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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 of 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 cooperatives 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 managerial and the social domains. An important number of these challenges can be characterized as structural “tensions” between different goals or cooperative’s functions, derived from its particular nature. The ability to cope with these challenges is a key factor influencing cooperative’s performance, particularly in the economic field. The following section summarizes some of the most important “tensions”.

3. The structural tensions of agricultural cooperatives

Below I summarize some of the most common “tensions” between different functions and goals of agricultural cooperatives and other forms of farmers’ marketing groups. By tensions I mean conflicting goals or functions that may jeopardize cooperative’s performance, especially in the long-run.

Tension between social and business functions. Trade-offs between social activities and marketing functions are well reported in the literature. Bernard and Taffesse (2012) argue that social activities (such as the provision of consumption services, literacy training, HIV prevention and provision of public infrastructure) among Ethiopian cooperatives increases farmers' participation, particularly of the smallest ones. They report that membership size among multipurpose cooperatives is nearly twice of the more specialized coops, while the average land size is about 25% larger among the members of the latter. However, according to these authors, the execution of social activities is achieved at the expense of economic performance. A larger and more heterogeneous membership, as well as the multipurpose nature of socially-oriented coops increase internal coordination costs and represent considerable managerial challenges, without bringing further significant gains in reducing other marketing-related transaction costs. This tension reflects a trade-off between performance and inclusion. As stated above, farmers with the smallest land sizes tend to be excluded from agricultural cooperatives, since they face difficulties in meeting membership requirements and the costs of collective action probably offset its benefits among this type of farmers (Bernard and Spielman, 2009).

These tensions can be summarized in a key feature of collective firms: the fact that they often face trade-offs between equity/efficiency concerns and efficiency/economic performance (Bernard et al., 2008b). Equity concerns seem nonetheless to be at the core of cooperatives. King et al. (2013), for instance, argue that the "cooperative movement is rooted in a social justice framework based on participatory democracy, distributional equity and solidarity". Such values are fundamental for ensuring members' satisfaction and therefore commitment to cooperative development. To deal with the delicate balance between equity and efficiency seem therefore to be the fate of cooperatives.

Between membership homogeneity and external links. Members' homogeneity is expected to facilitate communication and the alignment of incentives, thus reducing coordination costs. However, homogeneous groups may encounter disadvantages in creating extra-group links, which are usually crucial for properly developing marketing functions. Barham and Chitemi (2009) report that gender composition affects the performance of farmers' marketing groups. Having males within the group influences positively its marketing functions, which may be explained by the structure of male's networks, normally involving more external ties (outside the group).

Between keeping coordination costs low and achieving enough economies of scale. The creation of economies of scale is one of the key mechanisms through which farmers' groups can enhance the collective bargaining power of small-scale producers. The scale of operations is a key source of countervailing power in farmers' groups, vis-à-vis other agents of the value chain, which is among the key "raisons d'être" of cooperatives (Valentinov, 2007). From this point of view, increasing the group's size is a reasonable strategy to follow. Nevertheless, the cost of coordinating actions among members also increases with group's size. In addition, larger groups require a higher level of delegation of management tasks to the board of directors or the managers, increasing the probability

of principal-agent problems (Levi and Davis, 2008). That is, a misalignment of incentives between the persons in charge of managing the firm and the members. The chances of such type of problems are higher if there is a considerable educational gap between members and managers, as it is often the case in cooperatives operating in poor rural areas in developing countries. This explains why in some circumstances smaller groups hold a higher level of performance, as compared to larger ones, despite having lower bargaining power (Chagwiza et al., 2013). The trade-off between these two variables (economies of scale and coordination costs) suggests that probably there is an “optimal” and intermediate level of group size. Such optimal size would depend on a variety of factors, such as the level of members heterogeneity, the concerned products, the decision making structure and the level of social capital among members. Place et al. (2004) have actually found evidence supporting this hypothesis. They show that middle-sized groups of Kenyan farmers showed a higher level of performance, compared both with the smallest and the largest groups.

Between external support and enough autonomy. After reviewing collective arrangements for integrating small-scale farmers to agricultural markets in Eastern and Southern Africa, Poole and de Frece (2010) conclude that “most successful cases of collective enterprise creation have depended on a substantial degree of intervention from NGOs and international donors”. External agents can facilitate the acquisition of managerial and technological skills, as well as to cover the initial high transaction costs involved in the creation of farmers’ groups. Such high set-up costs are a major barrier for the establishment of cooperatives. In addition, the recent boom of agricultural cooperatives in China shows that a favorable policy environment might be very effective in promoting cooperative development (Deng et al., 2010). However, external interference (particularly by the state) has been identified as one of the key sources of failure of cooperatives (Lalvani, 2008; Wanyama et al., 2009). The existence of internally crafted rules has been singled out as a key factor determining the success of collective action in general, and agricultural cooperatives in particular (Levi and Davis, 2008). The challenge is then to find the right and delicate balance between external support and enough autonomy in cooperative development.

Between meeting standards and satisfying the members. As stated above, current trends in agri-food value chains make production and product standards important factors in conditioning the market integration of (small-scale) farmers. In sectors dominated by smallholders and where standards play an important role in shaping relations along the value chain, the ability to coordinate horizontally among farmers can confer cooperatives and other collective enterprises significant competitive advantages (Wheatherspoon and Reardon, 2003). Several studies have shown positive synergies between certification schemes and collective action (Roy and Thorat, 2008; Kersting and Wollni, 2012; Perez-Ramirez et al., 2012) in terms of facilitating market integration and ensuring better prices for small-scale farmers. Nonetheless, meeting strict standards normally entails conflicts with those members that are not able to deliver the products according to the specifications. First, such vulnerable farmers might exert their rights to influence managerial decisions through a democratic decision making structure, undermining the process of standard setting. Secondly, exclusion of some members can induce lower

levels of trust between the members and the managers and therefore lower levels of members' commitment and sense of group identification, which would affect negatively the cooperative's performance (Nilsson et al., 2012; Hernandez-Espallardo et al., 2013). In general, members attach strong importance to their participation in the cooperative's democratic governance system (Ortiz-Miranda, 2010). Higher standards are however often achieved through more hierarchical decision making structures, at the expense of democratic decisions (Bijman et al., 2011). These dilemmas are specific to cooperatives (due to the fact that their owners and providers are the same persons). Hence, meeting quality and other standards in highly coordinated value chains might constitute a significant management challenge for agricultural cooperatives. Indeed, Poulton et al. (2010) argue that the complexity of cooperatives' decision-making structure may imply a burden when it comes to respond quickly to changes in buyers' requirements.

Between different cooperative's functions. According to the empirical evidence summarized above, agricultural cooperatives seem to face significant difficulties in maximizing the performance of several functions at the same time. Gaps between different functions are probably more likely in marketing groups at early stages of development (e.g. cooperatives not yet well consolidated). For instance, Bernard et al. (2008b) point out that market-oriented farmers' organizations in Senegal and Burkina Faso are relatively good in providing information and advise to their members but are relatively weak in facilitating access to financial services, materials and infrastructure investment. Furthermore, as mentioned above, Bernard et al. (2008a) and Francesconi and Heerink (2010) show that, overall, cooperatives in Ethiopia can offer better prices, but have a limited capacity to enhance the level of market integration (commercialization), particularly among the smallest farmers. On the contrary, Fisher and Qaim (2012) report that marketing groups increase the level of commercialization and income among banana growers in Tanzania, but they found that the effects on prices are very modest. Mujawamariya et al. (2013) found that coffee cooperatives in Rwanda ensure higher and more stable prices (in comparison with private coffee traders). However, they were not able to pay on the spot or to offer advance credit, which explains why farmers still deliver an important share of their production to traders (who are able to deliver these important services). These examples indicate the difficulties cooperatives face to maximize the delivery of different services at the same time, which might undermine members' commitment and the cooperative's performance in the long-run.

4. Coping with tensions in farmers' organizations

The need to deal with the wide variety of "tensions" outlined above seems to be a particular feature of farmers marketing groups. These tensions are particularly acute during the first phases of cooperative development, when resources are scarce and managerial capacities are still not well advanced. The incidence of these tensions explains why cooperative are not generalized despite their high potential contribution to the economic development of small-scale farmers (who still dominate the supply of agricultural products in most parts of the world). The performance of marketing agricultural cooperative and other collective firms formed by farmers depends to a large extent on how managers, directors and members cope with the tensions described above.

To deal with such tensions constitutes definitively a major managerial and organizational challenge, since the way to address them is very context-dependent.

The capacity of farmers marketing groups to address structural tensions can be strengthened by means of interventions and external support, including a favorable policy environment. Bingen et al. (2003) distinguish three broad types of interventions for increasing the opportunities of for small farmers to benefit from market participation, depending on their focus: (i) contracting and marketing (creating links with external agents); (ii) knowledge transfer (technology mobilization) and (iii) managerial skills and social capital. These three broad areas of action can be summarized as: marketing; know-how and capabilities.

A major challenge for cooperatives is that these three domains of action cannot be addressed in a consecutive or independent way, since they are interdependent. For instance, the set-up of marketing cooperatives needs considerable investment in social capital (third dimension). However, a key success factor in early stages of collective action is that farmers have clear and significant incentives to cooperate, which normally requires adding value to agricultural products through both technological upgrade (know-how) and alternative marketing channels (external links). Directors and managers need therefore to carefully assess how to allocate scarce human and financial resources to strengthen these three domains in a complementary way, and at the same time. There is not nonetheless an *a priori* order or pattern of interventions that managers can follow as a blueprint. The most efficient allocation would depend on the specific combination of factors (endowment) and needs of the collective enterprise. The evaluation of such endowment and conditions, as well as the design of appropriate responses, constitute an additional and significant managerial challenge of agricultural cooperatives (to the ones already described above).

5. Conclusion

The empirical evidence gathered so far about the impacts of marketing cooperatives and other collective organizational forms connecting small-scale farmers to markets shows that these organizations hold a high potential as catalysts of rural economic development. However, this paper has also reviewed the most important “tensions” that typically farmers marketing groups face, particularly those at early stages of development and operating in poor rural areas. These tensions, which are particular to the cooperative organizational form, indicate that limitations are also significant. Agricultural cooperatives are organizations with both high potential and limitations to foster economic development in poor rural areas of the world.

Marketing farmers groups have more chances to be effective in inducing significant developmental effects when farmers deal with agricultural markets with intermediate levels of transaction costs. This is more likely to occur in middle-size landholdings, perishable and high-value (cash) crops and intermediate access to public goods (infrastructure, etc.) by farmers.

There is not an a priori sequence of interventions to strengthen marketing farmers groups, particularly at early stages of development, since the three main domains of action (marketing; know-how and capabilities) are interdependent. To cope with the wide range of tensions outlined above, to assess the current endowment of factors of the firm and to design responses to encourage further development constitute major managerial and organizational challenges of cooperatives, which require specific skills. In conclusion, collective firms, in spite of their high potential contributions to rural development within the framework of the social and solidarity economy, are particularly difficult to manage and to support. This explains why, from a historical perspective, their success is so elusive. Overall, cooperative promotion (through externally-funded interventions or state policies) seems to be a particularly daunting task, but worth to undertake. Furthermore, the evidence available to support the design of such interventions is still very limited. About 30 years ago, Obern and Jones (1981) stated that “the literature provides little evidence about the factors that are determinants in the success or failure of cooperatives”. Nowadays, though we have gained some additional insights, this situation has not changed dramatically. We continue having a limited knowledge about which conditions make collective action among farmers both feasible and effective.

9. References

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