

Farmer organisation and market access

Jon Hellin, Mark Lundy and Madelon Meijer

Farmer organisation has been identified as a key factor in enhancing farmers' access to markets. In response, policy makers and development practitioners have focused on supporting small scale producers to associate, collaborate and coordinate in order to achieve economies of scale in their transactions with input suppliers and buyers. The enthusiasm for farmer organisations has, at times, obscured the fact that establishing viable organisations is not a simple process. It is often a challenge to establish the rules on which farmer organisations are based and to monitor and enforce compliance with these rules. In some cases the establishment of farmer organisations incurs transaction costs which, if too high, may mean that farmers are better off not organising. Furthermore, successful association often requires management and entrepreneurial skills; "soft" assets that small producers may lack, whilst contracting a professional management team is costly.

There is, hence, a need to examine what we mean by farmer organisations and to understand better when farmer organisations make sense, when they do not and how they can best be established and maintained. More information is needed on: the most appropriate types of organisation if any; whether the public and/or private sector is best placed to support their formation; and the conditions necessary for ensuring their economic viability. We explore these issues in the context of high-value vegetables in Honduras and El Salvador, and commodity maize in Mexico.

Vegetables in Central America

In Central America, the trade in vegetables has increased substantially since the early 1980s due to a combination of urbanisation and increasing incomes. Development organisations have promoted the growth in production and marketing of higher value crops in hillside environments in order to complement more traditional smallholder maize and beans production systems. From 2004-2005, the International Center for Tropical Agriculture (CIAT), the Food and Agricultural Organization of the United Nations (FAO), the Agropyme project of Swisscontact and Catholic Relief Services (CRS) looked at strategies to facilitate the participation of smallholder producers in vegetable supply chains linked to local supermarkets: one area of work was on the role of farmer organisations. Three formal producer organisations in El Salvador and two in Honduras were investigated. Various methods were used to analyse the history of the value chains; the relationships between the chain actors (farmers, intermediaries and supermarkets); and the financial health and viability of the farmer organisations.

COHORSIL is a farmer co-operative in Honduras that was founded in 1980 and traditionally focused on coffee production, processing and marketing. Faced with declining prices for coffee, the co-operative sought to diversify its activities. With Swiss funding, they branched into the production and marketing of fresh vegetables. COHORSIL developed a business plan and ensured that its members had access to seedlings produced in greenhouses, warehouse and packaging facilities, and marketing services. The co-operative directly supplies these services for a fee and has also established links with private service providers who offer specialised services such as soil analysis, technical assistance, and the design and installation of drip irrigation



Photo: Manuel Alfaro/CRS El Salvador

Farmers in El Salvador install micro-tunnels (made of plastic and curved wood) to help control pests and diseases in the early stages of crop development of high value vegetables.

systems. Many of the co-operative members are able to produce vegetables that meet the quality demands of local supermarkets.

This sounds like a success story and in many ways it is. However, the investigating team discovered that farmer organisations capture a very small percentage of the final price paid by consumers: 3 percent in Honduras, and 6 percent in El Salvador. The combination of relatively low volumes of product plus low margins means that many of the farmer organisations in the study require ongoing subsidies to cover operational costs despite significant support from donor and development agencies over long periods of time.

If these subsidies provided market access to a large percentage of smallholders, there would be a case for continuing public sector or donor support. However this is not happening: despite significant investments of time and financial resources, existing producer organisations in both countries make up fewer than 5 percent of total horticultural producers in each country. Possible reasons for the small numbers of farmer organisations include: limited business skills within existing producer organisations; organisational models which are too costly in terms of time and financial resources for linking smallholders to dynamic markets; and uncertainty about the benefits that smallholders can expect from the supermarket channel.

The study raises the question as to whether there are alternative forms for farmer organisation that might achieve similar social and economic returns for farmers at a lower overall cost. A promising avenue to explore is the lead farmer model currently under development by the private sector. The model is based on organic organisational structures that grow around producers who have shown the ability to meet supermarket quality and quantity demands. Supermarkets encourage lead farmers to organise and support their neighbours to meet these demands, with little investment beyond the incentive provided by market opportunities. The initial time and financial investment in lead farmer models is significantly lower than models promoted by development agencies. Another issue is whether the benefits of farmer organisation come from improved access to inputs such as seed and credit rather than output value chains. Work in Mexico sheds some light on this.

Maize in Mexico

Maize has been cultivated for approximately 6000 years in Mexico and is of immense economic and cultural importance to millions of smallholder producers, especially in the south of the country. Since 2005, the International Maize and Wheat Improvement Center (CIMMYT) and FAO have been involved in work looking at the impact of markets on farmer management of maize in the southern state of Chiapas.

In contrast to the case of vegetables in Central America, the authors found no examples of maize farmers working together to access maize grain markets. Farmers report that there are no advantages to establishing a farmer organisation to sell grain. This is partly because the government fixes the grain price that farmers receive and farmers receive the same price irrespective of the type of maize that they grow. Furthermore, the transaction costs associated with market access are relatively low: there are so many buyers and sellers that farmer organisations would have little impact on prices, for example. There are, however, examples of where producers have organised themselves to access inputs such as seed, fertilizer and credit. These informal, and at times short-lived farmer organisations, have been encouraged by government agricultural support programmes which provide inputs. In general, maize farmers have formed organisations for two reasons: to take advantage of subsidised extension advice together with an associated agriculture technical package; and to access subsidised maize seed.

Since the mid 1990s, private extension agents known locally as *despachos* have provided technical assistance to smallholder farmers. *Despachos* do not work with individual farmers, so farmers have to organise themselves into groups. The *despachos* assist farmers to access credit which is provided at low interest rates. The credit is tied to a government-subsidised technical package that includes a set of inputs: fertilizers, pesticides, herbicides and seed. The *despachos* make money by selling this technical package to groups of farmers. The subsidised system worked well for a number of years but recently, maize has become less profitable, farmers have defaulted on their loans, and the banks are less interested in lending to farmer groups. The number of *despachos* has fallen since the mid-1990s and it remains unclear whether this public/private extension provision will continue.

However, there are other factors encouraging group formation. Farmers, for example, can get subsidised maize seed from the government. In 2006 this subsidy amounted to 300 Mexican pesos (US\$ 28) per bag of seed with a limit of two bags per farmer. Each bag contains enough seed to plant 1 hectare. Depending on the type of seed, the subsidy covers anything from 30-100 percent of the cost of the seed. In order to access the subsidy, farmers have to make a request to the Ministry of Rural Development. Demand outstrips supply and while in theory individual farmers can access the subsidy, farmers have a greater chance of receiving subsidised seed if they make the request as a group. The seed subsidy therefore encourages farmers to organise themselves.

Secondly, the seed distributors, representing various seed companies, much prefer working with groups of farmers as it reduces their transaction costs. As a result, farmer organisations may be able to negotiate better prices. The community of Roblada Grande illustrates the advantages of farmers self-organising when it comes to purchasing seed. In 2006 a group of farmers in Roblada Grande made a successful request to the Ministry for just over 800 bags of subsidised seed. The

organisation decided to purchase seed of a high-yielding maize hybrid. Each bag of seed normally sells for 940 pesos (US\$ 88) a bag, but the farmers decided to buy seed from one distributor and managed to negotiate the price down to 860 pesos. With the subsidy, farmers ended up paying 560 pesos a bag. Furthermore, the seed distributor transported the seed to the community at no extra cost.

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These cases demonstrate that it is very rare for farmer organisations to self-organise on a formal as opposed to an informal basis: support is often needed in the establishment and continued performance of farmer organisations. In El Salvador and Honduras, farmer organisations secure a very small percentage of the final consumer price and low volumes of product plus low margins mean that ongoing subsidies are probably needed to cover operational costs. While the political climate over the last two decades has been hostile to subsidies, there is increasing recognition of the key roles that both the private and public sectors can play in contributing to agricultural development.

If we accept that there are grounds for “kick-starting” farmer organisations with public money, there remains a debate as to how this money should be targeted in ways that promote rather than crowd out private sector investment, and that allow the state to withdraw as economic growth proceeds. In any discussion about where public and private money should be directed there is a need to match farmer skills and managerial experience to different forms of farmer organisation. One reason why farmer organisations fail is because they are encouraged to over-reach themselves by development agencies who wish to improve farmers’ access to markets but fail to recognise fully the constraints to achieving this through collective action. In some cases it is advisable to link farmers to specialised service providers rather than adding additional functions to overburdened farmer organisations.

Development agencies can play a very important role in facilitating farmer organisation development, especially in the early stages, but greater attention has to be directed to the questions of “farmer organisation for what purpose?” and “once we are organised, who can we partner with?” In terms of market access, our research suggested that the benefits of formal farmer organisation are more evident in the vegetable sector characterised by high transaction costs associated with market access. In the case of low-value commodity crops such as maize, it may not be in farmers’ interests to organise themselves for market sales but farmer organisations may benefit from improved access to agricultural inputs and technological services. Furthermore, these benefits may be secured through informal or even short-lived organisations rather than more demanding formal ones.

Jon Hellin. Impact, Targetting and Assessment Unit, International Maize and Wheat Improvement Center, CIMMYT. E-mail: j.hellin@cgiar.org

Mark Lundy. Senior Research Fellow with the rural Agro-enterprise Development Project, International Center for Tropical Agriculture, CIAT. E-mail: m.lundy@cgiar.org

Madelon Meijer. Associate Professional Officer, Food and Agricultural Organization of the United Nations (FAO).

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