



*Brief of ESFIM Working Paper 2*

**Empowering Smallholder Farmers in Markets:  
Changing Agricultural Marketing Systems and  
Innovative Responses by Producers' Economic  
Organizations**

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## **Introduction**

Agricultural marketing systems are changing, driven by internal and external factors such as liberalisation, urbanisation, the rise of supermarket chains and globalisation. These changes have created new market opportunities but also increased market access challenges for small family farms. The aim of this paper is to identify key issues on how rural producer organisations (POs) can promote viable innovative mechanisms and institutions that can reduce access barriers and strengthen the position of smallholder farmers in markets. The focus is on the over two billion smallholder farmers in developing countries, who have considerable difficulty adjusting to the changes in marketing systems because of poor physical infrastructure, missing market institutions and disabling policies.

As PO, we adopt IFAP's definition of Economic Producer Organisation as including cooperatives, producer associations and other forms of farmer-controlled economic structures, but which does not include unions, chambers of agriculture and other forms of non-economic associative bodies.

## **Changing agricultural marketing systems**

Marketing systems for traditional export crops such as cocoa, coffee, or cotton have changed at both international and domestic levels since the 1980-90s. For instance, international stocks and price management mechanisms have been dismantled, leading to steady decline and increased short-term variability in commodity prices while niche markets for these commodities are growing rapidly. Liberalisation of domestic marketing systems, including withdrawal of the state from direct marketing activities, has increased space for the private sector in local procurement and exports. There has also been a relatively rapid growth in world trade in high value agri-food products particularly horticultural products, fish and livestock.

Rising urbanisation is exerting growing influence on food marketing systems. The demand for processed convenient foods is rising, creating new market opportunities for high value products as well as staples. Growing consumer power and concerns about issues such as global warming, fair and ethical trade terms as well as with food safety, are creating new market segments and imposing new constraints in conventional markets.

In general, changes in these markets, which are set to continue in the foreseeable future, create significant access challenges for smallholders, including the following:

- More stringent quality and other standards.
- Costly standards certification and enforcement systems
- Bulking difficulties which limit regular supply of economic volumes by smallholders as well as increased transaction costs.
- Increased variability in prices and limited opportunities to manage price risk.

## **Overview of Rural Producer Organizations (PO)**

The future and prosperity of smallholder farmers depends largely on how their organisations can help them overcome such challenges. The pressures leading to change in markets are also contributing to changes in the form and functions of POs.

The Government-led sponsored cooperatives have become marginalised in most developing countries following the dismantling of state-led "single channel" produce marketing systems in which they were key players. Unlike cooperatives in developed countries, which are independent, farmer-controlled and -financed self-help organizations, cooperatives in developing countries were largely the result of government action. In most cases, the cooperatives were the legacy from colonial administrations which were promoted by post-independence governments. The main economic roles of the traditional (old) cooperatives included distribution of subsidised inputs on credit as well as bulking of farm produce. The primary cooperative societies were the main vehicles for assembling produce at the farmgate, while second-tier structures such as the cooperative unions were responsible for intermediate processing (e.g. cotton ginning) and marketing, usually to the parastatal marketing boards (either for export or domestic distribution). The cooperatives

enforced quality standards, assured farmers of a market outlet and predictable prices. They played an important role in policy advocacy at apex level. The private sector was suppressed and inefficiencies in the state-dominated marketing system squeezed margins, often leading to decline in farmgate prices.

Following liberalisation of agricultural marketing systems in most developing countries in the 1980s, the cooperatives became increasingly marginalised, as space for private involvement in agricultural marketing increased. The remnants of the old cooperatives are undergoing reform and becoming re-oriented towards providing services tailored to the needs of members, improving market empowerment by enhancing bargaining power of farmers and leveraging decision-making at local, national and international levels.

New forms of POs are also emerging, many of them promoted by NGOs, donor-funded projects (e.g. NASFAM in Malawi) and the private sector (e.g. Cotton Farmer Groups promoted by Duvant Cotton in Zambia). While grassroots or primary-level POs are growing in number, links to apex structure have not been strengthened, making it difficult to pursue critically-needed policy advocacy with visible credibility. Smallholder farmers therefore tend to lack collective voice in policy decision-making.

Further, governments have been slow to effect legislative reforms which will boost the new forms of POs and strengthen links with apex structures. They usually face diverse frameworks for registration and legal compliance.

### **Innovative marketing arrangements adopted by POs**

In response to the changes in input/output markets at both domestic and global levels, a range of new marketing arrangements have emerged which can help farmers to optimise their benefits and/or minimise any adverse consequences of the changes. Most of the innovative systems link primary (grassroots) producer groups to specific uptakers (i.e. large buyers or processors) or identified niche markets. The focus is on developing countries, where small-scale farming is the norm and the capacity of producers to adjust to the challenges in the markets is more restricted.

#### **1. PO-led linkage to niche/speciality markets**

Partly driven by consumer concerns about the environment, labour and social policy issues, markets for fair-trade and organic products are growing very rapidly. For instance, Fair Trade Labelling Organisations International estimates the global trade in fair-trade-certified products to be about US\$3.0 billion. Though this represents less than one percent of global trade in physical merchandise, about 1.5 million small-scale producers worldwide benefit from it.

Access to these markets by smallholder producers in developing countries is, however, restricted as a result of stringent certification requirements. Kuapa Kokoo (Ghana) is one example of a PO which has succeeded in enabling smallholder farmers to access the fair-trade cocoa market. Kuapa exports about 1,000 tonnes of cocoa annually, at a “fixed fair price” under this arrangement, and has launched its own chocolate bar label (“Divine”), produced by a Europe-based manufacturer in which it has a 45 percent stake. In addition to enjoying premium prices, members can also obtain credit for farm maintenance and benefit from community projects.

#### **2. International trader-led linkage to mainstream markets for traditional exports**

Supply uncertainty and quality variability are among the main challenges which have emerged as a result of changes in markets for traditional agricultural exports from developing countries such as coffee, cotton and cocoa. In response large international traders, have become increasingly involved in coordinating activities in value chains for various commodities. One such case, which has proved mutually beneficial to producers and the lead international trader, involves Brazilian coffee producers and an Italian (Illycafe) roaster. Under this programme, small-scale coffee producers are allowed to bulk and deliver consignments ranging from 5.0 to 7.5 tonnes. Producers receive farm extension, market information updates and awards for delivery of high quality green coffee. Over 600 Brazilian producers participate in the programme.

### 3. Trader-led linkage to international horticultural produce markets

Horticultural export markets represent important trade opportunities for producers in developing countries. For instance, Argentina in 2004, earned about US\$4.5 billion from export of fruits and vegetables to Europe and America. However, more stringent food quality requirements often raise access barriers too high for many small-scale producers. Exports into Europe, need to comply with: EurepGAP, HACCP/GMP, BRC, ISO9001, ISO14000 and Social responsibility norms (SA 8000) as well as meet special requirements demanded by the large supermarkets. Ghanaian producers have been able to supply into these markets through lead role of a locally-resident company – Blue Skies Company Ltd. Working with over 70 smallholder farmers – as individual and not cooperatives – the private company provides technical training, inputs on credit and assured market for contracted deliveries.

### 4. Linking smallholder producers to local and regional supermarket chains

Supermarkets have emerged as major players in food supply and distribution in developed as well as developing countries. However, product quality standards set by the supermarkets, usually driven by consumer taste and preferences, tend to limit access by smallholder producers. Private companies are emerging as important intermediaries that enable farmers to supply to supermarkets. Bimandiri Co. Ltd. of Indonesia, which specialises in bulking produce from farmers for delivery to Carrefour, is an example of such an intermediary. The company provides extension advice, inputs on credit and pays transparently negotiated producer prices.

### 5. Using market institutions to access local/export markets

Market institutions such as warehouse receipt systems (WRS) as well as commodity auctions and exchanges provide to address quality and quantity uncertainty as well as contract non-performance. These systems can also help improve access to trade finance and opportunities for risk management, and thereby improve commodity marketing at domestic, regional and international levels. Some examples:

- In Tanzania smallholder coffee and cotton producers have, through their POs – rural cooperative societies (RCS), used the WRS to increase earnings from coffee and cotton production. The RCS bulks produce and markets processed products that conform to export standards, making it possible for the members to obtain incremental income of between 45 and 50 percent.
- In Zambia, the WRS enabled smallholders to bulk and directly supply grains to large-scale local millers, obtaining a net incremental income of 37.5 percent (about US\$45 per tonne of maize) partly delaying sale beyond the immediate post-harvest period when prices are very low.
- Most grains and oilseeds producers in South Africa have since the mid-1990s been using the agricultural commodity exchange to market their produce. The exchange, and the Silo Receipt System linked to it, also makes it possible for farmers to obtain finance and manage price risks.

### **Emerging issues for further study**

It is apparent that most of the marketing innovations are private-sector-led and tend to be mutually beneficial to them and producers. However, the specificity of many of the linkages often limits scaling-up participation by farmers and implies significant self-selection that leads to exclusion of large sections of the farming population. Innovative market institutions such as the WRS and commodity exchanges, allow producers of different sizes to meet market-driven quality and volume demands and also enjoy the benefit of trading with a number of competing buyers. The cases discussed show that smallholders can access to these market institutions. However, to be viable, there is need appropriate physical infrastructure, supportive policy and regulatory environments as well as private sector lead in their development.

POs play an important role in organising and training producers to take advantage of the market innovations and especially those supported by NGOs, donor-funded projects and the private sector have been quite actively involved in this. However, limited support and strengthen apex organisations may have weakened the capacity of POs to effectively advocate policy and regulatory reforms which will foster such market-supporting institutions.

Based on these considerations, the following issues emerge as critical for further explore:

- What generic and context-specific policy, regulatory and institutional reforms are required for viable market innovations which are also accessible to smallholders?
- Explore scope for aligning public/donor investment in storage, communications and transport infrastructure to programmes to improve market access.
- Develop feasible low-cost but credible systems of quality assurance and trade dispute resolution to improve transparency and lower enforcement costs.
- Strengthen the capacity of POs at different levels (primary, second-tier and apex) to anticipate future changes in markets and develop appropriate innovative responses, for instance by:
  - Promoting lesson-sharing as well as fostering links between POs and researchers, policymakers, and other market players
  - Developing or strengthening national-level structures that foster policy dialogue by the farming lobby and also help embed lessons learnt by POs, especially on the development of viable market innovations.

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