

### COLLECTIVE ACTION FOR SMALLHOLDER MARKET ACCESS

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#### THE CASE FOR COLLECTIVE ACTION IN SMALLHOLDER MARKETING

Issues concerning farmers with small land holdings figure prominently in global discussions about poverty reduction, as the majority of the world's poor belong to such households. Most of these households are linked to the market in one way or another. Thus, the opportunity for smallholders to raise their incomes from agricultural production, natural resource management, and related rural enterprises increasingly depends on their ability to sell their goods not just at local, but also regional and even international markets.

Agricultural producers in the developing world face significant challenges as a result of changing economic, environmental, and sociopolitical conditions. Changes in the global agricultural economy are providing smallholders with new opportunities that also present new constraints. The demand for higher value and processed foods as well as the rise of supermarkets around the world has implications for the entire food marketing system as it alters procurement systems and introduces new quality and safety standards. For example, European supermarket chains have imposed stringent food safety requirements such as GLOBALGAP on their suppliers of horticultural products, making it more challenging for farmers to supply these outlets.

Smallholders also face significant challenges that hinder their participation in new marketing opportunities. Markets in the developing world are characterized by pervasive imperfections such as lack of information on prices and technologies, high transaction costs, and credit constraints. Moreover, the new procurement systems often expect larger supply volumes, favoring larger farmers. With the increasing number of free trade agreements affecting both national and international commodity markets, smallholder farmers are forced to compete not only with their local peers, but also with farmers from other countries as well as domestic and international agribusinesses.

There is increasing evidence from both research and practice that one way for smallholders to overcome market failures and maintain their market position is through organizing into farmer groups or producers organizations. Acting collectively, smallholders would be better positioned to

reduce transaction costs for their market exchanges, obtain necessary market information, secure access to new technologies, and tap into high-value markets, allowing them to compete more effectively with large farmers and agribusinesses. Producer groups can simplify long marketing chains by connecting smallholders directly to markets, bypassing various marketing intermediaries.

#### WHAT MATTERS FOR COLLECTIVE ACTION IN MARKETING

Research in natural resource management has already demonstrated the advantages of collective action—voluntary action by a group to pursue shared objectives—for technology adoption, and for ensuring that resource use is efficient, equitable, and sustainable. Even though resource management and market access differ both in terms of obstacles and potential gains, cooperation has been recognized as crucial for poor smallholders to overcome challenges presented by unfavorable policy and market conditions and to create sustainable livelihood options.

However, experiences in both resource management and marketing show that collective action is not automatic and requires specific enabling conditions. The literature on the factors that are likely to affect collective action, particularly in natural resource management, offers numerous lessons that can be applied to collective action in marketing. Three broad categories of factors important for the formation and functioning of farmer groups emerge: characteristics of the resource (or markets and products), characteristics of the user groups, and institutional arrangements. The effectiveness of these factors depends on an enabling external environment, which includes the relationships between farmer groups and the state, market, and civil society.

#### Types of markets and products

Small agricultural producers in developing countries can, in theory, sell their products to several types of markets: local (rural), emerging urban, regional, and international. Of these, local markets are the easiest to reach due not only to logistical differences since transportation, quality standards, and scale issues are less of a concern at the local level, but also because of less competition from larger domestic and international producers. In general, longer marketing chains present greater disadvantages for smallholders. However, because smallholders can access local markets more easily, these markets offer relatively low

gains from organizing since each farmer can sell individually. Collective action can, however, offer more significant benefits in allowing smallholders to reach larger domestic urban, regional, and international markets. In these cases, acting collectively may enable them to deal with transportation and storage issues, acquire technologies and certificates to comply with required quality standards, and reach the necessary scale to supply the desired quantity of their products. There are examples from East Africa and South America where groups of smallholders have been able to market their products successfully to various domestic and international outlets. Growing domestic urban markets represent a particularly attractive option for farmer groups.

Export markets present many more challenges in terms of quality control, transport, and market risks. Even if they overcome some scale and quality issues with collective action, smallholders may still be unable to compete with agribusinesses or to comply with international quality and food safety standards. Despite these challenges, there are some documented examples of smallholder groups supplying export markets.

The choice of the output markets depends on the type of products that smallholders grow, and vice versa. For the purpose of marketing, smallholders' agricultural products fall into three main categories: staples, perishables, and cash crops. Staples such as maize and rice are relatively easy to store and transport. A good portion of such crops is usually destined for local markets for local consumption. Therefore, there may not be many incentives for farmers to organize around the marketing of staples. Perishables, on the other hand, not only carry a higher risk, but require more sophisticated and costly storage and transportation facilities, thus precluding individual smallholders from successfully marketing them due to the lack of funds, capital, and technical expertise. Documented cases from India and Kenya, however, show that producer organizations can be effective in marketing horticultural products to quality-conscious international markets. Cash crops, such as coffee and cocoa, usually require processing, so smallholders often have little choice but to sell to larger farmers or agribusinesses who can afford processing equipment. However, examples of the coffee-growing federation of smallholders in Colombia and cocoa-producing cooperatives in Bolivia show that collective action can enable smallholders to acquire processing equipment and successfully market to domestic and international markets.

#### **Group characteristics**

Similar to findings in the resource management literature, evidence suggests that smaller marketing groups have higher internal cohesion because it is easier to monitor other members. Most cases of successful collective marketing efforts report a

group size in the range of 20-40 members. However, larger groups are more likely to achieve economies of scale. Federated structures can build up on the small group dynamics, but also take advantage of scale economies.

Another important aspect for producer groups is their internal composition. On the one hand, evidence shows that groups with members of the same socioeconomic status are more stable and effective. On the other hand, internal differentiation in terms of age and wealth may allow for the natural evolution of leadership in a group. Shared norms and values, which often arise as a result of prior involvement in groups and networks, is another enabling factor for groups' success. Marketing groups that build upon experiences of working together in the past for other purposes have an advantage in terms of trust and cohesiveness. Finally, a group will be more likely to succeed if its group leaders are knowledgeable and skilled in collective enterprise, and motivated and trusted by the group members.

#### **Institutional arrangements**

Simple and understandable rules increase compliance within organizations because they are easily monitored and reduce governance and coordination costs. There is also a need for established accountability and enforcement mechanisms. Rules crafted by the group members themselves and adapted to the local context (as opposed to the rules imposed from the outside of the group) have a higher likelihood of being understood and followed, which contributes to the effectiveness and sustainability of collective marketing efforts.

The literature shows that the types of organization that are most appropriate for collective commercial activities range from small groups to federated structures to multiple linkages and networks along the commodity value chain. Public-private partnerships have also been successful in linking smallholder groups with other actors in the marketing chains who enable these groups to "upgrade" their facilities, skills, and production techniques. A case study of Andean potato farmers shows that involvement in smallholder marketing of other members of the commodity value chain, such as processors and product developers, can create valuable synergies.

#### **KEY RECOMMENDATIONS**

##### **Create incentives for cooperation**

Without sufficient incentives, collective marketing will not be successful. An in-depth analysis of the products and markets available for smallholders as well as the overall analysis of the value chain for the specific product can reveal whether there are incentives in place for smallholders to organize around marketing of a particular commodity. For example, while collective action is necessary for accessing profitable

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outlets for certain products such as perishables, staple goods in many cases can be successfully sold by individual farmers. However, examples from Central America and Uganda show that the potential gains from organizing to supply an urban outlet (restaurants, hotels, supermarkets) can motivate cooperation. On the other hand, maize farmers in Mexico organized around access to inputs while marketing their grain individually due to the post-NAFTA policies that guaranteed the market and price for maize.

The technical and human capacity of the group to handle key tasks needs to be assessed in program and policy design. For example, if a marketing scheme involves specialized skills and knowledge not available within the group, its activities may be hindered by the lack of expertise, thus nullifying the incentives for collective marketing. Offering group members specialized training in technical and marketing skills could provide incentives and allow the group to be successful and sustainable.

To enable farmer groups to compete in markets effectively, certain “basics” need to be put in place. These should include improving rural infrastructure, providing extension services, making credit markets accessible to the poor, and making relevant market information available. Since the main challenge for smallholders to engage in markets is high transaction costs, such interventions would lower the costs for farmer groups to participate in markets, creating additional incentives for them to organize around an appropriate marketing activity. In addition, simplifying the registration process would facilitate the smooth formation and operation of a group in situations where formal registration is required to access inputs and services.

#### **Provide enabling facilitation**

A facilitator, or a “chain champion,” can be crucial in helping farmer groups to access profitable markets. This facilitator can serve as a catalyst for collective action around marketing by providing information and technical assistance as well as building managerial and entrepreneurial capacity of the group. Such a facilitator may even enable the farmers to renegotiate power relations along the value chain by introducing marketing and institutional innovations, which involve redefining roles and objectives, finding new ways to market a product, and accessing sources of funding and training opportunities. In sum, this actor would smooth the processes by which farmer groups overcome barriers to entry, such as low technical and organizational capacity, informational asymmetries, and often financial constraints.

Facilitation can be provided by the state and its agencies, by members of civil society, donors, or even by private firms. An important part of such facilitation involves enabling smallholders to access business development ser-

vices (BDS) that support economic activities. Such services may be financial and nonfinancial, and include, but are not limited to, input supplies, microcredit, market information, transportation services, technical expertise, quality assurance, and product development assistance.

Even though the private sector is often seen to be more efficient in the provision of BDS, there is some cause for concern that commercial agents may seek to maximize their profits to stay competitive in the short- and long-terms, without necessarily sharing the benefits with smallholders. The state, on the other hand, can play an important role in creating an enabling environment by making legal and credit systems favorable to the poor. In addition, the public sector can also provide BDS to a wide variety of farmer groups, which the private sector may be unable to do efficiently due to high transaction costs, dispersed clientele, and low profitability of such investments. In general, the private sector’s role in supporting farmer organizations tends to be directed at enabling them to meet quality and safety standards and to access certification opportunities, so that their produce fulfils the requirements of formal markets.

Nongovernmental organizations (NGOs) may be better suited to facilitate collective action processes around marketing rather than providing services or direct financial assistance. In addition to having a stated development agenda, these organizations also work “on the ground” and may understand the context, especially in terms of the existing social capital, that would provide the basis for marketing groups. Therefore, the participation of all three sectors--public, private, and civil society--may be necessary for a group of smallholders to participate effectively in markets. This calls for innovative institutional arrangements among state agencies, companies, NGOs, and producer groups that would take care of various relationships along a commodity value chain and ensure the timely provision of funding and business development services.

#### **Address equity and sustainability issues**

Many case studies demonstrate that collective marketing can enhance livelihood options for smallholders who would not be able to overcome barriers to entry on their own. However, several studies in Kenya show that participation in farmer groups often requires entry and membership fees, which may not be affordable for the poorest. In addition, delayed payments are a feature of some of the newer procurement chains, forcing smallholders to sell their crops for less to local wholesalers for immediate payment. Finally, a study of farmer groups in Tanzania reports that groups dominated and led by women fared worse in their marketing activities than male-led and male-dominated groups. These examples show that to address sustainability and equity considerations,

policies and programs aiming to enhance marketing access for the poorest need to carefully consider the particular challenges of their targeted beneficiaries.

Sustainability of collective marketing is important for long-term pro-poor development. This requires both business or marketing sustainability, and the stability and durability of the group for sustainable collective action. Given the commercial nature of market exchanges, prioritizing poverty reduction may hinder business sustainability. This is where the participation of the public sector (in providing financing opportunities for the poorest, for example) may allow for the reconciliation of the market development and social development agendas. However, while public sector financing in the form of subsidies, for example, may be needed for a time, their continued presence may create perverse incentives for collective action. Therefore, involvement of any type of outside agent, be it the public and private sectors or civil society, needs to be carefully planned and timed. While their involvement may be crucial, especially in the initial stages of market development and group formation, support over too long a period may create dependency, undermining the group's sustainability and long-term effectiveness. The facilitating agent must carefully assess its role, capacity (both financial and human), and level of participation at the onset of the project, and design a viable exit strategy. Some ongoing facilitation in the form of "repair and maintenance" support may be needed for the farmer groups to scale up operations or maintain their competitiveness in the existing markets, for example through quality upgrades and organizational adaptations.

Inability to adjust to changing marketing contexts and absence of a sustainable funding source could also lead to the failure of the producer group. Building and strengthening the group's capacity is hence important for its long-term success.

### **Be realistic in expectations**

Evidence shows that collective action for marketing purposes can enable smallholders to overcome multiple market imperfections in the developing world and deal with high transaction costs associated with marketing. However, the success and effectiveness of these groups depend on certain factors such as group size and composition, types of products marketed and types of markets targeted, external environment, and the institutional structure chosen. In most cases, facilitation by an

outside agent from the private, public, or civil society sector is also necessary to catalyze and support both collective action and market development. Without these factors in place, collective marketing may not be a realistic goal for a group of smallholders.

Collective marketing as an approach to pro-poor development is not a "silver bullet," applicable and replicable in all situations. The issues of creating and sustaining incentives and determining the appropriate level of outside assistance may add to the high physical costs that are involved in organizing farmers around marketing. In addition, the possible negative effects of group marketing on the non-participants (such as higher prices for inputs, limited market access, lower prices for outputs) indicates that collective action may not be able to make all markets work for all poor.

When considering pro-poor market development, there is a need to be realistic about the potential benefits and beneficiaries of collective action. Market development is not always going to help the poorest because they may not have the minimum asset threshold (human, physical, and even social) needed to participate in market exchanges. While collective marketing does enable smallholders to raise incomes by participating in more profitable markets, these smallholders may not represent the poorest members of the rural communities. Whether there are possible positive spillover effects for the poorest from these activities remains to be seen.

### **SUGGESTED READINGS**

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