregation of produce, supporting quality, improving production and processing techniques, providing credit, liaising with buyers etc. A producer organisation can transform a supply base from high risk into low risk.

Currently we are in a complex situation in which buyers demand continuity, homogeneity, consistent quality and at the same time want products that are procured from small scale producers. There is a need to better investigate how the intermediary trader works, how we can develop business models that ensure risk sharing with small scale producers. There are successful alternatives to formalised organisations like cooperatives: in some cases intermediary traders organise farmers with similar positive outcomes. We should not focus on the formal organisation as such. It is more important to secure that the desired sustainable impacts are reached, through principles of fairness, co-innovation, transparency and long-term relationship. Knowledge institutions and NGOs have a role in developing a context specific analysis for each case. NGO's and Institutions should assist in the design of business models in order make sure that such models are based on sustainability principles.
How to deal with producers who are excluded by a certain business model?

Many business models –- including certification for sustainability -- seek out organised producers. This is what you currently see in the cocoa sector. But producer organisations are in many cases viewed by farmers with suspicion because of their close links with politics or reputation for poor management. Business people end up supporting producers who are relatively well organised and have sufficient capital(financial, physical and social), and who already do have access to different kinds of services. The 90% of unorganised producers could be relegated into bulk commodity trade.

How does the context influence the desired sustainability impacts?

The big mistake of the development sector is to move into a country and work with small scale producers to improve their position in selected value chains, while losing sight of a country's overall reputation in global markets. Achieving sustainability with a few producers must not come at the expense of the majority of commodity producers who are marginalised. The reputation that a country has is very important. Compare Ivory Coast with Ghana: Ghana's reputation for quality cocoa stems from the national government's policy of guaranteeing quality. Most of commodity production relies on the reputation of the country; you cannot leave this to individual private initiatives. To organise producers in order to upgrade selected value chains without involving the state is to ask for failure.

> "You must not achieve sustainability with a few and loose out of sight the majority"

Experts

Bart de Steenhuijsen Piters, Ph.D., is an expert in the field of institutional development, innovation dynamics and sustainable business development. He has over twenty one years of experience, gained through long-term positions in Mali, Cameroon and Tanzania and numerous short-term assignments in Africa and Asia. In his current function, Bart is leading KIT's innovation programmes on local governance and natural resource management, rural service and innovation systems and sustainable markets and value chains.

Bertus Wennink is a senior advisor on institutional and organizational development for enhancing demand-driven services for pro-poor development at the Royal Tropical Institute (KIT). He joined KIT in 1994 and has over 18 years of experience, mainly through long-term assignments in Mali and Benin and short-term expert missions in West and Central Africa for donors, government organizations and NGOs.

Bill Vorley is head of the Sustainable Markets Group at the International Institute for Environment and Development (IIED) in London. His research interests are market structure and governance, the position of small scale producers, the role of business in sustainable development and the means to decouple food production and trade from the degradation of livelihoods and environment. Prior to joining IIED (1999) Bill worked at the Institute for Agriculture and Trade Policy in Minneapolis, the Leopold Center for Sustainable Agriculture at Iowa State University and spent many years in agribusiness after post-doctoral field research in Malaysia.

Celia Coronel is an advisor on value chain development at Institut de Recherche et d'Application des Méthodes de Développement (IRAM), France, since 2003.

Gert van Dijk was appointed as Professor of Cooperative Business Administration and Management at the University of Wageningen and became Director General of the National Council of Cooperatives in 1990. He was President of the European Federation of Agricultural Cooperatives in Brussels and a member of the Board of Directors of Rabobank until 2003. Gert currently is professor of Entrepreneurship at Nyenrode University and director of the Netherlands Institute of Cooperative Entrepreneurship at the Business School of the University of Tilburg. He worked for OECD and the EU Commission and is presently Chairman of the Commission for Economic Policy of the Ministry of Economic Affairs.

Hans Overgoor. After completing his degree in Economics at Tilburg University, Hans joined Unilever as a management trainee; he has held many different positions, initially in marketing/sales and later in senior executive positions in Netherlands, Nigeria, Romania and Poland. Since his retirement he has been non executive member of boards of different companies in the Netherlands and abroad. Over the past years he has been actively involved in companies operating in the field of organic food. Hans is board member of DO-IT

Experts

Jo Swinnen is professor of Development Economics and Director of the LICOS-Centre for Institutions and Economic Performance, a Centre of Excellence at the University of Leuven. He holds a PhD from Cornell University. He is Senior Research Fellow at the Centre for European Policy Studies (CEPS), Brussels. Previously he was Lead Economist at the World Bank and Economic Advisor at the European Commission. He further acts as coordinator of several international research networks and projects on food policy, institutional reforms, transition, political economy, globalization and agricultural trade.

Jon Hellin is a researcher at the International Maize and Wheat Improvement Center (CIMMYT) based in Mexico. He has nineteen years' agricultural research and rural development experience from Latin America, South Asia and East Africa. After completing a cross-disciplinary PhD on smallholder land management in Central America, his research has focused on farmers' access to markets.

Jos Bijman conducted a PhD thesis on 'Agricultural Co-operatives, Governance Structure in Fruit and Vegetable Chains'. From 1991 to 2003 he worked as a senior researcher at the Agricultural economics Research Institute. In 2003 he joined Wageningen University as assistant professor in management and organisation. He is teaching courses on management and economic organization theory. His research deals with organization and quality in international value chains. More particularly, his research focuses on the interaction between horizontal collaboration among producers and vertical collaboration in value or supply chains, both in developed and developing countries

Jur Schuurman studied Human Geography in Groningen and Utrecht, the Netherlands and worked at the National University of Costa Rica. In 1991 he joined Agriterra. Jur is deputing managing director and head of the monitoring and evaluation department.

Mark Lundy is a Researcher at the International Center for Tropical Agriculture (CIAT) in Colombia. His work focuses on rural enterprise development with smallholder farmers and includes topics such as the establishment of learning networks to increase NGO and farmer capacities for enterprise development, partnerships between private companies and smallholder farmers, the role of public and donor agencies in supporting better market linkages. Mark is lead author of a series of guides on participatory rural enterprise development and an active participant in the Sustainable Food Lab and other multi-stakeholder forums focused on sustainability and smallholder inclusion in Latin America and Africa.

Miet Maertens is professor Agricultural- and Development economics at the section Agricultural and food economics of the University of Leuven. After completing a PhD on Economic modelling of Agricultural-Land Use Patterns in Forest-Frontier Areas at the Georg-August University Goettingen (Germany), her research has focused on sustainable food chains, trade and food standards, gender and food security with a geographical focus on Africa and Latin America

Experts

Poppe Braam studied sociology but decided to engage in organic farming. He started an organic farm (1980) and a shop (1982). Growing demand stimulated Poppe to set up a distribution system for organic products. In 1990 he established the import company DO-IT b.v. Poppe also became founding board member of SKAL certification.

Rajeev Roy teaches entrepreneurship at Xavier Institute of Management Bhubaneswar, India and in several institutions in India, USA and Thailand.
Before joining academics, he was an entrepreneur. His entrepreneurial ventures include aquaculture, food processing, dairy, microfinance and business process outsourcing. His current research interests include value chains led by the private sector and entrepreneurship development policies. He has written a book, Entrepreneurship, Oxford University Press.

Paule Moustier is a food market specialist at CIRAD, a French research centre specializing in tropical agriculture. She was based in Vietnam between 2002 and 2009, where she has been in charge of a project concerning small farmers' access to supermarkets and other value chains. In her fifteen years of experience in Africa and Asia, she has been involved in research and training in the areas of food marketing, peri-urban agriculture and institutional economics applied to commodity chain analysis.

Ruerd Ruben is professor of Development Economics and director of the Centre for International Development Issues Nijmegen (CIDIN). He is particularly associated with processes of poverty control, producer organizations and rural development. He conducts field research with respect to the role of entrepreneurship of small and medium-sized businesses in developing countries and he investigates the possibilities of participation of producer organizations in international and national trade networks. His current research is oriented towards labour markets (migration), land (permanent land use) and capital (micro credits and insurances). Ruerd Ruben lived and worked for a long period in Central America and in addition to this he conducts research in sub Sahara Africa and in China.

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Authors

Ellen Mangnus
Junior advisor Sustainable Economic Development at the Royal Tropical institute. She has a special interest in farmer organisations and access to markets. Ellen pays importance to transferring knowledge into practice and the other way around, different field experiences resulted in the writing of this booklet.

Bart de Steenhuijsen Piters
Area leader of Sustainable Economic Development at the Royal Tropical Institute. He holds a PhD in agro-system theory and is a known advocate for diversity thinking. His current activities concentrate on value chain development and sustainable equity investments in developing countries.


Ellen Mangnus


Bart de Steenhuijsen Piters

COLOPHON

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Contact information
Royal Tropical Institute (KIT)
KIT Development Policy & Practice
PO Box 95001
1090 HA Amsterdam
The Netherlands
Telephone: +31 (0)20 568 8458
Fax: +31 (0)20 568 8444
Email: development@kit.nl
Website: www.kit.nl/development

Authors
Ellen Mangnus
Bart de Steenhuijsen Piters

Graphic Design
Evelien De Mey

Illustrations
Hajo de Reijger

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Dealing with small scale producers

Both the private sector and the small scale producer have a stake and reap benefits from their collaboration in the value chain. This relationship can be coordinated and maintained by a producer organisation. And a producer organisation can play a central role in enhancing this cooperation. In many cases, however, this is not achieved; either the business actor or the producer is not fully satisfied. There is great diversity in producer organisations and also in their capacities; consequently, there is confusion about which form of organisation is appropriate for a particular business aim. The underlying goal of this publication is to contribute to the understanding of producer organisations and the potential benefit that they can bring to enhance particular business relationships.

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