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The Potential and Limits of Farmers' Marketing Groups as Catalysts of Rural Development

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Abstract

During recent years — coinciding with a higher interest for the social and solidarity economy — there has been a resurgence of policy and academic attention to how agricultural cooperatives can foster rural economic development. Collective enterprises can play a role in coordinating activities between different value chain actors and in enabling access to new markets by vulnerable rural dwellers. However, they face a number of structural limitations or “tensions”. The objectives of this paper are twofold. First, it aims to systematize the evidence about the impacts agricultural cooperatives in rural areas in developing countries. The impact indicators considered are primarily in the realms of productive systems and poverty. Secondly, we will revise the theory of farmers' collective action, building on the accumulated evidence. The theoretical development will make emphasis on (a) The mechanisms through which farmers' groups induce development impacts and (b) The structural “tensions” that characterize the action and performance of farmers marketing groups.

1. Introduction

During recent years — coinciding with more attention paid to the social and solidarity economy — there has been a rise in the policy and academic interests in agriculture and food, and therefore on the fate of small-scale farmers, who still account for the bulk of food supply worldwide. Such rising interest has been steered by a variety of factors, including recent picks in the historical prices of several food commodities (Timmer, 2010) and the realization of the multiplier economic effects of growth in the agricultural sector, particularly in Africa (Wiggins et al., 2010). There has been also a revival of the interest for farmers' collective action, and its role in facilitating the market integration of smallholders, enhancing food security and promoting rural economic development. Such revival has been partly the consequence of realizing that the implementation of liberalization policies (associated with structural adjustments) in developing countries did not render the expected results in the agricultural sector, and in many cases even worsened the level of market participation of small-scale producers (Kydd and Dorward, 2004). This policy outcome can be explained by the structurally high incidence of transaction costs among small-scale agricultural producers. Due to the small scale and unfavorable conditions of production (in terms of location, available infrastructure, etc.) smallholders in developing countries typically face high transaction costs when accessing inputs and technology, or when delivering their produces to profitable markets (due to difficulties in meeting standards, having access to efficient transportation or creating appropriate marketing links). In many places, the dismantling of governmental bodies in charge or providing support to smallholders (no matter how inefficient they were) aggravated the incidence of such constraints. At the same time, the size of the average landholding has declined in several developing countries (Hazell et al., 2010).

Furthermore, some major trends in the development of agri-food systems have increased the need for coordination along the value chain (representing therefore major challenges for small-scale farmers). These include a rising importance of quality and other type of standards, as well as a higher level of market concentration in the downstream parts of the value chains, and in particular in the retailing sector, which is increasingly dominated by supermarkets worldwide (Reardon et al., 2009). These trends call to paying more attention to improve coordination mechanisms among agents of the value chain in policies and interventions aiming to enhance the performance of the agricultural sector in developing countries, and in particular the level of market integration of small-scale farmers (Kydd and Dorward, 2004). That is, to the alignment between different actors of activities and product attributes.

Farmers' groups constitute one of the coordination mechanisms available to small-scale farmers. Farmers' organizations, and in particular marketing groups (either cooperatives or other collective endeavors) can coordinate actions both horizontally (among members) and also vertically (with other value chain agents). These organizations can reduce transaction costs by means of creating economies of scale for input supply, technological transfer or joint marketing, or by facilitating concerted action between farmers. They can

also increase the bargaining power of smallholders vis-à-vis other value chain actors through joint supply systems or indirectly by means of increasing local prices. Cooperatives and other types of collective marketing initiatives can be thus considered as transaction-costs reducing institutional settings (Staal et al., 1997). Collective action among farmers may take a variety of forms. For the present manuscript we focus however on marketing arrangements. The purpose of the paper is to discuss under which conditions such institutional arrangements can contribute to enhance the level of market integration of small-scale farmers and therefore to rural economic development. I review here both the potential and limitations of farmers' groups in becoming catalysts of economic developing in poor rural areas of the world.

2. The nature and impacts of agricultural cooperatives

The fact of being composed by autonomous members that are owners, users and social actors at the same time makes agricultural cooperatives to hold a particular set of organizational settings. First of all, from the organizational point of view, they are firms, but from a sociological perspective they are a community of actors, whose interests and not always totally aligned (Nilsson and Hendrikse, 2010). Collective decision making enables cooperatives to coordinate actions among members, which confers them advantages particularly in sectors dominated by smallholders. However, such decision making structure also makes them susceptible to a wide range of “incentives problems”, arising from conflicts between collective and individual goals (Borgen, 2004). This configuration makes cooperatives particularly complex organizations, whose performance depends on a variety of variables along mainly four domains (Makelova et al., 2009): groups characteristics (group size, composition, leadership); organizational structure (rules and decision making); the types of products and markets in which they operate and the external environment (policies, availability of public goods, etc.).

Understanding properly the factors influencing the performance of agricultural cooperatives and their capacity to be catalysts of rural economic development requires then not only to consider organizational elements but also the dynamics of collective action (the factors enabling groups to achieve common goals). Such particular combination of features makes cooperatives both (a) prone to fail as business organizations (despite their evident advantages), due to the previously-mentioned internal conflicts and (b) very interesting and challenging subject of both research and policy interventions. To assess the factors determining the performance and success of cooperatives is particularly challenging, given the number and diversity of factors involved in explaining their outcomes.

In organizational studies, agricultural cooperatives are considered as examples of hybrid types of organizations, situated between hierarchical and market forms (Menard, 2007), which are also particularly reliant on social capital as a resource for coordination of actions within the group, and the creation of links between the group and other players (Valentinov, 2004). Social features usually associated with the broad term “social capital” (trust, commitment, participation, reciprocity, social cohesion, social ties, loyalty, etc.) are assumed to be critical factors enabling cooperatives to cope with

incentives problems. The process of building social capital should be then taken as a key aspect in the analysis of cooperative performance, as well as when designing interventions aiming to enhance their development impacts.

Several studies have shown positive effects of membership to marketing groups on rural households' economic performance in developing countries. Bernard et al. (2008a) report that cooperative members in Ethiopia obtain in average better prices for their products. The effects of commercialization on commercialization are mixed however, depending on land size (membership enhances commercialization only among the farmers with relative larger farms sizes). Francesconi and Heerink (2010) further explain these results by differentiating two main types of cooperatives in Ethiopia, according to their orientation: livelihood and marketing. While livelihood cooperatives provide mainly inputs and common goods, marketing cooperatives are more market oriented, and are more effective in linking farmers to markets. Sizable effects of membership on commercialization are mainly observed among members of marketing cooperatives. A key conclusion is that farmers 'groups are very diverse, and therefore the organizational forms should be taken into consideration when conducting impact studies (of cooperative membership).

Studying the effects of cooperative membership among dairy producers in Ethiopia, Francesconi and Ruben (2012) report a positive effect of membership on milk production and productivity, but a negative effect on fat and protein content. Genet and Anullo (2010) show evidence of a positive effect of cooperative membership on total income and savings among farmers of the Sidama region, in Ethiopia. However, no significant effects were found for households' assets. Yang and Liu (2012) report similar results in China, where the presence of farmers' organizations is associated with higher levels of rural income at the local level. Furthermore, Abebaw and Haile (2013) found that cooperative membership in Ethiopia has a positive relationship with the level of use of fertilizers, which might be explained by the fact that Ethiopian cooperatives have a monopoly in the supply of (subsidized) fertilizers (being the private market for fertilizers still absent in the country).

Wollni and Zeller (2007) have also found a positive of cooperative membership on prices and participation in specialty markets among coffee growers in Costa Rica. In the same line, Mujawamariya et al. (2013) report that prices among cooperative members are higher and more stable among coffee producers in Rwanda. Members however still sell part of their production to private traders, due to the credit services they provide and the payment on the spot method they follow to buy coffee (while cooperatives do not provide credit services and pay with some delay). Though difficult to test empirically, cooperative can also work as a "competitive yardstick" at the local level (which means that if they were not in place local prices will be lower), thus inducing indirect positive economic effects, not only among members but also among non-members (Pascucci et al.(2012). Other reported effects of cooperative membership include innovation and the creation of marketing linkages (Devaux et al., 2009), which might involve new international market channels (with strict quality standards) in which small-scale farmers can participate (Roy and Thorat, 2008). Collective marketing groups can also include non-economic

development effects, such as increasing the level women schooling among members' households (Gitter et al., 2012).

In order to assess the effects of farmers' marketing groups on rural development, we should not only consider the mechanisms through which changes in the performance of members are induced and the determinants of performance, but also to know who are the members of agricultural cooperatives. Given the high diversity of situations surrounding the emergence of cooperative, it is very hard nonetheless to arrive to generalizations about what types of farmers join collective firms. In addition, the empirical evidence about the determinants of cooperative membership is still limited. However, one of the few emerging patterns (which however requires further empirical testing) is what has been coined the "middle class effect". Authors such as Bernard and Spielman (2009), Francesconi and Heerink (2010) and Fischer and Qaim (2012) have found (in Ethiopia and Tanzania) that the likelihood of cooperative membership increases with land size, until a sort of threshold level is reached, after which the relationship between land size and membership is inversed. The consequence is that cooperatives tend not to serve the poorest of the poor (the smallest growers). In a similar vein, Fisher and Qaim (2012) as well as Abebaw and Heile (2013) report a non-linear relationship between the distance to the road and cooperative membership among farmers in Tanzania and Ethiopia respectively. Similar to the pattern just described for the relationship between land size and membership, distance to the road is positively related to cooperative membership up to a threshold level, after which a negative relationship between both variables is seen. Therefore, farmers closer to the road as less likely to be members of cooperatives. Interestingly, Ruben and Heras (2012) found that coffee cooperatives located closer to the road showed comparatively both lower levels of performance and social capital (in comparison to cooperatives located further away). They attributed these differences to a greater degree of dependency on coffee for the livelihoods of farmers that live further away from the road (due to the lack of alternative sources of income, a lower incidence of extra-community ties, etc.). Farmers located closer to the road definitively face less marketing-related transaction costs.

The empirical results just outlined above suggest that collective action is more likely to be effective at intermediate levels of resources, assets or transaction costs. Such pattern might hold in farmers' marketing groups, but also in collective institutions for the management of common pool natural resources, and for collective action in general. For instance, Bardham (1993) argues that community-based irrigation systems are more effective at intermediate levels of water scarcity. Based on these insights, for the case of collective marketing firms in agriculture we could formulate an "intermediate transaction costs" hypothesis. That is, collective marketing firms are more likely to emerge and to be effective when farmers face intermediate levels of transaction costs (which is dependent on the type of traded products, the availability of public goods and the farmers' assets/resources). Such hypothesis is based upon the notion that collective action is costly (due to the time and resources needed for coordination among members and the risks involved). The benefits of collective action tend to offset its costs at intermediate levels of transaction costs because when transaction costs are too high (e.g. too small land size, very long distance to the road) structural marketing transaction costs are too high to be

significantly reduced by collective action. At the other extreme of the spectrum (e.g large land sizes; close distance to the road) the potential benefits of collective action (in terms of transaction costs reduction) tend not to compensate its costs, and thus individuals do not have enough incentives to engage in collective action.

From the perspective of transaction costs, the effectiveness of marketing groups is also influenced by the type agricultural products on which farmers share interest. The returns of collective action (in terms of transaction costs reduction) are expected to be higher for perishable (vegetables, dairy products, etc.) or “high-value” (cash crops) products. The main reason is that in this type of products (with relative higher levels of asset specificity) there are more possibilities of opportunistic behavior by buyers, who can reap rents based on suppliers’ constraints to find alternative transactions. For instance, a milk processor can gain bargaining power from the fact that milk is perishable, which may imply that it would be difficult for suppliers to find alternative buyers (before the milk gets spoiled) in the case the milk is rejected. Transaction costs associated with marketing of this type of products tend to be typically higher (as compared to products that can be stored and for which multiple buyers are available). Marketing groups are therefore less likely to deliver great advantages to farmers specialized in the production of staple agricultural products with well developed local markets (Levi and Davis, 2008).

The empirical results outlined above point to a relevant question: If marketing cooperatives and other forms of farmers’ organizations can become effective catalysts of rural economic development, why are they not more generalized, particularly in poor rural areas of the world? Historically, the cooperative movement has had many difficulties to consolidate, particularly in developing countries. Holloway et al. (2000), while acknowledging that cooperative can play an important role in mitigating transaction costs, state that “African cooperatives have had a generally unhappy history”, which they attribute to difficulties to make managers accountable, political interference and financial inefficiencies.

There is not a consensus about the determinants of success among agricultural cooperatives, likely because the phenomenon at stake is very complex (many variables involved in different contextual settings) and not enough evidence have been yet raised. What is clear however is that cooperatives face substantial challenges, both in the

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