

WORLD BANK

STUDY REPORT

## **Linking small holder farmers to markets:**

**Lessons learned from literature review  
and analytical review of selected projects**

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## *Executive Summary*

If the movements of market liberalization and the globalization ongoing in the world economy have brought an enhanced economic growth to developing countries and increased their average living standard, their impacts on the rural poor remain limited. Thus, considering that agriculture is becoming increasingly integrated and that smallholder farmers are often disadvantaged, action must be taken to help them draw profit from their integration into markets.

The present study examines initiatives taken so as to better connect small farmers to markets, through a combined literature review, mainly based on neo-institutional economy, and an overview of development projects in various developing countries. To analyze these initiatives, we distinguish five different kinds of interventions:

- provision of infrastructures and equipment,
- strengthening of the individual, collective and public capacities,
- provision of technical and economic services to farmers,
- provision of new institutional arrangements among actors,
- promotion of new institutional environment.

For each type of intervention, a careful assessment of their potential and limits to support farmers in benefiting from their connection to markets is proposed based on both literature results and projects lessons learned. Both theoretical criteria based on barriers to entry, production and transaction risks, economies of scale and social capital dimensions (see table 13) and operational criteria centered on income generation and repartition, the potential spill over effects and the sustainability of the impacts (see tables on performance criteria) were used to characterize interventions' impacts even though information on these aspects is limited.

The study also shows how the different projects use the different interventions according to the approach they follow and how this contributes to an improved linkage of farmers to the markets. The variety of approaches adopted by the different international donors and operators is caught by distinguishing between targeted approaches, aiming at strengthening smallholders' position in existing markets or aiming at facilitating their insertion on new markets; and global approaches, striving to create an environment conducive to the development of agricultural economic activities and exchanges. For characterizing these approaches, results are mainly drawn from the projects review.

First of all, the study demonstrates that producer organizations have a central role to play in strengthening farmers' position in traditional and in innovative markets (such as fair trade) as well as in building their capacities (improved access to services, to training etc.). Moreover, they are key actors in defending farmers' interests and in negotiating with the authorities to foster the development of sectoral and public policies that are more favorable to smallholder farmers.

Secondly, the study shows the importance of developing multi-actor approaches. On the one hand, it is strategic to get rid of bottlenecks that restrict production outlets downstream in the chain. On the other hand, concerted diagnosis, on the basis of analysis of divergence and convergence on actors' interests, makes it progressively possible to set up collective action aiming at equity or competitiveness reinforcement. Such approaches require promoting new modes of coordination among actors. Participatory research, information dissemination and capacity building appear to be strategic mediation tools to develop these actions.

Lastly, the study illustrates how the different types of approaches and interventions can be structured over time and on different scales, so as to improve farmers' linkages with markets durably. Targeted approaches on specific sectors (staple food and diversification crops) are likely to be more efficient in a situation where agriculture is dominated by low market oriented farmers and where goods and services markets are weakly developed. Moreover, when the institutional environment is poorly developed, focus should be put primarily on enhancing specific institutional arrangements, especially through collective action support, so as to strengthen farmers' connection to markets in targeted supply chains.

More global actions on the institutional environment such as the promotion of laws on competition are more likely to benefit small farmers when the institutional environment is already well developed. Supports to the development of deliberative institutions and to Rural Producers Organizations (RPO) advocacy functions can help defining adequate priorities in the institutional setting. If in situations where agriculture is more largely oriented towards markets, specific support to competitive market environment enhancement is indicated, the specific economic and institutional weaknesses of the small farmers remain to be addressed through targeted actions. Last but not least, differentiated markets appear to be a promising way when small farmers benefit from specific comparative advantages such as local know-how or environmentally friendly ways of producing.

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## *Acronyms*

AFD: Agence Française de Développement  
AFTMIN : African Fertilizer Trade and Marketing Information Network  
AGROPYME: Agro Pequeñas y Medianas Empresas  
APM: Agriculture Paysanne et Mondialisation  
BIODESA : Biodiversidad y desarrollo agro-industrial  
CICDA: Centre International de Coopération pour le Développement Agricole  
CIDR : Centre International de Développement et de Recherche  
CRG : Crédit Rural de Guinée  
DANIDA: Danish Agency for Development Assistance  
DFID: Department for International Development  
DBSM: Developing Business Services markets for SMEs  
EC: European Commission  
ESOP : entreprises de services aux organisations de producteurs  
FECAFEB: Federación de caficultores exportadores de Bolivia  
FERT: Formation paysanne et promotion des Organisations Professionnelles Agricoles  
FPFD : Fédération des Paysans du Fouta Djallon  
FT: Fair Trade  
GRET : Groupe de Recherche et d'Echanges Technologiques  
IFAD: International Fund for Agricultural Development  
LCD: Less Developed Countries  
MAE : Ministère des Affaires Etrangères  
MIS: Market Information System  
NGO: Non-governmental organization  
PASAL : Programme d'appui à la sécurité alimentaire  
PCPS : Projet Centre de Prestation de Services  
PRIAF : Programme de Renforcement de l'information des acteurs des filières rizicoles  
PROCAFE : Programme Café  
PROMOPA : Promotion des organisations professionnelles agricoles  
ROESAO: Réseau des Opérateurs Economiques du Secteur Agro-Alimentaire de l'Afrique de l'Ouest  
ROPPA: Réseau des organisations paysannes et de producteurs de l'Afrique de l'Ouest  
RPO: Rural Producer Organization  
RUSEP: Rural Sector Enhancement Project  
SDC: Swiss Agency for Development and Cooperation  
SME : Small and Medium Enterprises  
UEMOA: Union Economique et Monétaire Ouest-Africain  
USAID: US Agency for International Development  
WTO: World Trade Organization

## *INTRODUCTION*

Given the international poverty line of per capita average consumption is US\$ 2/day, it can be estimated that half of the world population is affected by poverty. With 70% of the total poverty, the rural areas in the developing countries concentrate most of the poverty problem (World Bank, 1997), and the majority of poor people migrating into towns are also victims of economic exclusion occurring in rural areas (Dixon et al, 2001).

For the last few years, the World Bank has engaged in a reflexion on the way to reduce poverty and to increase welfare of rural producers. This overarching objective has been expressed in the document "From Vision to Action" of the World Bank (1997), which set up the strategy of the World Bank in reducing poverty. In 2002, a second strategic document "Reaching the Rural Poor" (World Bank, 2002) gave a new strategic framework to curb the trends toward a reduction of loans to rural sector and addressing the problem of persistent poverty in rural areas.

In rural areas, poverty reduction result from various options and strategies combining income rising for farmers and farm workers and the associated demand for non-tradable goods in rural areas. It may also result from off-farm employment growth in rural areas and market towns. Agricultural development is considered strategic for poverty reduction on a national scale. After having put the emphasis on production issues, a new generation of policies and international projects has come to consider that support to production enhancement cannot be separated from the development of outlets and the good functioning of marketing channels. In this perspective, the World Bank is trying to raise private investments in agriculture, looking for new ways of "linking smallholder farmers to markets" to reduce poverty.

About 75% of the 1,300 billions people working in the farming sector worldwide (3 billions with their family) still practice a manual agriculture. Half of them do not use any inputs (fertilizers, seeds, etc) because they lack the means (Mazoyer and Roudart, 2002). Their position in the agricultural markets is unfavorable. On the one hand, staple food crops from the Northern countries are sold on the international markets at a very low price, which affects the domestic prices in developing countries. For instance, cereals sold on the international market represent 12% of the world production. As such, international cereal market appears as a residual market where the dominant players, benefiting from continuous gains of productivity, sell the surpluses at low prices. On the other hand, export commodities (cotton, coffee, cocoa, etc), in which sector small and medium-scale farmers are predominant, also suffer from constant prices decline that affect the exchange terms for the farmers, and in turn their welfare.

In such a context, the question "linking smallholder farmers to markets"-should be reformulated into "how to support smallholder farmers to draw benefits from their linkages to markets?" This two-term question depends on the farmers marketing strategies on the one hand, and on products and markets characteristics on the other hand. The poorest farmers will determine their marketing strategies considering their specific constraints to access markets compared to off-farm opportunities that could improve their global situation in terms of income generation and food security.

Over the last decade, donors and policy makers have developed tools and approaches to help farmers to get a "better connection" with markets. Various experiences have been held, among which fair trade initiatives to provide a higher share of benefits to producers, services to promote exports as National Trade Promotion Organizations (World Bank), Agricultural Development Centers (DANIDA, World Bank, French Cooperation,...), Market Information Systems, etc. Even though all those experiences tend to enhance the connection of farmers to

market, their scope, the context in which they took place and their impacts vary widely. For that reason, a review of those experiences is useful to guide further interventions

This study focuses on the smallholder farmers' connection to agricultural markets setting aside their connection to other markets (land, labor, credit). It is based on the assumption that the success of interventions aiming at improving smallholders' connections to agricultural markets depends on the relevance of the interventions within a given technical-economic context (market and products) and the current socio-institutional context (institutional environment and arrangements), as well as on the efficiency of the implementation modalities. In this perspective, three simple questions can be raised in terms of enhancing connections of farmers to agricultural markets:

- What to do in different contexts?
- How to do it?
- What could be the best way to enhance the benefits for small farmers?

In order to address these questions, the operational objectives of the present study are to:

- Carry on a literature overview of theoretical contributions over farmers' linkages to agricultural markets
- Analyze field experiences through project reports to show rationale of the interventions
- Draw a map of present experiences that help smallholder farmers to take advantage of market opportunities
- Develop specific recommendations about the way of designing and implementing support projects

- **Plan of the document**

The document consists of three parts.

The first part, called issue paper, first underlines the issues and challenges of farmer's linkages with the agricultural markets resulting from the evolution of markets and policies, and illustrates the World Bank involvement in this matter through a project portfolio overview. In a second step, the characteristics of the agricultural products and of the markets are presented to give insight into the diversity of the farmers' possible linkages. Then, the diversity of smallholder farmers' situations and strategies are characterized and a typology of smallholders is proposed.

The second part presents an in-depth analysis of the way projects support farmers' better connection to markets. Main findings are drawn from both a literature and a projects review.

Projects are characterized according both to the types of interventions they implement and to the approach they adopt. Five interventions types are distinguished. These are:

- provision of infrastructures and equipment,
- strengthening of the individual, collective and public capacities.
- provision of technical and economic services to farmers,
- provision of new institutional arrangements among actors,
- promotion of new institutional environment,

For each type of intervention, a careful assessment of their potential and limits to support farmers in benefiting from their connection to markets is proposed based on both literature results and projects lessons learned. Both theoretical criteria based on barriers to entry, production and transaction risks, economies of scale and social capital dimensions (see table 13) and operational criteria centered on income generation and repartition, the potential spill over effects and the sustainability of the impacts (see tables on performance criteria) were

used to characterize interventions impacts even though information on these aspects is limited.

The study also shows how the projects use the different interventions according to the approach they follow and how this contributes to an improved linkage of farmers to the markets. Two major types of approaches are considered: targeted approaches, aiming at strengthening smallholders’ position in existing markets or aiming at facilitating their insertion into new markets; and global approaches striving to create an environment conducive to the development of agricultural economic activities and exchanges. The characterization of each approach is mainly based on the projects review.

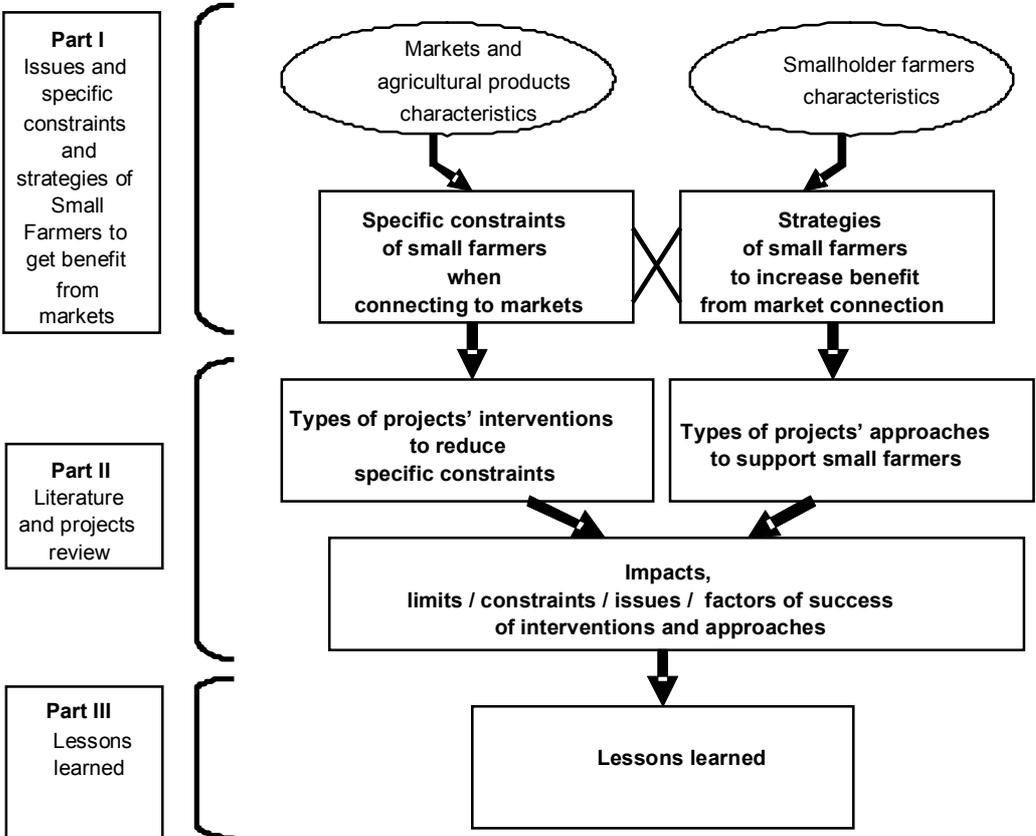
The third part draws on the second part main findings to propose transverse lessons.

• **Limits of the study and step forward**

Even though the available documents for the project review enabled us to grasp their institutional setting and modalities, the analysis of the results and moreover the impacts, notably in terms of smallholder’s income generation, were sometimes limited. In some cases, interviews with operators of those projects enabled us to collect additional information. Nevertheless, systematic interviews will be needed to further test and refine the analytical framework and the operational guideline.

To conclude, this study was an exploratory work, which should be pursued, in a second stage through field surveys, focusing on the role of RPOs in providing business services in various contexts.

**Table 1. Plan of the document and process of the study**



*Part I: Issue paper*

# 1. General context: Issues and challenges for the farmers in the agricultural markets

## 1.1 Global trade environment and national political contexts evolution

Before the 1960's and 1970's, planned economies aiming at developing economies through commodities exports were dominant in the Less Developing Countries (LDC). Stagnation of the economic growth and the increasing deficit of State budgets led in the 80's to the overwhelming adoption of Stabilization and Structural Adjustment Plans<sup>1</sup> through the impetus of the Breton Woods institutions. The objectives of those policies were to create an enabling environment for private investments in order to foster economic growth. The international agreements and the establishment of the WTO in the 1990's have further contributed to the liberalization and globalization of the economies, opening the agricultural sector to a highly competitive international market.

During the 1980's and 1990's, the observation that poverty had increased in the agricultural sector, mainly as a result of reductions in government support and declining prices for agricultural products, led to a search for new strategies. Indeed, even though those policies led to economic growth, the problem of poverty remained and even increased in many farming systems during the 1980s and early 1990s (Dixon, Gulliver and Gibbon, 2001). Hence, a new generation of public policies, based on multi-actors dialogue, was promoted by donors and policy makers. However, national policies making processes, aiming to take into account the specificity of national situations, remain highly restricted by international agreements.

This succession of major changes over the last 25 years led to a new situation, whose characteristics disfavor the small producers.

➤ *Increasing competition between agricultures with different level of productivity*

Transport costs reduction and increasing liberalization of international exchanges led to an increasing confrontation between agricultures with uneven productivities. Smallholder farmers, with low access to resources, highly suffer from the competition with high productivity-agriculture production, which is highly supported through massive public subsidies (Mazoyer and Roudart, 2002).

➤ *Risk increases and marginalization of the smallholders farmers*

The growing price instability, competition and information asymmetry between economic agents have left their marks over the last 20 years, as a result of the international deregulation and the increasing domination of the private international macro-actors. In the different national situations, this evolution is synonym of greater risk for the agricultural producers, who have little resource endowment and therefore, become marginalized and impoverished. A progressive differentiation among farmers is appearing, with on the one hand, a fringe of farmers benefiting from enough means and policy support to control price instability and competition, and on the other hand, the large bulk of impoverished farmers. This differentiation may even be accompanied by dual policies, such as in Latin America, with agricultural policies for the first group, and social policies for the second one (Campbell; Losch, 2002).

➤ *Farmers unprepared for agricultural economies in rapid mutation*

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<sup>1</sup> Structural adjustment include measures to end marketing monopolies, reduce parastatal involvement in the supply of inputs, marketing and processing, reduce or remove subsidies, price controls and impediments to private sector activities, remove restraints on foreign trade, and promote the participation of the private sector (Dixon, Gulliver and Gibbon, 2001).

The withdrawal of the State from most economic activities fostered the structuring of the rural world. Farmers' organizations, local institutions, and private services providers are expected to take the lead in the rural economic development. Yet the transfer of technical and economic functions to poorly developed Farmers Organizations and other local private stakeholders, appears somehow insufficient to ensure a real participation of the smallholder farmers in the markets, given the increasing complexity of the economic and institutional context.

Their low capacity to analyze the functioning of national and international markets make it difficult for them to identify new opportunities, to build relevant strategies because of their lack of resources, partnerships, trade networking, etc. Finally, their capacity to contribute to the sectoral policy making process remains relatively limited, despite institutional reforms decreeing their participation in such a process.

## **1.2 New disadvantages and opportunities on the agricultural markets for the smallholder farmers**

The reductions of public support in the agricultural sector and the liberalization of the agricultural markets have directly affected smallholder farmers. At the same time, new and rapid trends have appeared on the agricultural markets, some coming directly from the policies reform process and others resulting progressively from urbanization, evolution of cultural patterns, technological changes and rising income.

### ➤ *Economic concentration of the agents*

Agents' strategies to control price instability and competition among economic stakeholders resulted in numerous cases of concentration of production, processing and distribution functions by dominant national and international players, and led to the emergence of oligopolistic supranational macro-actors (case of agro-processing actors in cacao and coffee sectors) (Losch, Dorin, 2003). Following the same mechanisms of concentration, and responding to the changes in consumer habits in urban areas (Latin America, Northern and Southern Africa), the distribution of agricultural products is becoming more and more concentrated in the hand of supermarkets companies, which regroup both wholesaling and retailing functions (Reardon, 2003).

Those processes lead to a major increase in negotiation asymmetry at the expense of rural producers and smallholder farmers, for whom the initial state of infrastructures or lack of information remain relatively unchanged.

### ➤ *Prices declining for the main products cultivated by smallholder farmers*

The fluctuation of international prices is increasing with the end of international agreements (for example on cocoa or coffee) and the long-term reduction in constant prices of agricultural products<sup>2</sup> lead to reducing opportunities for income generation and to enhancing risks for rural producer in LDC. This situation prevents smallholder farmers from taking advantage of new opportunities or simply from renewing or improving their equipments. Even where small farmers from developing countries enjoy competitive advantages, they can be prevented from fully benefiting from them as a result of the continuing protection by many industrialized countries of their domestic agricultural producers.

### ➤ *A changing demand that can offer market opportunities to smallholder farmers*

Important socio-economic changes, resulting from urbanization<sup>3</sup>, cultural pattern evolution, technological changes and income rising, both in Developed Countries and Less Developing Countries are modifying the market demand, and increase products differentiation. New

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<sup>2</sup> Fifty years ago, a farmer, living in Africa, in the Andes or in the foothills of Himalayas used to earn USD 30 for 100 kg of cereals, today he gets USD 10 for the same amount of grains (Mazoyer and Roudart ; 2002).

<sup>3</sup> According to FAO, over 50% of global population is now urban. Urban incomes are increasing faster than rural incomes.

market opportunities appear for high-value products (processed products). Moreover, the demand is developing for new products with specific quality such as food safety guarantee products, organic products etc.

For the LDC, these changes are occurring both in domestic markets through urbanization, through income rising and changes in consumption patterns and on international market where the demand is more and more subject to constraints associated with high standard requirements (improved process, quality control). In developed countries, the generalized consumption of standardized tropical products at low costs (fruits, cocoa and coffee) has left space for market segmentation, notably fair trade and organic production.

Nevertheless, the adaptation to new market demand, given the evolution of the functioning of the commodity chains, may generate new barriers to entry for smallholders since higher investments are made necessary.

**1.3 World Bank portfolio overview**

The review of the World Bank projects relative to “linking smallholder farmers to market” was based on the WB project on-line database<sup>4</sup>. Since the “agriculture” major sector apparently relates to production aspects, the choice has been made to select projects belonging to “*Agricultural marketing and trade*”, which is a sub-sector of “Industry and trade”<sup>5</sup>. The selection was made over the past ten years, which gave a list of 85 projects. The following analysis was based on the Project Appraisal Document (PAD)<sup>6</sup>.

**Table 2: World Bank budget and projects involvement dedicated to “linking smallholder farmers to market” issue**

<i>Number of projects</i>	<i>85 (1993-2003)</i>
<i>Total project cost</i>	<i>USD 9,333 billion</i>
<i>Total loan amount</i>	<i>USD 6,586 billion</i>
<i>Average loan amount</i>	<i>USD 77,5 million</i>

Over the past 10 years the World Bank has provided about \$6,5 billion in projects dealing with “agriculture marketing and trade” (Table 2). It mobilized another \$2,7 billion from beneficiary governments. So the Bank financing represented about 70% of total project costs. In 2004, the current portfolio consists in 37 projects representing a total loan amount of \$2,586 billion.

The World Bank has been intervening mainly in Africa, which accounts for 45% of the number of projects.

<sup>4</sup>[http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/0,,menuPK:115635~pagePK:64020917~piPK:64021009~theSitePK:40941\\_00.html](http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/0,,menuPK:115635~pagePK:64020917~piPK:64021009~theSitePK:40941_00.html)

<sup>5</sup> The selection criterion was “Major sector/sub-sectors”. Among the pre-defined major sectors are for example: Agriculture; Education; Energy; Health and social services; Industry and trade; Law and justice; Transportation; Water and sanitation

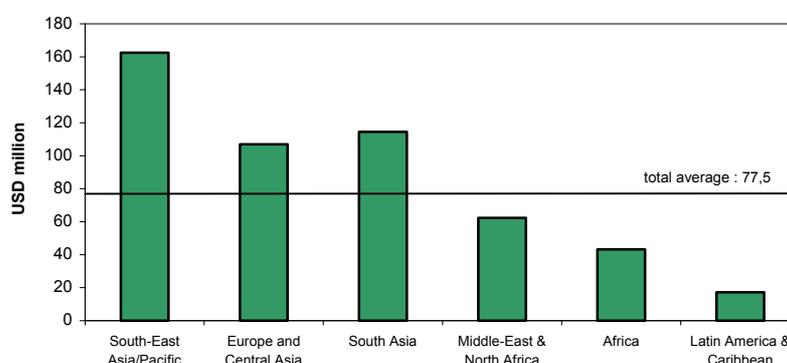
<sup>6</sup> To have an overview of the World Bank type of approach, please refer to chapter 3 part II.

**Table 3: projects relative to agriculture marketing and trade**

	Number of projects	Loan amount (\$ million)	Percentage (of loan amount)
Africa	38	1645,1	25
South-East Asia/Pacific	10	1624,8	25
Europe and Central Asia	22	2353,6	36
Middle-East & North Africa	7	436,2	7
South Asia	4	457,9	7
Latin America & Caribbean	4	68,7	1
Total	85	6586,4	1

But there are disparities of average amount per project among geographic sectors (Table 4). The South-East Asia & Pacific region, with the giant China, and Europe and Central Asia, who received high loan amount dedicated mainly to structural adjustment programs, are the geographic sectors, which received the main amount of the funds.

**Table 4: Average amount of fund per project per region**

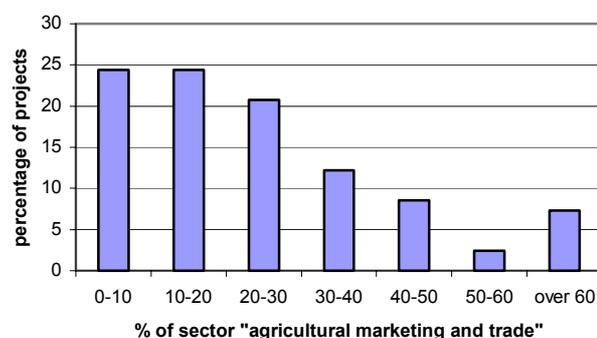


#### *Projects components*

Among all the overviewed projects with an “agricultural marketing and trade” component (85 projects), only 10% of the projects contain “agricultural marketing and trade” as primary component in term of budget amount. On average, the financing of this component represents 26% of the total amount dedicated to a project (

Table 5).

**Table 5: Number of projects according to percentage of funding allocated to the "agricultural marketing and trade" component**



## 2. Characteristics of small farmers, of markets and of the agricultural products

Following Griffon et al. (2001), seven usual types of problems arise, which may hinder market efficiency in LDC :

- Market access difficulties due to remoteness, small number of operators, low volumes of transactions implying high cost of transactions,
- Agricultural supply rigidity, which arises mainly from products' perishability and farmers' needs for liquidity,
- Agricultural prices instability stemming from the rigidity of supply, seasonal demand, public and private stocking policies,
- Price inequity due to isolation, which implies a lack of alternatives, and producers lacking information,
- Frequent frauds on inputs' quality such as the lack of guarantee for vaccines, treatments, fertilizers etc.,
- Poor productivity potential due to the lack of investment and farmers' aversion to the risks when major transformations of production systems are required.
- Few possibilities to improve products' quality due to a lack of agreements among stakeholders to guarantee quality and ensure gains to all parties.

These problems arise at the cross roads of the institutional framework, of the characteristics of the markets and products, and of farmers' situations. Thus to address the specific problems of small farmers linkages to agricultural markets, we intend to specify in the following section the characteristics of (1) agricultural products and markets structure that influence the small farmers' conditions when connecting with agricultural markets and (2) small farmers situation and their strategies vis-à-vis agricultural markets.

### 2.1 Characteristics of markets and of the agricultural products

In this part, we introduce elements, determinant in the way farmers relate to agricultural markets. These are, first, the characteristics of the agricultural products and second, the different types of agricultural markets and then, the way farmers establish relations with buyers.

#### 2.1.1 Characteristics of the agricultural products

Different agricultural products characteristics entail different constraints, risks and costs that have to be taken into account when establishing appropriate forms of organizations. An overview of these characteristics is presented in the table below (Table 6).

**Table 6: Agricultural and food products characteristics**

<b>Bulkiness</b>	Agricultural products are often bulky products that require considerable transport and storage capacity, which imply high unit logistical costs.
<b>Perishability</b>	This implies a limited period of marketability and therefore few options for storage and selling. Moreover, investments in highly specialized transport and storage facility may be required to commercialize the product. Thus, farmers incur high markets risks and their bargaining power with respect to buyers may be seriously affected. Post-harvest processing within the farms, by increasing the period of conservation of the product, may be a solution.

<b>Seasonality of crops and animal production</b>	This implies discontinuous flows of products during the year and therefore, cost-inefficient utilization of transport and processing facilities, as well as price fluctuation. Seasonality of consumption can deepen this phenomenon.
<b>Perennial crops, length of the crop production cycle, and asset specificity</b>	<ul style="list-style-type: none"> <li>• Perennial crops often enter into production after a long period of time, requiring relatively high investment capacity from the farmers and presenting a high commercial risk, since the conditions of exchange are likely to change between the time of planting and first entering into production. By tying up producers' assets over long periods, investment in perennial crops makes it costly to shift to other products.<sup>7</sup></li> <li>• The degree of specialization of the inputs and of the technical knowledge required (asset specificity) could lock the producers into unfavorable exchange positions due to their lack of alternative uses. On the other hand, input specialization can also lead to new opportunities, through market segmentation.</li> </ul>
<b>Quality variability and requirements</b>	<p>Food products are usually characterized by highly variable quality, due to diverse environmental conditions, the wide range of varieties cultivated and of production and post-harvest practices. Moreover, different groups of users will have different perception of this quality, and the scope of what is meant by quality is increasingly extended. Quality requirements refer not only to the physical quality of the product but also to the way it has been produced (fair trade, ethical trade, organic production). This can create information asymmetries, which amplify the need for quality-related information.</p> <p>Quality standards requirements, and thus constraints on production practices and associated costs, can vary greatly, depending on the marketing channels, ranging from flexibly applied minimum standards to exacting standards.</p> <p>New requirements for products standardization and norms compliance can create new obstacles to the access of smallholder producers to markets.</p>
<b>Processing complexity</b>	The level of processing of agricultural products may greatly modify their basic characteristics and facilitate their storage and transportation. But processing complexity may also reduce the farmers' share of the final commodity price and their weight in the supply chain as in the case of cocoa.
<b>Substitutability in consumption and food status</b>	Demand characteristics may also depend on and influence products characteristics and be determinant in the available markets opportunities. Factors to be considered are consumers' preferences for local and typical products, substitutability rate, product orientation (local consumption, exportation...).

Some of the preceding characteristics of agricultural products (standards requirements, bulkiness, seasonality...) may determine their ability to be traded on different markets. Market characteristics are reviewed in the following section.

<sup>7</sup> It can be seen as investment in a very specific asset and as pointed out by Jaffee and Morton (1995), it may "expose investor to potentially severe bargaining and contractual enforcement problems since the investors are locked into particular activities and encounter pressure from trading partners to improve terms of trade".

### 2.1.2 Characteristics of the markets

Farmers' access to markets depends on the structures of the markets, their location and their functions in the supply chain and on the magnitude of the flows. Besides, behind the word market, various institutional arrangements may be used to organize the exchanges; these entail different transaction costs and furnish different strategies to deal with production and market risks.

- **Possible structures of markets:**

The following table (Table 7) presents the different structures of markets, defined according to the number of buyers and sellers.

**Table 7: Structures of markets**

Supply	Single supplier or seller	Some sellers	Numerous sellers
Demand			
Single buyer			Monopsonistic competition
Some buyers			Oligopsony
Numerous buyers	Monopoly	Oligopoly	Competition

The structure is determinant in the formation of the price, as the bargaining power of actors differs significantly from one case to another. Isolated smallholder farmers often face monopsonistic competition situations with very few active buyers in their area.

- **Different kinds of markets according to their functions:**

Different types of markets can also be distinguished according to the location of production and consumption areas. These are: long distance markets, medium and short distance markets, national and hinterland markets, short distance peri-urban markets, long distance local markets, local and hinterland markets (Griffon, 2001). Other elements may lead to further distinguish between types of markets: their functions in the supply chain and their importance in terms of flows of products that characterize rural markets (for primary collection), "gathering" markets, border markets (directed towards foreign countries), main urban and secondary markets for consumption.

These different categories of markets imply different requirements and opportunities for farmers. The distance to the market represents a strong determinant for the farmers. Moreover, farmers located in rural areas will have incentives to produce different crops from peri-urban farmers whose principal outlets generally stem from local urban markets.

Viewing these markets in a supply chain perspective, the length of the commodity chains and the final destination of the market circuits (domestic/export) are key elements to explore when designing projects to improve small farmers' connections to markets.

- **Specificities of the traders and contemporary evolution in the food products delivery system:**

The traders can be either local middlemen who fulfill the important function of collection in isolated areas, local processors, producer organizations, or international traders. It should be noted in that respect that the rapid spreading of supermarkets in developing countries is being observed. The expansion of supermarkets is largely modifying the agri-food system of several developing countries (Latin America, Southern and Eastern Africa). Supermarkets and large processors' buying practices (quality and safety standards, packaging, volumes, scheduling and payment practices) seriously challenge small producers, who are threatened from expulsion from the agricultural sector if they cannot take part in this new type of market. But

if small farmers are supported and given means to participate in this movement, supermarkets could represent stable markets for farmers' products and be a way of improving quality while diminishing food prices for urban populations.

• **Different forms of coordination for the transactions:**

The exchange process involves a series of actions to be carried out. Jaffee and Morton (1995) described them as comprising:

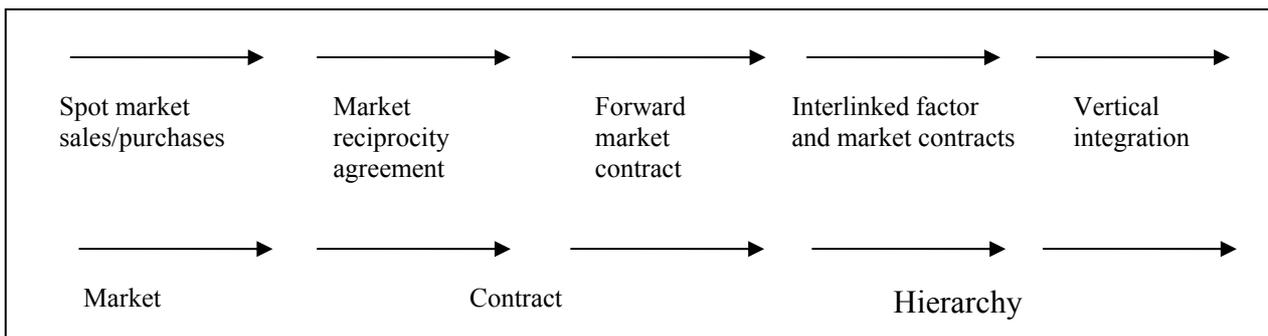
- searching for exchange opportunities and partners,
- screening information about the products/ parties one wishes to deal with,
- bargaining over the terms of trade,
- transferring the goods, services, titles, cash, etc.,
- monitoring the exchange to assess whether the agreed terms are complied with,
- enforcing the stipulated terms.

Thus, it is clear that problems of information, conflicts of interests and incompleteness in property rights can create barriers to mutually beneficial exchange, and generate transaction costs<sup>8</sup>. According to Williamson (1979, 1985), cited by Jaffee and Morton (1995), three main components of the trading environment determine the level of transaction costs:

- 1) the asset specificity: degree of specialization of the assets used in the production and exchange process,
- 2) the uncertainty: surrounding the availability and quality of products, as well as the assurance of market outlets and the operating 'rules of the game',
- 3) the competitive market structure.

Transaction costs may vary according to the prevailing type of arrangements. Indeed, exchanges can be accomplished under different institutional arrangements, which define different kinds of coordination between producers and buyers. Van Lieshout et al. (1995) provide an overview of arrangements, ranging from very limited to strongly institutionalized relationship and from pure market arrangements to strict vertical integration through farming contracts, as illustrated in Table 8.

**Table 8. Type of market arrangements and kinds of coordination**



Spot markets involve a relationship between producers and buyers (traders) strictly limited to the time of the transaction. Market reciprocity agreements reflect informal relationships, established over longer periods of time, which entail some degree of confidence and loyalty. Contract farming can be divided into two types: contracts that only involve the obligation to buy and sell specified quantities and qualities of product at particular times ("Forward market contract"), and contracts where some form of input supply and technical advice and control by

<sup>8</sup> These have been defined by Jaffee and Morton (1995) as "the whole array of costs associated with buying, selling and transferring ownership of goods and services".

the trader is entailed (“Interlinked factor and market contracts”). Vertical integration means that production, processing and marketing are all within the same enterprise.

The types of arrangement that will be favored depend on the production and market risks faced by producers and buyers as described by van Lieshout et al. (1995) (Table 9). These risks mainly depend on the previously described agricultural products characteristics. Market risks mainly arise from perishability, rigidity of quality and rigidity of timing whereas production risks are linked to production cycle length, scale of investment, input specificity.

**Table 9: Type of arrangement according to production and markets risks**

		Production risks		
		High	Medium	Low
Markets risks	High	Vertical integration	Vertical integration	Long-term contract
	Medium	Vertical integration	Long-term contract	Long-term contract/ spot market
	Low	Vertical integration	Long-term contract	Spot market

Source: Van Lieshout et al., 1995

These institutional arrangements, which are particularly adapted to risky situations, have been promoted by aid agencies within development projects that were proposing them to smallholder producers as alternatives to "pure market arrangements" since they that can improve farmers’ access to outlets and commercialization systems.

Finally it is worth noting that, to work out, a market, in its most general meaning, requires a clear legal framework (fiscal and trade legislation, sanitary rules, norms and quality standards). Moreover, physical markets usually require infrastructures to be set up: marketplaces, roads, storage facilities, common units of measure, and information tools. This has to be taken into consideration when designing operations to improve farmers' access to markets (Duteurtre, 2000).

**2.2 Small farmers characteristics**

Farmers aim to maximize their income within the constraints of land, capital and labor access. Their resource endowment determines strongly their capacity to produce, their income earning and risk management strategy and as a result, their marketing strategy.

**2.2.1 Specificity of the family-based farmers strategies**

Smallholder farmers are generally family-based farmers. Faced with important climatic and market risks and by the lack of risk markets, farmers have been developing various strategies to cope with this situation for a long time. These rely on a combination of diversified technical and economic activities as well as social linkages. They encompass both diversification of agricultural production and/or diversification of incomes through off-farm activities (seasonal wage-earning or long term work, local handicraft work, fishing, woodcutting etc.) and social processes such as the investment in social networks (through a system of exchanges and donation of agricultural products and work labor) which provide mutual support (Chauveau, 1997; Paul et al 1994; Gastellu, 1978).

The productive activities for family-based farmers have three objectives: to ensure a minimum level of income generation, considering that food production is an auto-consumed income, to honor a number of social and cultural commitments and to increase incomes as long as the two first objectives are fulfilled. The current increasing of market-oriented production, as opposed to self-consumption oriented production, is encompassed in these objectives, which has as main consequences:

- Agricultural products not only have a marketable value but also a non-marketable value, linked in particular to food consumption and social and symbolic functions, which imply that the market price alone will not determine producers' decisions.
- Small farmers' marketing decisions are often determined by urgent familial needs and social events (schools fees, a wedding, disease, a funeral).
- Farmers' insertion into social and familial networks may constitute an impediment for members of the group aiming to develop an individual and innovative market-oriented strategy, because access to land and labor as well as the process earning income and saving into a private fund are controlled by the group and by social rules<sup>9</sup>.

Furthermore, farmers' strategies to cope with risks and transaction costs are key elements in farmers' orientation towards market or self-consumption (or in the tightness of farmers' integration into markets) and are likely to evolve with the changing environment. The self-consumption oriented strategy is undergoing changes in many areas, given the growing needs for cash, markets development and technical and growing availability of socio-economic services. This can lead to significant changes in the allocation of land and labor between food and cash crops. In certain cases, staple food crops, in particular cereals, may become important cash crops for farmers. This evolution makes it relevant to set out the farmers' typology according to their connection to the market.

### ***2.2.2 Farms typology according to connection to markets***

Several issues need to be analyzed when considering the opportunities for the producers to improve their connection to markets and their potential effects on poverty alleviation. These are their production and marketing decision-making process, the availability of resources (production factors, management capacities), the control over resources, over generated incomes (organization of the family and the community), basic food requirements, the capacity to take risks, the strategy of accumulation (securing long-term interests), the gender division of labor and the status related to economic activities.

The typology of farmers presented below was based on their level of resource endowment and on the form of their linkage to markets. The underlying factors are: production means endowment, the agro-ecological conditions, and socio-economic and markets context. (Table 10). Based on various authors' contributions, a synthetic threefold classification is proposed below (Mazoyer and Roudart, 1997; Dufumier, 1996; Mondain Monval, 1993):

#### **T1: Farmers oriented towards self-sufficiency**

These are small size family farms, mainly oriented towards producing staple food for self-consumption, while commercializing only a part of their surplus. They may have some cash crops but they face big difficulties in getting access to land oriented to cash crops. With a low endowment in production means (little equipment and livestock), these farms face important difficulties in covering their family basic needs and coping with climatic and market risks. Often lacking in education and skills, these farmers have limited connection to agricultural markets. Thus, they must rely on off-farm and other farm activities (woodcutting, fishing, handicraft, seasonal work) in their localities or further afield (seasonal migration to town or to other countries). They are highly vulnerable to economic structural changes and shocks with, as a result, an ongoing process of de-capitalization that eventually leads to their withdrawal from agricultural activities.

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<sup>9</sup> Risks management is not the only criteria involved in the marketing decision. Smallholder farmers are generally family-based farmers, where the decision making structure and production and marketing activities are usually not insured by the same persons. Family chief control, genders and young work repartition, status related to economic activities are also likely to interfere in the marketing strategies and implementation.

## **T2: Balanced food sufficiency and market oriented farmers**

These farmers have sufficient access to productive resources through social arrangements at the community level. These farmers manage highly diversified production systems of staple food and cash crops, in order to lessen climatic and market risks. This diversification strategy generally requires the intensive labour force of all family members and also depends on agro-ecological conditions and on local market opportunities, both for selling their agricultural production and for accessing production means.

These farmers may be able to meet the needs of their family, without necessarily having recourse to off-farm activities. They might even use temporary salaried labour force to deal with the peak periods of field work. These farmers are often inserted in local networks of producer organizations, with a view to addressing the problems related to primary commercialization.

## **T3: Market-oriented farmers**

These farmers have sufficient land access through social arrangements or private purchase, and they are in a position to develop a capital-intensive system. These market-oriented farmers, are often highly specialized, their business activity is highly sensitive to international input and product price fluctuations. These farms employ permanent salaried workers, in order to conduct part of the agricultural activities. These farms are usually oriented towards international markets, but within this group there are farms located in urban and peri-urban areas, that produce specifically for the urban markets. In addition they are inserted in local networks of producer organizations, in order to manage the primary commercialization better. These farmers also have developed networks with other stakeholders, with a view to being technically and politically well connected.

Among market-oriented farmers, some present a higher level of specialization and have a systematic and exclusive recourse to salaried workers. Being fully integrated in the highly competitive agribusiness sector, their main objective is to obtain high returns on investment. In most cases, their agricultural assets are financed via external transfer from non-agricultural sector.

At the other end of the typology, the case of landless farmers that live exclusively from off-farm or non-farming activities or as salary workers has to be mentioned, as these individuals suffer particularly from economic exclusion. These could benefit from the improved linkages to markets of the other farmers, through new work opportunities.

In fact, each one of these three categories could be refined in sub categories according to the final use of the typology. Viewed in a dynamic perspective, farmers can move from one category or sub category to another. Especially for category T1 and T2, this mobility can be determined by a good harvest or a change in the family composition from one year to the other.

The evolution from self-consumption orientation towards increased strategies of marketing should not be considered the only way to improve farmers' life conditions. "Balanced food sufficiency and market-oriented farmers", or even some "Self consumption farmers", are diverse and can be much more flexible and productive per capita than market-oriented farms. As to poverty alleviation, it is necessary to take into consideration the diversity of possible evolution patterns according to the opportunities.

**Table 10. Comparison of farmers' type according to their market orientation and resources endowment**

Type of farmers	Discriminative criteria		Description		
	Resources endowment	Market orientation	Constraints	Objectives	Strategies
<b>Type 1</b> <b>Self-sufficiency oriented farmers</b>	Limited endowment in productive resources (land, labor, equipment), few animals	Very low market orientation: - Staple food production - low marketable surplus	- Food risks pre-eminence - Limited access to land market - Insufficient incomes to maintain competitiveness - Strong dependency on the family and social network	- To minimize risks and cover basic needs (food, shelter, basic consumption goods, work labor investment on social network) - To develop viable production unit	- Priority on farm or off-farm employments to secure the house hold - Search to get access to factors of production (mainly land, credit)
<b>Type 2</b> <b>Farmers towards balanced food sufficiency and market oriented</b>	Sufficient access to productive resources: land access through social arrangements at the community level, large family size, equipment acquisition process, livestock as a means for saving, labor-intensive work system	Intermediate market orientation: - Staple food production with some marketable surplus - cash crop production for export or domestic market	- Multilevel risk: climate, market instability, lack of social insurance - Competition from importations or substitutable products (cereals) - Declining terms of trade - Fragmentation of the production unit due to inheritance process - Growing shortage of land - Access to work labor (according to market labor trends)	- To minimize risks and cover basic and social needs (food, shelter, basic consumption goods, maintenance and investment on social network) - To maintain the competitiveness of the family production unit via new incomes generation, land and work labor access development	-Investment on social network - Farm or off farm employments in case of difficulties - Cost of production control (low input) - Production diversification according to security of transaction, level of production endowment factors, access to services, etc -Production specialization according to risk perception - Technological innovation mainly based on local knowledge transfer and exchange - To join collective action in the area of primary commercialization
<b>Type 3</b> <b>Market-oriented Farmers</b>	Sufficient access to large amounts of land through social arrangements or private purchase, capital-intensive system, Salaried work labor	High market orientation: - cash crop production for export or domestic destination	- International and national prices instability - International competition on price and quality - Competition of imported similar or substitutable products (cereals) - Declining terms of trade	To maintain and to develop competitiveness on domestic and international markets	Strategy based on reduction of cost of production: - Towards specialization on mono crop system: input-intensive, high yield - - Search for economy of scale on production and post harvest costs - Technological innovation based on external knowledge transfer and exchange

### 3. Specific constraints and strategies of small farmers

This chapter highlights the specific constraints of smallholder farmers' connection to markets and their possible strategies to draw benefit from the markets.

#### 3.1 Specific constraints of smallholder farmers to connect to markets

Based on the analysis of the characteristics of products and markets as well as of small farmers' characteristics, two groups of constraints that are facing small farmers when connecting to agricultural products markets can be highlighted: constraints on production and constraints for the transaction and the exchange of products.

- **The constraints on production**

Producing for the market calls for production resources that include the need of production means such as land, labor force and capital. These may be possessed by the farmer or be accessible through markets or other kinds of coordination. As one of the characteristics of smallholder farmers is the lack of assets (low endowment in capital and land) and working capital (cash flow), it affects the way they can benefit from opportunities in agricultural markets, and especially in terms of the amount of products traded, the quality of the product (as far as the quality is influenced by the level of specificity and costs of assets mobilized in the production process).

- **The constraints for trade**

Using concepts developed by the New Institutional Economics, especially Economics of Rural Organization (Hoff and al., 1993) and Transaction Cost Theory (Williamson, 1985)<sup>10</sup>, we define the following constraints that rural producers are facing, and more acutely smallholder farmers, in accessing agricultural markets: barriers to entry, high transaction costs, high risk, asymmetry of information, low bargaining power, and lack of human and social capital.

- **Barriers to entry**

Barriers to entry on a market result primarily from the *specificity of the assets* needed to produce or sell products, which are either physical means of production, post-harvest equipment, processing facilities, specific knowledge or know-how. Other barriers result from the legal framework and institutional environment; coming from licensing and norms as well as standard compliance requirements.

Both kinds of barriers to entry depend on the type of products and markets structure. The more specific the production is, the more important the barriers to entry are. They are likely to be high in long commodity chains and for highly processed products. Currently these barriers to entry are high for products subject to international trade such as export products (vegetables). Nevertheless, they are also growing in domestic markets given the development of higher demand for quality by urban consumers.

- **Risks**

Since small farmers have low resource endowment, they tend to be highly vulnerable to production risks due to natural conditions and climatic shocks; and marketing risks due to price fluctuation, transaction risks etc.

- **Transaction Costs**

Small farmers are facing *transaction costs* such as market research costs, screening costs, bargaining costs, transfer cost, monitoring costs, enforcement cost (Jaffee and Morton, 1995), which tend to be higher for farmers living in areas with low population density and/ or remote areas with poor infrastructures of communication and transportation (e.g. sub-Saharan or mountainous areas). The transaction costs also tend to be higher for small farmers since their market surpluses are small.

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<sup>10</sup> Those concepts have been developed to analyse and understand market efficiency when hypothesis prerequisite of pure and perfect competitive market theory are not effective.

### **- Asymmetry of information or lack of information on markets**

The rural producers, and especially small farmers, have little information about the market demand, which is costly to obtain. They may get information through contacts with other actors in the commodity chain but the accuracy of this information is not certified since those actors might have “opportunistic behavior”.

The farmers lack information about: prices of products at the local level, and at final consumer’s level, about quality requirements, about places and best periods for selling their products, about potential buyers (Moustier, 1998); about production in other areas; but also about their rights and the legislative framework. This matter of facts reduces their ability to trade their products efficiently and get full benefit from the marketable part of their production.

### **- Lack of bargaining Power and asymmetry of negotiation**

Bargaining power refers to the relative capacity of different actors to obtain favorable terms from the transaction. It is strongly related to access to information, to producer distance as well as to the perishability of the products (Moustier, 1998). The bargaining power of the small producers is especially low since they have poor access to market information and limited access to financial markets that prevent them from selling their products at the most profitable period. Their lack of bargaining power may lead them to under-value their production and obtain a smaller share of the added value created in the commodity chain. Small farmers have particularly low bargaining power when they operate in long supply chains, where the specificity of the product transformation assets lead to the creation of oligopsony (e.g. oil-palm and cotton sectors in West Africa).

### **- Lack of economy of scale**

Due to their low endowment in production factors, especially land and capital assets, the small farmers cannot achieve economies of scale, even though they are advantageous for post-harvest, storage and processing activities.

### **- Lack of human capital**

Small farmers are often illiterate, with poor technological skills, which can be a serious obstacle in accessing useful formal institutions that disseminate technological knowledge (World Development Report, 2002). Hence, farmer training continues to be a central component of strategies to reinforce the managerial, financial, and negotiating capacities of farmers and their organizations (Bosc, Eychenne et al. 2001).

### **- Lack of social capital**

Social capital refers to social networks, institutions and associated norms of trust and reciprocity that underlie social relationships, and then the resources accessible to individuals because they belong to these social structures.

Social capital ownership can give rise to more favorable exchange terms, transaction cost reductions, a wider range of options for coping with risks, through social networks and organizations (Robison et al., 2002; Brown and Ashman, 1996). If social capital cannot totally substitute for financial resources, it can be used as a resource to facilitate trade and economic survival. Even if the social capital of the poor often resides in resource-poor networks, it is usually an extensively used resource. Moreover, in the absence of social capital linking the members of communities, these are likely to under-invest in publicly provided goods. This affects the poor disproportionately.

The development of social capital cannot be dissociated from the economic structure of society (Tarrow, 1996; also see Callon, 1998). "Social capital is (also) dependent on existing distribution of physical resources and institutions that distribute rights and benefits. [] Terms and levels of trade often favor those in resource-rich social capital networks.[] When resources destined for the poor are channeled through established networks from which the poor are excluded, the needed resources are

sometimes diverted and often have the consequence of strengthening existing distributions of power and social capital." (Robison et al., 2002)

Encouraging networking and expansion of community-oriented activities may lead to changes in local social relationships as new economic opportunities arise (Bingen et al., 2003).

### **3.2 Smallholder Farmers' strategies to improve their benefits from their market connection**

From an empirical point of view, all small farmers have strategies to improve their income, of which only a part relate to the improvement of their benefit from their connection to agricultural markets. According to the specific context, their concrete actions may result from one or a combination of the following strategies in regard to markets linkages:

- **Increasing of their agricultural production:**
  - extension of the cultivated land or herd size;
  - intensification in terms of production factors (capital, labor) of their existing production system.
- **Diversification towards new agricultural production:**
  - *Diversification towards secured products* (in terms of production and access to markets). This type of strategy tends to be more developed by the "Self-sufficiency oriented farmers" type (T1) and the "Farmers towards balanced food sufficiency and market oriented" type (T2);
  - *Diversification towards high value products*, is often more risky. This strategy tends to be more developed by the "Markets oriented Farmers" type (T3).
- **Increasing of the earning level from their agricultural production**

This strategy aims at increasing the earning from their agricultural production through the enhancement of the value-added through:

- *the reduction of their production costs*, particularly by getting lower prices for the inputs (seeds, fertilizers, pesticides, etc...);
- *the higher valorization of their production* on the markets through better bargaining position;
- *the integration of new downstream functions* such as on farm processing of their production.

Farmers' livelihoods strategies may include numerous complementary associated strategies that are not market-driven. They may be oriented toward the development of other farm activities (forestry, hunting, fishery) or off-farm activities, possibly in non-agricultural sectors (seasonal migration). It is worth stressing the fact that these strategies are usually implemented both through individual and collective processes.

*Part II: Lessons learned from literature and projects review*

The first part highlighted the diversity of market structures and of smallholder farmers' situations. From this analysis, the constraints faced by farmers in their relationship with market have been underlined, and the strategies they adopt to get benefit from the market have been pointed out. The question is now, from theoretical and operational perspectives, how to reduce these identified constraints.

The main findings stem first from an analytical literature review and second from a project review, based on available project documents. When selecting the projects, we intended:

- to grasp the large spectrum of interventions (i.e. the different activities or actions) and approaches designed to better link farmer to market,
- to include projects from different donors and operators,
- to cover the range of different markets situations (domestic/ export, staple food stuffs/cash crops, agricultural/pastoral products etc).

Finally, information was collected from 17 projects, conducted by multilateral donors (World Bank, IFAD, EC), bilateral donors (MAE, DFID, SDC, AFD, USAID) and NGO operators (Twin, FERT, CICDA)<sup>11</sup>. The information was gathered from project presentation reports and in some cases, from evaluation reports. For some projects, additional information came from field experiences of the authors, who were involved in the projects implementation (PCPS, PRIAF, PASAL), and also from interviews of involved operators (FERT, CIDR) (see **Table 11** and annex A).

To review the selected projects in depth, a project analytical guideline was designed, which addresses 3 levels of project description (see annex A). (i) objectives and overall approach of the project, (ii) implementation device (activities, institutional set up, strategic partners...), (iii) success and limits of the interventions, based, when information was available, on the following criteria: target groups, scale of the intervention (local, regional, national), farmer income generation, equity (reduce differentiation among farmers), sustainability of the intervention, spill over effects (indirect effects). A complete review of the projects is shown in annex. And criteria are recapitulated in the following main text within evaluation criteria tables that are built for the most illustrative projects for each intervention.

This part is organized as follows. Chapter 1 aims at characterizing the different types of interventions. Chapter 2 presents the approaches adopted by the projects (i.e. the underlying strategies of the projects). Chapter 3 presents a synthesis of the projects characterization.

## **1. Project interventions main findings**

The aim of this chapter is to characterize the diversity of interventions adopted by the selected projects and to highlight their potential effects on the reduction of smallholder farmers' specific constraints. Key issues and factors of success of the implementation of each intervention will be discussed. For analytical purposes, the following classification of the interventions aimed at enhancing the linkages between farmers and the market is proposed (See **Table 12**):

- provision of infrastructures and equipment (A),
- provision of technical and economic services to farmers (B),
- promotion of new institutional arrangements among actors (C),
- promotion of new institutional environment (D),
- strengthening of the individual, collective and public capacities (E).

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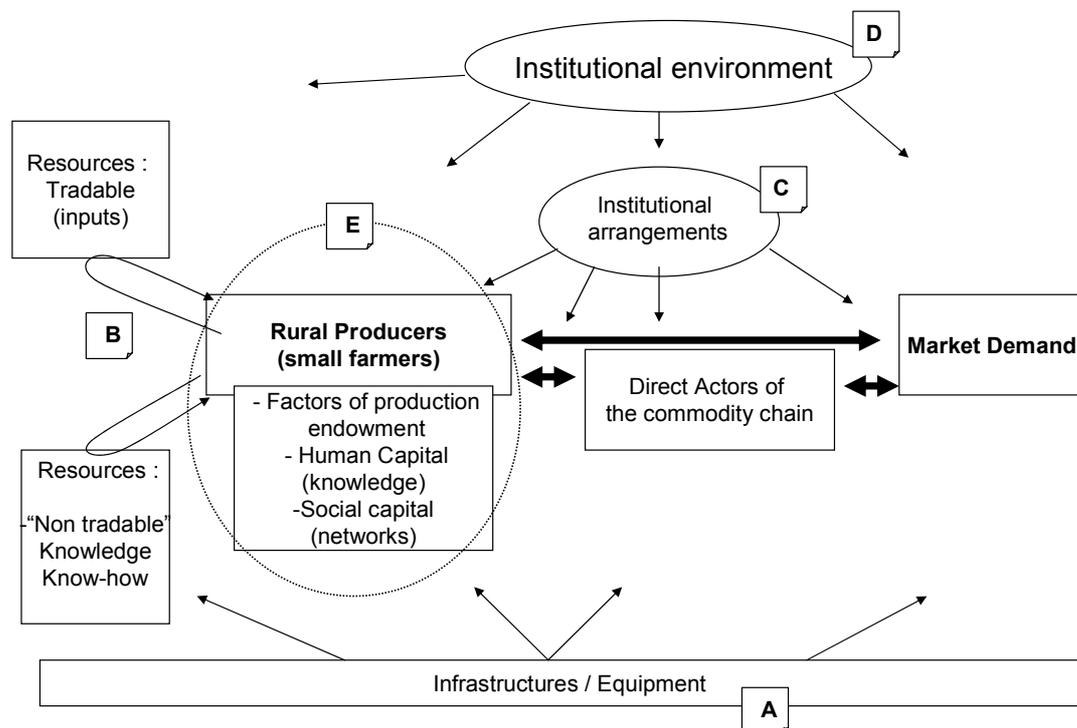
<sup>11</sup> Collection was hindered by limited access to information.

**Table 11: List of case studies**

Case	Project name	Donor	Area	Duration	Indicative budget (USD <sup>12</sup> million)	Description
1	Support to farmer associations Operator: FERT	EC, French Ministry of Foreign Affairs, AFD	Madagascar	Since 1985	2,196 (per year over about 15 years)	Technical and institutional assistance to structuring of farmer organizations through partnership between farmers in France and Madagascar.
2	Professional Agricultural Organizations Promotion Program (PROMOPA)	French MFA	Guinea All regions	2001-2003	2,44	Strengthen capacities of producer organization through setting up of 4 regional support service centers; support their representative function and set up a coordination framework with government
3	South-West Regional development project (PSO)	French MFA	Madagascar South-West region	1994-2002 (2 phases)	6,15	Support the creation of a regional farmer organization (Maison des Paysans) to strengthen their representation with policy makers and provide technical services to farmers.
4	Biodiversity and Agro-industry dev. (BIODESA)	French MFA, FFEM	Argentina, Bolivia, Uruguay; Regional scale	2001-2004 (phase II)	0,64	Support rural communities to diversify production to high-value aromatic plants for export market. Develop processing technologies in partnership with universities. Develop linkages with international clientele.
5	Agricultural services providers support program (ESOP)	French MFA	4 West African countries; Local level	1997-2001	2,61	Set up private agro-enterprises to develop market opportunities, process and sell new products and provide services to farmers.
6	Coffee marketing support project (PROCAFE)	EC, UNDCP, French MFA	Bolivia 3 provinces	1994-2001 (2 phases)	0,73	Support to coffee producers' cooperatives and their national federation to strengthen their organizational capacities, in order to enter a fair trade program
7	Food security program (PASAL)	French MFA, AFD	Guinea National scale	1997-2001	2,80	Improve food security. Focus on of rice supply chain to improve commercialization, through technology innovation and credit to traders. Support government to elaborate sectoral policies.
8	Agricultural Trading and Processing Promotion pilot project	IDA, IBRD	Mali Southern region of Sikasso	1995-2000	6,0	Improve functioning of mango supply chain from Mali to Europe; establish a multimodal shipment system, business partnerships between stakeholders.
9	Business centers project (PCPS)	AFD	Mali Niono region	1995-2002 (2 phases)	3,49	Set up service centers managed by producer organization to support them in their economic activities in irrigated rice region.
10	PRIAF-Riz	French MFA	Senegal, Mali, Guinea	2002-2003	0,17	Set rice sub-sector monitoring systems; develop capacities of actors in rice sub-sector in market information analysis to participate to debates on sectoral regional policy making process
11	Horticultural exports promotion and technology transfer project	IDA, IBRD	Jordan	2002-2006	6,4	Improve horticultural export marketing by testing a system of out-grower farming between large and small-scale farmers and quality improvements, so that the smallholders gain access to export markets.
12	Smallholder cattle development project	IDA, IBRD	China 4 provinces	1999-2005	180,8	Diversify rural household incomes by producing high-value beef products for urban domestic markets: increase production and quality, upgrade processing facilities, develop market linkages.
13	Developing Business Services markets for SMEs (DBSM)	DFID, SDC, SIDA	Bangladesh National scale	2002-2007	24,46	Support development of SME non-financial service providers in a sub-sector approach, for agricultural and non-agricultural sectors.
14	Rural Sector Enhancement project (RUSEP)	USAID	Nigeria Initially 4 pilot States	2001-2003	Not documented	Develop market-oriented agriculture: identify market opportunities, train farmers and traders, generate business linkages.
15	Agricultural Marketing Systems Development project	IFAD, African Dev Fund	Tanzania Initially 2 zones	2001-2008	42,3	Holistic approach to improve functioning of rural markets: Assist government to rationalize policies; provide infrastructure; support farmer groups; set up market information service etc.
16	Marketing of agricultural products (AGROPYME)	SDC	Honduras National scale	2001-	Not documented	Develop a market for business services for horticultural sub sector; support private service providers through training, technical assistance to farmer cooperatives.
17	Kuapa Kokoo	DFID	Ghana	1993-	Not documented	Technical, institutional support to cocoa producers' cooperatives, in order to implement a fair trade program

<sup>12</sup> Exchange rate (14/03/2004): 1.22 USD=1€ ; 1 USD=0.5559 GBP ; 1 USD=536.206 CFA

**Table 12: Rural producer’s linkages to markets and type of intervention**



In the following table lists the different interventions implemented by the different projects reviewed.

**Table 13 : Recapitulative table of interventions in the different projects**

	<i>Infrastructures</i>	<i>Services</i>	<i>Institutional arrangements</i>	<i>Institutional environment</i>	<i>Capacity-building</i>
1.FERT, Madagascar		+	+		+
2.PROMOPA, Guinea		+	+	+	+
3.PSO, Madagascar		+	+	+	+
4.BIODESA, Latin America		+	+		
5.ESOP, West-Africa	+	+	+		+
6.PROCAFE, Bolivia		+	+	+	+
7.PASAL, Guinea		+	+	+	+
8.Agric. Trade and processing, Mali	+	+	+		
9.PCPS, Mali		+	+		
10.PRIAF, Mali, Senegal, Guinea		+			+
11.Horticulture, Jordan		+	+		
12.Cattle breeding, China		+	+		
13.BSMD, Bangladesh		+		+	
14.RUSEP, Nigeria		+			+
15.IFAD, Tanzania	+	+	+	+	+
16.AGROPYME, Honduras		+			+
17.FT cocoa, Ghana		+	+	+	+

## 1.1 Types of interventions and reduction of small farmers market constraints

Each of these main types of intervention intends to overcome one or several specific constraints that smallholder farmers meet in their connection to market.

**Table 14** analyzes the potential benefits of each type of intervention, considering their potential impacts in terms of reduction of specific constraints identified in the part I chapter 3 : barrier to entry, risks, transaction cost, asymmetry of information, bargaining power, human capital and social capital.

**Table 14. Potential effects of type of intervention on reduction of farmers' constraints to get benefit from markets linkages**

Constraints of small farmers → Types of intervention ↓	↘ Barrier to Entry	↘ Risks	↘ Transaction Costs	↘ Asymmetry of Information	↗ Bargaining Power	↗ Economy of Scale	↗ Human capital	↗ Social capital
<b>A - Infrastructure and equipment provision</b>								
Infrastructure of transportation	Facilitating	facilitating	yes	facilitating	facilitating	possible	facilitating	Facilitating
Infrastructure of market	Possible	Possible	yes	possible	facilitating	facilitating	-	Facilitating
Infrastructure of communication	Facilitating	facilitating	yes	facilitating	facilitating	no	facilitating	Facilitating
Infrastructure of production	Facilitating	facilitating	no	no	no	possible	no	no
Equipments of post-harvest, processing, storage	Facilitating	facilitating	no	no	facilitating	possible	no	no
<b>B - Technical and economical services</b>								
technical information supply	Facilitating	(facilitating)	no	no	(no)	facilitating	yes	(facilitating)
rural Financial system	Yes	No	no	no	Yes	facilitating	no	No
Insurance system	Facilitating	Yes	no	no	facilitating	no	no	No
market information supply	No	(facilitating)	(facilitating)	facilitating	(facilitating)	no	No	No
<b>C - Promotion of new institutional arrangements and organizations</b>								
Trust-based contract	Facilitating	Yes	yes	Yes	No	no	no	Yes
Contractual arrangement	Facilitating	<b>Yes</b>	Yes	possible	-	facilitating	No	(Yes)
Vertical integration	not necessarily	Yes	facilitating	No	No	Yes	No	Possible
-collective action – RPOs	Facilitating	facilitating	facilitating	facilitating	facilitating	facilitating	facilitating	Yes
Interprofession	Facilitating	facilitating	facilitating	Yes	facilitating	facilitating	-	Yes
<b>D - Promotion of new institutional environment</b>								
Laws on norms and standard	No / possibly ↗	facilitating	facilitating	yes	no	no	no	no
Laws on competition	-	-	-	-	possibly	-	no	no
Laws on property rights	No	facilitating	facilitating	-	possibly	possibly	no	no
Laws on cooperation and organization	Facilitating	facilitating	facilitating	facilitating	facilitating	facilitating	possibly	possibly
Quaternary and deliberative institutions	Facilitating	facilitating	facilitating	yes	facilitating	possibly	possibly	possibly
<b>E – Strengthening of the individual, collective and public capacities</b>								
Literacy, numeracy	Facilitating	-	-	facilitating	facilitating	-	Yes	Possibly
vocational training	Facilitating	No	no	facilitating	facilitating	-	Yes	Possibly
strengthen collective capacities	(facilitating)	(facilitating)	(facilitating)	(facilitating)	(facilitating)	(facilitating)	Yes	Yes
strengthen public capacities	(facilitating)	(facilitating)	(facilitating)	(facilitating)	(facilitating)	(facilitating)	Yes	possibly

## 1.2 Main findings on infrastructure, capacity building and services provision

In this first part, the following types of intervention are analysed: provision of infrastructure, capacity building and service provision.

### 1.2.1 Provision of infrastructures and equipments

Numerous definitions of infrastructures have been adopted during the last decade (for more details, see Orden et al., 2004). In the following, we follow the concise definition adopted in the World Development Report (World Bank 1994, cited by Orden et al, 2004) that refers to long life engineering structures, equipment and facilities.

- **Infrastructure provision**

The infrastructures of transportation, communication, and market have characteristics of public or collective goods (Jaffee and Morton, 1995; Fraval, 2000). They thus cannot be developed by smallholder farmers on their own and are often lacking in remote rural areas where the State intervenes poorly and where local communities do not have sufficient financial nor management capacities to provide them.

- **Infrastructure of physical transportation**

Development of infrastructures of transportation (roads, canals, rails, port, airports) enables not only the development of physical flows but also of information flows. They primarily enable the reduction of transportation costs, and may also increase the number of traders (Heineman, 2000). Infrastructures tend to reduce risks (Jaffee and Morton, 1995) and they can contribute to increasing the competitiveness of products, especially for bulky products and perishable products via the reduction in losses. They reduce transaction costs that small farmers face when they integrate the supply and factor markets (Oden et al, 2004). They can also reduce barriers to entry for farmers located in remote areas. Moreover, infrastructure provision by itself creates employment for the poor (Mujeri M.K., 2002).

In the case of the PAPT in Mali (project 8), the development of multimodal shipment reduced transport duration and increased the quality of the final product (mangos). It enabled the repatriation of the added value in the country with the transfer of packaging and export function from Ivory Coast to Mali. These changes benefited small farmers through increasing demand for production and increasing its price.

However, to be effective, when planning to develop transportation infrastructures, ways of ensuring the maintenance of these infrastructures as well as possibilities for acquiring private vehicles must also be thought of.

Furthermore, transportation infrastructure development is to be devised jointly with other means of enhancing local development. To maximize the impact of infrastructure development on rural development, complementary investments, e.g. credit system, are needed (Songco, 2002). By allowing the establishment or the reinforcement of a significant network of traders, through, for example, commercial credit system support, and thus by favoring a more competitive environment, the bargaining position of the farmers can be improved.

Nevertheless, by enhancing the possibilities of flow exchanges between different regions, the development of infrastructure may increase the competition between local products and that of other agricultural regions that have more productive assets, and thus further destabilize the local agricultural production.

➤ *Analysis of performance criteria*

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• Target groups	• Not specific
• Scale of intervention	• Variable, from the local to the regional level
• Sustainability	• Capacity of State services or local communities to take on maintenance requirements. In case of reliance upon local institutions, a specific support might be required on financial and institutional arrangements among actors aspects
• Impact on income generation	• Directly through the opening up of markets outlets for small farmers and transactions cost reduction
• Spill over and indirect effects	• Yes, through economic boost and other aspects: increase access to information, labor market enhancement, services and capacity building provision...
• Equity	• Non-differentiated intervention

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➤ **Infrastructure for communication**

Infrastructures for communication may reduce information asymmetries and the Grameen telecom experience, for example, tends to show that telecom networks can increase farmers bargaining power. (Rush 2000 cited in World Bank, 2001 (b); Cohen, 2001). Development of infrastructure such as telecom network, reduce transaction costs and risks, especially when farmers are located in remote areas. By increasing communication among actors, they also facilitate other types of interventions such as agricultural services delivery and the establishment of new institutional arrangements and setting up of new organisations.

➤ **Market infrastructure (market place)**

Development of market infrastructure such as establishment of small rural market places reduce transaction costs and transaction risks by enhancing the potential for exchanges among different producers and traders. It also contributes to enhancing farmers' access to information on the market (price, quantity). However, even with the development of the market place, cost of transportation to the market may still limit the access to market (Sabourin and al., 2002). In some isolated areas, transportation costs may be too high to permit exchange centralization via market places, and then, traditional commercial channels may be more efficient (Moustier, 1998).

Among the conditions for the success of market infrastructures as ways to better connect small farmers to markets is the necessity to define clearly, from the beginning, who will be in charge of maintenance costs and management. To achieve the share out of the social responsibility for a market place functioning at the local level, the involvement of all actors (traders, association of consumers, transport enterprise and consumer association) in planning decisions regarding market infrastructure, as well as the improvement of technical and management skill of market traders, shopkeepers and market manager are recommended (Albert et al., 2001).

➤ *Analysis of performance criteria*

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• Target groups	• Not specific
• Scale of intervention	• Collecting zone, where usually such markets are missing, Regional level (regrouping markets)
• Sustainability	• Capacity of State services or local communities to take on maintenance requirements. In case of reliance upon local institutions, a specific support might be required on financial and institutional arrangements among actors.
• Impact on income generation	• Transaction risks and costs reduction, bargaining power increasing
• Spill over effects	• Local economy boost
• Equity	• Non-differentiated intervention

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• **Provision of equipment for post-harvest and processing**

Although the equipment and facilities for processing and storage have characteristics of private tradable goods, smallholder farmers' investment in equipment is limited since they do not have individually the investment capacity nor the access to credit and possibly, the proper level of production to make the investment profitable. Hence, collective organizations may be required to make investment in these kinds of assets.

Lack of access to facilities, such as post harvest, storage and processing facilities, constitutes a barrier to entry to agricultural markets, in a context of increasing competition and segmentation of the demand (quality requirement). Lack of storage facilities (e.g. cold storage...) increases losses risks for all kind of commodities, e.g. grain market in Ethiopia (Wolday Amha, 2002), and affect the quality of products and limit the access to markets with high quality norms especially the export market (Jaffee and Morton, 1995; for vegetables, see Maxwell et al, 1997). Access to storage facilities linked with access to a credit system increase farmers' flexibility for selling their production and tends to increase farmers' bargaining power.

An assessment of farmers' specific skills requirements and incremental costs engendered by equipment investment is necessary before undertaking collective investment in equipment and facilities. Attention must be given to assess the actual "added value" the new equipment could provide to the small farmers, taking into account the way processors or traders are providing these services (APM, 1999).

➤ *Analysis of performance criteria*

• Target groups	• Private and public sector, often the RPO and their members
• Scale of intervention	• Local, in the collect areas or eventually at some regrouping markets places if farmers organization well developed and according to the type of products
• Sustainability	• Carefully assess the investment opportunities for the RPO to take charge of an activity, such as collective storage or product processing. Depends on: the existence of the activity on the market, the collective/individual dimension of the infrastructure, equipment specificity, possible full-time usage etc.
• Impact on income generation	• Collective action may generate return that farmers alone could not reach.
• Spill over effects	• No
• Equity	• Restricted to enterprise/ cooperative members, risk of barriers to entry to the small farmers

### 1.2.2 *Strengthening of the individual, collective and public capacities*

Three types of interventions can be developed: individual, collective, or public capacities strengthening.

#### • **Strengthening individual capacities**

The relationship between educational attainment, job opportunities and poverty is commonly stated as one of the major constraints small farmers meet in getting benefit from their access to markets (World Development Report 2002). Moreover, the intensification and further integration of the production systems into market systems increases the need for enhanced human capital (Dixon, Gulliver and Gibbon, 2001).

Interventions aiming at improving human capital are twofold. They can focus on basic knowledge or primary education, such as numeracy and literacy, or on professional skills through vocational training. Strengthening individual capacities may encompass 3 components: technical, management and literacy training, and be delivered under various forms from “informal education” experiences to “formal education” of a school type (Perret and Mercoiret, 2003).

Literacy and post literacy activities enable small farmers to access information better. Individual capacities' strengthening contributes to the reduction of information asymmetry and of barriers to entry (when technical skills are required to improve quality and productivity). Those interventions may have spill over effects, since basic knowledge facilitates other knowledge acquisition and enhances the ability to use the information to define plans of action and to manage resources efficiently. Finally, individual capacities strengthening can indirectly increase farmers' bargaining power.

- **Strengthening collective capacities**

Several capacities and specific skills are critical for collective actors and organizations to prosper. Rondot et al (2001) consider two main capabilities to be strengthened:

- strategic capabilities. This implies the development of an effective communication and information program and the improvement of leaders management skills as well as of staff skills.
- business and financial management capacities (internal financial management, book keeping and accounting skills) may also be crucial for the functioning of organizations.

Some other specific skills and capacities may be needed for leaders and staff such as conflict resolution and communication skills both with other stakeholders and with their members.

- **Strengthening public capacities to design public policies and create /enforce rules**

As governments have the legitimacy to support the provision of goods and services that are public and to negotiate and define rules for international trade and market entry (Jaffee and Morton, 1995), several types of public capacities may be necessary to develop, such as capacities of diagnosis of situations (especially small farmers' constraints), of designing and leading the negotiating process of public policies definition, capacities to negotiate in bilateral and multilateral agreements relating to international trade and management of public goods. Strengthening these capacities will facilitate the setting up of a more appropriate institutional environment.

➤ *Lessons learned from the projects review*

The majority (11) of the projects reviewed had a capacity-building component. It appears from it that the learning process can be achieved through a variety of tools. PSO in Madagascar (case 3) privileges experience sharing among farmers from the North and the South; field experiments, in collaboration with applied research; and more formal training, such as literacy. PRIAF (case 10) in West Africa specifically trained RPO leaders at the supra-national level to strengthen their capacities for rice market analysis and enable them to defend their interests. This training entailed participatory studies, national and regional seminars. PROMOPA in Guinea (case 2) provided literacy training for RPO members and advocacy training for leaders, with experience exchanges between POs of different regions, and with French POs; AGROPYME in Honduras (case 16) provided professional training to private services providers and RUSEP in Nigeria (case 14) provides technical training to market oriented farmers and processors. FERT NGO (case 1) implements capacity building programs in collaboration with RPOs at all levels (from grassroots to national federation), provides training of leaders, members and technicians in partnership with French agricultural organizations and also in partnership with FORMAGRI, a local training institution created in 1997 within a program financed by the European Commission.

*Relying on farmers' know-how is an efficient way of providing capacity building.*

The PSO project suggests that the majority of information reaching farmers comes from other farmers. By building the learning process on the basis of "farmers to farmers" system and including experience sharing as well as field experiments, the PSO projects permitted farmers to better formulate their needs in terms of capacity-building programs.

*In all the projects reviewed it was necessary to elaborate training plans based on the assessments of groups' specific needs.*

The PRIAF project gives a good example of differentiated tools according to target groups. For the RPO leaders, the project focuses on international exchanges with RPO leaders from the North, for technicians and executives, the capacity-building is based on national and regional workshops and for the RPO members, the program focuses on basic training (literacy), participative studies etc.

*Coordination with RPOs and with applied research institutions is a key factor of success.*

In the PROMOPA project (project 4) which established and supports service centers in Fouta Djallon, the capacity-building program was managed by a RPO, the Fédération des Paysans du Fouta Djallon, using its own staff. Support from the project then consisted in putting a technical assistant at its service and providing financial means managed by the Federation. In Madagascar (project 3), the “Maison des Paysans” negotiated, with the help of the project, the implication of applied research institutes (CIRAD) and local NGOs to implement field experiments and farm management training, in a coordinated manner in order to optimize service efficiency.

*Reasoning the learning-by-doing approach over a long period and adapting it to evolving needs appears to be successful. Moreover, the training plans are to be based on identified concrete issues to be dealt with and with the direct involvement of the farmers.*

The NGO FERT in Madagascar started to work with unorganized farmers to set up small informal groups to take charge of activities, such as input bulk purchase. When this activity was done efficiently, the groups were formalized into associations that took up new activities before structuring into regional unions and then, federations. But this support was stretched over more than 15 years. FERT’s ongoing support to this capacity-building process adjusted to the needs of the organizations and gave support to productive activities with local groups, advocacy training and market studies with organization leaders, through study trips inside and outside the country in collaboration with local and international institutions.

### **1.2.3 Provision of technical and economic services**

- **Technical services/ advice and counselling**

With the extension of globalization, the adaptation of existing extension services toward market-oriented services that strengthen farmers’ ability to negotiate in the market and their efficiency in market operations is a major issue (ARD, 2002).

Restrictions on technical services supply may arise due to farms’ remoteness and farmers’ limited financial resources. Moreover, advisory and technical services available are very often inappropriate to smallholder farmer given their specific constraints (low endowment in resources), strategies and needs. And farmers often lack collective organization capacity and skills to get access to adapted services. Hence, skilled farmers’ organisations have to reach a critical mass to get access to services in all their dimensions (identification of the needs, financing, contracting, etc). Alex et al. (2002) highlight the fact that RPOs have a key role in strengthening demand for extension services as they can reach more farmers (increase efficiency) and facilitate participation in extension activities and learning (increase effectiveness). But they are also concerned by the extension service financing issue.

With a view to increasing the efficiency of service delivery, many states have transferred traditional public sector services to civil societies and the private sector and reduced government investment in the provision of public services, or they have decentralized them. This has fostered local participation in decision making and has raised "benefits in terms of mobilization of non governmental resources and a better alignment of public activities to local needs" but it has also resulted in a "generally slow or only partial supply response from the private sector, which in many cases has lacked the incentives to replace public services in finance, research, extension, education, health and even in infrastructure development and maintenance" (Dixon, Gulliver and Gibbon, 2001).

#### ➤ *Presentation of the projects reviewed*

<p><b>Project 3 - PSO Project, Maison des Paysans, Madagascar, MAE</b> - The MdP is a rural producer organization created within the framework of the project. The goal of the RPO is two-fold: to represent the farmers in the coordination institutions that are in charge of elaborating the regional rural development policies; and to provide services to its members, who are either individuals or local groups. The services offered are multiple (working literacy, finance management, technical experiments and training, and creation of a network of input shops, hire purchase of equipment etc.). So far, the services have been in part sub-contracted to service providers (NGO, research institutes) with a large percentage of project funding. In the future, the MdP is expected to either directly provide or sub-contract services, with members cost sharing complemented by diversified external funding.</p>
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**Project 5 - ESOP (Service to producers enterprise), Mali, Benin and Togo, MAE** - The NGO CIDR, as the operator, set up agro-business enterprises (ESOP), after conducting market surveys and having identified market opportunities (e.g. soy in Togo, dairy products in Mali, cashew nut in Benin). CIDR directly invests in these enterprises through initial investment in premises and equipment, hiring and training of staff, direct supervision during the first years of activity. The ESOP contracts with small groups of producers (rosca or "tontine") for product supply, provides them technical advice and in cases, inputs (animal feed, seeds etc.). Theoretically, the services are paying and their costs are to be recouped on the price paid to farmers for their production. Yet in practice, the costs have been entirely assumed by CIDR and the ESOP. At medium term, the farmers are expected to share the capital of the ESOP to more closely interlink both parties and temper their possible conflicts of interests.

**Project 9 - PCPS (Service Centers), Mali, AFD** - In the Niger Office region, characterized by the pre-eminence of irrigated rice cultivation, the project helped to create service centers. Farmers' organizations are members of these centers, managed by the producers. The centers provide finance management and legal services to farmer organizations. These organizations assume economic functions, notably rice processing and primary commercialization. At the beginning of the project, they were heavily indebted with local commercial banks, with loans contracted to conduct their productive activities (rice processing). The finance management services enabled them in some cases to renegotiate with the banks and to resume their activities, which in turn benefited the producers. Today, 5 service centers exist, employing 16 consultants. The producers contribute to the costs by paying their membership to their producer organization. Their share so far does not exceed 40% of the total cost of the services. To ensure their financial sustainability, the centers have to diversify their sources of funding, potentially with public funding or with commercial banks' participation.

**Project 13 - Business Development Service Market, Bangladesh, DFID** - The objective is to develop a market for business services, for all sectors of the economy, either in rural or urban areas. The project brings support to commercial private service providers, through credit or matching grants, so that they develop their capacities to offer all types of non-financial services to targeted clients. The project initially conducted a survey to identify the national service offer. The support from the project is conditional on the submission by applicants of serious business plans.

**Project 16 - AGROPYME (agro-business SMEs), Honduras, SDC** - The objective is also to develop a market for business services, but specific to the agricultural sector. The project identified sub-sectors where there was a potential demand growth and therefore opportunities for incomes for small farmers (i.e. fruits and vegetables, bee-keeping). The project is to conduct a national survey to identify private service providers and assess their needs to organize trainings. Besides, it selects cooperatives which are likely to respond to market demand (commercial farmers) in specific sub-sectors, and assists them through direct technical assistance. Then it will put providers in contact with the cooperatives.

### ➤ *Analysis of performance criteria of the projects reviewed*

	DBSM		AGROPYME		PCPS	ESOP	FERT, Maison des paysans
Target group (Direct beneficiaries)	Private service providers, all sectors		Private service providers, agricultural sector + POs		One service provider/ several POs	One service provider + small groups of producers	One regional RPO
Scale	National		National		Regional	Local	Regional
Sustainability	Profitability of enterprise dependent on solvent clients (commercial farmers) Adaptation to clients' needs		Profitability of enterprise dependent on solvent clients (commercial farmers) Adaptation to clients' needs		Capacity of providers to respond to POs' needs (capacity-building) Possibility of putting means in common to buy services: need to attain a critical mass (economy of scale) Diversification of sources of funding	Interdependence between ESOP and clients: market-oriented services in profitable activities, target high-value production	Possibility of putting means in common to buy services: need to attain a critical mass (economy of scale) + adaptation of services to clients needs Diversification of sources of funding
Income generation	Yes Market-oriented services		Yes Market-oriented services		Yes Market-oriented services	Yes Market-oriented services	Market-oriented services and experimental services that have deferred effect on incomes
Spill over effect	Boost activity of other actors		Boost activity of other actors		Boost activity in the cotton sector	Boost activity of other traders which creates a competitive environment	Dissemination of information and techniques in rural areas
Equity	Only solvent clients; poor excluded		Only solvent cooperatives		Access to all members of POs (strongly regionally established)	Only the co-opted farmers can access services (tontines)	RPO more likely to reach the small farmers

### ➤ *Lessons learned from the projects review*

*Support adapted to the different types of service providers is to be brought according to their specific ability to reach the poor farmers and to answer their needs.*

**Private Service providers.** Projects such as DBSM (project 13) or AGROPYME (project 16) focus on the needs of market-oriented farmers. These have not been yet evaluated but according to Gary and al. (2002), private services provision subsidization may be required to ensure that the smallest farmers and micro agro-processing enterprises benefit from these services. Considering this, programs fostering the development of private service providers may need to be complemented in the long term by public sector specific support to effectively ensure the access of the majority of the smallholder farmers to these services.

Producers' organizations. Many projects reviewed (PSO, FERT intervention, PROMOPA, PROCAFE) suggest that producer organizations are more likely to reach the majority of producers, under certain conditions. For example, the "Maison des Paysans" in Madagascar (project 3) provides adapted services to farmers, literacy, farm management, technical advice, etc. This was made possible because of its tight relations with the farmers (local representation), the backing of a clear agricultural policy for rural services supported by coordination institutions within the PSO project, capacity-building support (technical as well as organizational and managerial skills), diversified and market-oriented services (yet at the beginning, the scope of services was not broad in order to adjust to the learning process rhythm) and the strengthening of the existing service offer available locally.

NGOs. Partnerships between donors and publicly financed NGOs appear to be effective: NGOs such as CIDR (project 5) provide relatively large human resources in the field, yet limited in terms of geographical scope and number of beneficiaries. Their comparative advantage is their ability to better reach the poor in remote areas, their good knowledge of the context (West-African context in the CIDR case) and their expertise covering local situations.

Producers' organizations can also take advantage of contracting with NGOs and not directly managing services, as the "Maison des Paysans" (project 3) did by contracting local NGO for the running of literacy centers, the provision of farm management services, the field experiments etc. with the financial help of donors and ministries.

*Financing services on a cost-sharing basis tends to generalize.*

The reviewed projects all recognize that service provision must be cost sharing, with beneficiaries contributing partly to the costs. In the case of ESOP (project 5), the costs of the services supplied to farmers (technical advice) are recouped from the price paid to the farmers for their production. In the case of PCPS (project 9), the service centers running costs are partly (40%) covered by the village associations' contribution but they will also have to diversify their sources of funding.

*Direct and indirect beneficiaries of services are to be identified and hence, farmers' and farmers' organizations' potential access to diversified sources of funding.*

For example, in the PCPS project, local banks may be interested in improved finance management by the producers (it reduces their risks when a client presents validated accounts). Therefore, producers' organizations hope to negotiate with the local banks about the latter's possible financial contribution, based on the assessment of potential profit gains. Lastly, the project, through its services centers, aims to build up strong capacities in analyzing the support processes, from assessing the needs to preparing applications for public funding and managing funds.

*A demand-driven process is likely to ensure service accountability.*

In the projects, there are various kinds of subsidies to service delivery. For example, in the PSO project in Madagascar (project 3), the donor directly subsidized the beneficiaries, the "Maison des Paysans", which selected the most appropriate service provider, thus ensuring a proper demand-driven service delivery.

*The synergy from the collaboration among the various support service systems based on a regional diagnosis is to be promoted.*

In South West Madagascar (project 3), the skills and the complementarity of different service providers were mobilized around the "Maison des Paysans" in order to reach the small farmers: a research institution (CIRAD), extension and information organizations (local and international NGOs) and credit and input supply providers (producers' organizations and private enterprises).

- **Rural and agricultural financing**

The rural and agricultural financing concerns not only farmers and farmers' organizations but also upstream and downstream enterprises, such as input suppliers, agro-processors and traders. The financial needs of farmers entail short-term credit for inputs, labor, short-cycle livestock, processing

and storage on the farm, medium and long-term credit for equipment, land, livestock and perennial crops, saving facilities and insurance. The limited access to financial markets restricts the access to inputs, equipments etc. and generally results in small-scale capital-extensive production systems with low productivity and poor technology adoption.

The RPOs need financing facilities to constitute working capital for their collective economic functions, facilitate members' access to credit (refinancing), investment and organization functions (vehicles etc.) (Lapenu, 2002).

There are different types of credit provision systems today (Doligez, in CIRAD et Al., 2002):

- The conventional banking system, constituted by commercial banks and state banks, usually works with upstream and downstream enterprises, and large market-oriented farmers. This sector is reluctant to lend to smallholder farmers, because of the risks associated with agricultural activities and their uncertain profitability, their geographical dispersion and the small amounts borrowed, which result in high management costs.

- The informal sector, with tontines, itinerant lenders, traders etc.. Because of its small financial resources, it tends to finance more consumption than productive investments. Moreover, the interest rates are usually high, the amount highly dependent on the borrower's socio-economic situation. Nevertheless, its flexibility gives an opportunity for small farmers to access financial resources when they have no access to conventional banking sector.

- The non-conventional sector, also called micro-finance system, with village banks, credit and saving cooperatives and solidarity group lending (e.g. Grameen bank) to smallholder farmers, with loan amounts generally inferior to \$1,000. Relying on trust among members, they are based on adapted guarantee systems for smallholders (saving, solidarity groups) and non-targeted activities.

Several constraints to the financing of agricultural activities have been identified:

- *The lack of financial systems in rural areas:* given the high management costs and risks for the financial systems in rural areas, their durability is quite uncertain in most developing countries. It would require giving incentives to the financial institutions for them to invest in rural areas and to set up reliable credit guarantee systems (Lapenu, 2002).

- *The lack of adapted financial facilities for investment, crop marketing and storage:* short-term credit is predominant; medium-term credit is often lacking mainly due to a lack of guarantee; saving facilities to develop the self-financing capacity of farmers and insurance schemes also lack. An insurance system could encourage investments in agricultural activities and allow the stabilization of smallholder farmers' incomes. However, given the high level and the covariance of the risks of the agricultural activities (climatic, price volatility), the experiences developed have proved too costly and failed (Lapenu, 2002).

- *Distortion of credit systems rules that threatens their sustainability:* in some projects, the main objective is to promote in the most rapid way innovation and diversification in the highest possible number of farms; therefore, the reimbursement is not considered as the principal issue by the operators and the interest rates must be the lowest possible. As a consequence, these are temporary solutions with perverse effects, such as the development of no-reimbursement habits that hinder the perennial establishment of other sustainable systems (Doligez, 2002).

*Credit systems sustainability is to be ensured in three dimensions: financial, institutional and social* (Doligez, 2002) accounting for the fact that beneficiaries are more concerned by credit accessibility than by its cost (the interest rates).

*The financial sustainability* depends mainly on the profitability of financial products, the timing of lending and reimbursement. There must be sufficient volumes lent to cover overheads, a low rate of outstanding payments, a differential between resource cost and credit cost higher than the rate of interest.

*The institutional sustainability* depends partly on the quality of the internal organization.  
*The social sustainability* relies on modalities of credit provision negotiated with the beneficiaries and must fit cultural norms, the credit must be open to different social categories, notably women and youngsters; legitimacy of leaders; qualified staff.

➤ *Presentation of the projects reviewed*

**Project 7: PASAL, MAE, Guinea** - Based on a commodity chain analysis aimed at developing rice production, this project identified at least two bottlenecks at the commercialization level:

- a technological bottleneck: rice husking was accomplished with hand tools. After a prototype husking machine was developed by applied research institutes in coordination with the private beneficiaries (private economic operators), PASAL provided equipment credit to the operators. The operation had high spill over effects as PASAL directly financed 64 machines in 3 years while 750 of the same prototype were bought by the operators in the same time. The credit had played the role of a catalyst.

- a commercialization bottleneck: there were fairly few rice collectors. So PASAL financed, through credit provision, traders working capital to increase trade turnover and foster competition among traders, in order to reduce price speculation.

The institutional set up was as follows: PASAL contracted a partnership with two Guinean decentralized micro-credit institutions (CRG, CMG, both operating for 10 years). PASAL would select beneficiaries and the credit institutions would provide the credit. Now, the objective is to pass on the entire credit management to CRG and CMG. The beneficiaries are traders who, with the support of the project must organize themselves at local level into “joint collateral groups” to be eligible. These are small associative groups (10-15 persons) where members are co-opted and function with mutual guarantee.

The credit in this project played an important role and gave the expected results because of (i) a strong partnership between PASAL and local institutions, (ii) adapted services, conceived in coordination with the beneficiaries. The observed results were (i) the fostering of rice commercialization because the traders were obliged to increase their turnover to be able to pay their credit back, (ii) indirect impact on producers through an increased rice demand, (iii) reduced price speculation.

**Project 1: Support program by NGO FERT, Madagascar** - FERT has been assisting smallholder farmers since 1985 at the local level. At the beginning of their intervention, they helped unorganized farmers at the local level to form small groups, in particular small mutual credit banks. Over time, with the support of FERT, the village banks structured up into district unions and regional banks. After 15 years, there is a national network of mutual credit (CECAM) that counts 160 local banks and represents 46,700 members, among which 90% are farmers. This network has been successful because it was able to provide diversified financial services to its members: season credit, input credit, commercialization credit, material hire purchase, “social” credit etc.

➤ *Lessons learned from the project review*

*Credit guarantee systems must be established.*

PASAL (case 7) created “joint collateral groups” of traders based on members’ cooptation and mutual guarantee to face the risks of outstanding payments. In 2001, 26 groups borrowed about \$570,000 with a reimbursement rate of 98.4%. The CECAM network (case 1) tried out warehouse receipt financing, with “Greniers Communs Villageois” for the marketing of rice. The stock of rice constituted at the village level represents a guarantee for the CECAM to make credit to individual farmers. In 2000, the credit network lent about \$5 million, with the highest rate of reimbursement among its credit portfolio.

*The type of credit provided has to be devised based on farmers’ strategies and constraints.*

FERT (project 1) in Madagascar helped the CECAM network to diversify its credit facilities. For example, they proposed a consumption credit that permitted farmers not to sell their production during the low price period or part of their capital. In that sense, this type of credit is also a productive one. The network also initiated in 1991 a medium-term credit (3 years) for equipment and livestock in the form of hire-purchase credit facility, that enabled it to solve the problem of credit guarantee. In 2001, the hire-purchase credit represented about \$3.9 million (20% of the credit portfolio). Since the beginning, 93% of the hire purchase contracts have been honored.

*Support to farmers’ organization intermediation facilitates their members’ access to credit.*

With the help of the service centers set up by the PCPS project in the Niger Office in Mali (project 9), the village associations that manage the rice processing and commercialization, were able to negotiate with local banks new credit facilities. This case shows that, with specific support (institutional, training, finance management) and with financial support, RPOs can negotiate with the credit institutions; and they can reach the small farmers.

*Support to other stakeholders also has positive impact on farmers*

The PASAL (case 7) in Guinea, by the financing of trading activities through the supply of turnover credits to the local traders, fostered a competitive market environment. The enhancement of the commercial activities benefited small farmers who augmented their rice production.

*The establishment of multiple partnerships facilitates the durability of innovations.*

The case of PASAL shows that the existence of a broad bank network, operating in rural areas, and a reliable partnership with Ministries, research institutes and private actors, was critical to setting up perennial and replicable actions, and ensuring the consistency among the various credit systems (Crédit Rural de Guinée, Crédit Mutuel de Guinée). At the beginning, the program specifically focused on building validating a technico-economic system of reference, in coordination with all the partners (traders, processors, credit institutions). This was finally validated by the credit institutions, because of the financial profitability and of the low risk level of the proposal.

- **Information on market and Market Information System (MIS)**

MIS is a generic term that describes public dissemination networks that provide market information. "MIS are of special use to smaller farmers or traders who lack the scale economies to gather such information on their own account." (Chaudhury and Banerji, 2001). Through better knowledge of market information, reduction of risk and lower transaction costs are expected (Giovannucci, 2001). Potential benefits of MIS for small farmers, which are expected from the reduction of information asymmetry (especially through market price broadcasting), may not be sufficient for farmers to properly benefit from the markets. This is because of their level of production in particular and to other possible market asymmetries (low number of traders).

The development of a MIS or of a Commodity chain monitoring system raises several issues. Dominant players in the chain, such as traders, may be opposed to their development because shared information restrains their bargaining power (AGS, 1998) and hence, may reduce their margins. Moreover, information collection and dissemination towards the small farmers, especially with a view to promote dialogue among actors (identification of their needs, translation into local languages, capacity building), is costly and raise the issue of the sustainability of the system.

Sustainability and financing of MIS depend on the type of information provided. For input prices and agricultural products, it is important to ensure an equitable access to those data that are of interest for all the economic actors and thus, public financing may be required.

If RPO can easily contribute to finance information system in cash crop sub-sectors, which generate relatively high incomes, they have fewer incentives to do so for staple food that generates low margins. Compromises can be found through exchanges of information: RPOs can provide information on production costs if they receive market analysis or information on food security stock.

➤ *Presentation of the projects reviewed*

**Project 10: PRIAF, MAE, Mali, Senegal and Guinea** - PRIAF consists in the setting up of a national information and analysis system for the rice commodity chain. Based on the checking of existing information sources, it first assessed the difficulties of the existing services and what type of information was lacking. It then disseminated information (bulletins, radio etc.), carries out studies, and organizes exchange workshops and training on policy-making analysis. The supervision of the national information system is assumed by the Division of planning –of the Ministry of Agriculture) in Guinea and Senegal; by Assemblée Permanente des Chambres d'Agriculture in Mali. The program goes towards the transfer of the information systems to interprofessional bodies or platform bringing together public specialized institutions (customs, research, etc) and professional organizations.

**Project 7: PASAL, MAE, Guinea** - An information system on agricultural prices in Guinea (SIPAG), financed until 1999 by the European Commission, was attached to the PASAL, within the Ministry of Agriculture, which provides the staff. The latter is constituted by 26 investigators, and 5 administrative agents. The system consists in following up of 40 products (rice, cassava, maize, palm oil etc.), through 45 weekly surveys (21 with collectors, 15 with retailers and 9 with wholesalers). The information is broadcasted on the radio. The agents of PASAL are supposed to be using this information but the project evaluation shows that only 30% of them have a regular access to the information. Moreover, the system to be durable needs to find new sources of funding. The options envisaged are either to call on new donors or to transfer the system to the Chamber of Commerce that could take charge of a part of the costs.

**Project 14: RUSEP, USAID, Nigeria** - This project gives an example of another kind of information dissemination. RUSEP is a program initiated in Nigeria by USAID, aiming at enhancing capacities of agricultural entrepreneurs to establish market linkages. The main component consists of market information provision on internet (commodity prices, list of input dealers, of credit institutions etc.) and information on production and processing techniques. The program can also impart training courses for these entrepreneurs. It is supervised by the Ministry of Agriculture and IITA. Impacts in smallholder farmers still need to be assessed.

➤ *Analysis of performance criteria of the projects reviewed*

	PRIAF	PASAL-SIPAG	RUSEP
• Target	• RPO in rice sub-sector	• All farmers, agents of the project	• All market oriented farmers
• Scale	• Supra-national	• National	• National
• Impact on income generation	• indirect	• Indirect	• Indirect
• Indirect effects	• Advocacy/ bargaining power	• Bargaining power	• Bargaining power
• Equity	• unknown	• unknown	• Can increase differentiation between commercial and subsistence farmers

➤ *Lessons learned from the project review*

*For the information restitution and dissemination to be efficient, it is necessary to identify the groups of users and to adapt the diffusion format to their specific needs and way of using information.*

In RUSEP (project 14) and PASAL-SIPAG (project 7) projects, the surveys undertaken deal with inputs and products prices, collected at different stages of the marketing chain by investigators (collectors, wholesalers, retailers). The objective is to help the economic operators to make timely decisions according to real variations of demand/supply in the different regions. The information should correspond to the actors needs and be reliable, thanks to regular surveys. The PASAL-SIPAG shows that, without a specific format of diffusion, the information is unlikely to reach its public. 70% of the agents of the project, though the information was diffused on the radio, did not have regular access to it.

The PRIAF (project 10) gives a good example of *Commodity chain monitoring systems* ("Observatoire des filières"). In contrast to the above programs that provide gross data at a rapid rhythm to a relatively large audience, monitoring systems gather, analyze data and disseminate synthesized information to a targeted audience. They also present studies in thematic fields. They have 2 objectives:

- Provide information to the authorities to enable them to elaborate and monitor sectoral policies.
- Allow stakeholders, and in particular POs, to have a better knowledge and analysis of their economic environment and foster coordination among them.

*Conditions for success of market information systems include:*

- *The promotion of commodity chain monitoring systems in complement to MIS:*

in Guinea, through PASAL and PRIAF that were implemented in coordination within the ministry of agriculture, the SIPAG as a general market information provider, ensures market transparency and reduces information asymmetry, while the monitoring system creates a scope for negotiation and dialogue between the actors of the rice sub-sector and the public institutions.

- *The involvement of the actors, especially the RPOs, in the management of commodity chain monitoring systems and MIS at each level:*

The PRIAF project promotes the coordination among the stakeholders in the rice sub-sector, through the setting up of regional networks of producers' organization, such as ROPPA, ROESAO, AFTMIN, to assess the needs of the information rice supply chain, to implement collection and dissemination of information, and to conduct the evaluation and orientation of the activities.

### 1.3 Main findings on promotion of new institutional arrangements and more conducive institutional environment

Davis and North distinguish two kinds of institutions-oriented interventions: institutional arrangements changes and institutional environment<sup>13</sup> changes (Davis and North, 1971 cited by Dorward 2003). The first one, “*institutional arrangements*”, refers to the interactions between actors of a commodity chain. It involves *market coordination*, which is a particular institutional arrangement (Ménard, 1995) but also *non standard market arrangements* which cover “*non-market coordination*” corresponding to the hierarchical and hybrid structure of governance defined by Williamson (1985). Following Jaffee and Morton (1995) definition, the institutional environment consists "in a set of fundamental political, social and legal ground rules", which govern and constrain production exchange and distribution in a society. These rules or institutions include formal institutions of the state as well as informal ones based on custom, tradition convention and ideology North (1990).

#### 1.3.1 Promotion of new institutional arrangements and organizations

In commodity chains, a distinction between two types of coordination can be made (Moustier 1998):

- Vertical coordination that refers to a coordination mode between actors assuming different functions downstream in the production. It encompasses institutional arrangements between producers and traders, producers and processors, traders and processors, wholesalers and retailers, consumers and traders or producers;
- Horizontal coordination that refers to coordination modes between actors assuming the same function. It encompasses farmer organisations, trader organisations, consumer organisations.

Among the arrangements aiming at strengthening vertical coordination are trust-based contracts, various kinds of contractual agreement and inter-professional bodies (Moustier 1998, Daviron and Gibbon, 2002, Jaffee and Morton 1995). Among the arrangements supporting horizontal coordination<sup>14</sup>, we will mainly focus on farmer organisations, which aim at enhancing collective action among farmers<sup>15</sup>.

#### • Vertical coordination

Vertical coordination can take various forms between pure market coordination through spot market (i.e. coordination mediated only by the prices on an anonymous market) to vertical integration (Moustier 1998). Between these two extreme forms, several forms of contracts can be observed between actors. Jaffee (1993, quoted by Moustier, 1998) identifies 3 kinds of contractual arrangements according to their tightness and the nature of the commitments:

- trust-based or implicit contract,
- contracts on the products, where commitments are based on production provision with determined delivery modality (quantity, price, time delivery, quality),
- contracts on resources, management and products or interlinked factor and market contracts. Terms of contract encompass inputs provision (such as agricultural inputs or cashflow), control over the management of the activities, and over product delivery in term of quantity, and/or price, and/or quality, and/or date of delivery.

The more the coordination goes toward integrated forms, the more the risk decreases, the resources access is secured and the bargaining power is strengthened (Jaffee, 1993 quoted by Moustier 1998). Nevertheless, vertical integration does not allow specific know-how and may face time constraints since functions are accumulated (Moustier, 1998). Thus, a highly centralised organization (vertical

<sup>13</sup> Following the broad orientation of North (1990) and Davis and North (1971), cited by Kydd et al. (2002), institutional environment refers to the "rules of the game", the organisations being the player of the game.

<sup>14</sup> Horizontal coordination refers here as coordination mechanism between actors that assume the same function in a commodity chain. Horizontal coordination was introduced by new institutional economics schools for situations of use or operation of a common resource in a broad sense by several agent or entities as mentioned by Daviron and Gibbon (Daviron and Gibbon, 2002).

<sup>15</sup> This does not mean that farmers organizations are only involved in horizontal coordination but they are based on it and support it. Indeed, as will be developed later farmers organizations may favour vertical coordination spreading.

organization) or very rigid (very precise terms and restrictive contracts) may lead to prohibitive costs. Thus, flexible forms of coordination (implicit contract or contract on the products) may be more efficient, except in the case of high risk level or high asymmetric bargaining power conditions. Moreover, vertical organisation may reinforce situations of dependence between actors (Moustier, 1998).

#### ➤ *Promotion of implicit contract*

In this type of coordination, no precise or formal mutual commitments are made between trade partners. Relationships are based on loyalty. Exchange reliability relies on trust that comes from mutual knowledge based on frequent or long term relationships, social and cultural identities or specific affinities between the two partners (Moustier, 1998). The trust can be strengthened by several control and sanctions mechanisms, which can be informal (such as neighbourhood control...) or formal (through conciliation system) (Brousseau, 1993). Trust and reciprocity enable trade to take place, even in a very uncertain and unstable economic environment (Jaffee and Morton, 1995).

Interventions can create conditions to favour the emergence of trust-based contracts through organizing meetings, tests of commercialisation etc, and by relying on social capital whenever possible. Nevertheless, as these types of contracts are implicit, their importance is difficult to assess and thus, they may not be taken as a valuable objective in projects design.

#### ➤ *Promotion of contract farming*

Aid agencies can choose to promote commercial contracts, often labeled "contract farming"<sup>16</sup>, between producers and other stakeholders for product supply, with a view to facilitating farmers' access to markets, ensuring the regularity of supply and striving against price volatility and instability. Contracting is fundamentally a way of allocating risk between producer and contractor. Moreover, they can be used as means to mitigate moral hazards and adverse selections (Hoff, Braverman and Stiglitz, 1993 among others).

The allocation of risk can vary widely according to what is specified in the contract: agreement on the level of production exchanged or price specification (Baumann, 2000). More precisely, the tightness of contractual arrangements varies according to the depth and complexity of the provision of each of the following areas (Eaton and Shepherd, 2001)<sup>17</sup>:

- market provision : the farmers and the buyer agree to terms and conditions for future sales and purchase of a crop or livestock product;
- resource provision : in conjunction with marketing arrangement, the buyers agrees to supply selected inputs, including on occasions land preparation and technical advice;
- management specifications: the grower agrees to follow recommended production methods, inputs regimes, and cultivation and harvesting specifications.

Among contract farming, two types of contracts can be pointed out, as mentioned in part 1 section 2.1.2, forward market contract mainly focused on market provision aspects and the Interlinked Factor and Market Contracts (IFMC) in which input supply and technical advice and control by the buyer is

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<sup>16</sup> "Contract farming refers to a system where a central processing or exporting unit purchases the harvests of independent farmers and the terms of the purchase are arranged in advance through contracts." (Baumann, 2000)

<sup>17</sup> These contracts can be based on various kinds of organizations. Eaton and Shepherd (2001) defined 5 broad models of "contract farming systems" depending on resources of the "sponsor" and on the intensity of the relationship between the farmer and sponsor that is necessary : the centralized model (which involves a centralized processor or packers buying from a large number of small farmers, that is used for products that require high degree of processing, monitor with quotas and tight quality control...), the nucleus estate model (similar to the previous but with an owner that also manage a central estate or plantation, central estate production is used to guarantee throughput for processing plant, involves a significant provision of material and management...), the multipartite model (that involves a variety of organizations, frequently including statutory bodies, and that can develop from the centralized or nucleus estate models, e.g. through the organization of farmers into cooperative or involvement of financial institution), the informal model (characterized by individual entrepreneurs of small companies) and the intermediary model (involving subcontracting linkages with farmers to intermediaries).

entailed. This second type of contract involves a higher degree of interdependence between the producer and the buyer.

Eaton and Shepherd (2001) argue that a contract farming system, defined as a partnership between agribusiness and farmers, may give the following advantages to farmers: inputs and production services supplied by the “sponsor” usually through an advance, opportunity to learn new skills and technology, price risk reduction, opening up of new market out of reach of small farmers. They pointed out some potential drawbacks for farmers: particularly when growing new crops, farmers face risks of both market failure and production problems, and non respect of commitment by the sponsoring companies (due to inefficient management, exploitation of monopoly position, corruption, ...).

Coulter et al. (1999) suggest that contract farming is not likely to be developed with small farmers. Indeed, buyers prefer to deal with larger producers to reduce risks of supply failure and to have access to greater production volume to reduce transport and monitoring costs. Moreover, the dispersion of the farms, the low volume of inputs and outputs hinder the development of quality assurance and traceability<sup>18</sup>. This results in the likely exclusion of the smallest farmers from contract farming. According to Baumann (2000) who conducted a wide literature review on contract farming schemes, contract farming can include smallholders. But he recognized that this is not an option for the poorest but rather for the middle peasantry. Indeed, a legal title over land is often required as well as some experience of cash cropping. Other possible criteria involve minimum land size, good health, a proven ability to hire labour or enough family labour, and sometimes even education or prior experience with the crop (Baumann, 2000). Moreover, small farmers more prone to be involved in a contract are those who have some non agricultural income alternatives allowing them to bear the risk of signing a contract. Further, Goldsmith (1985) highlights the fact that many contract farming schemes are developed in high potential areas with fertile soil and access to irrigation and transport.

Coulter et al. (1997) argue the case for combining farmer cooperation or collective action with contract farming. When these contracts are negotiated with RPOs, farmers gain from additional bargaining power that membership of RPOs bestows. Both parties (agribusiness and farmers) benefit from lower transaction cost than would be the case if a separate contract was negotiated with each farmer.

Relationship and power are then central when addressing farmers (and their organization) and other stakeholder relationships institutionalized through contractual arrangement. Stringfellow et al. (1997, quoted by Stockbridge, 2002) make the distinction between linkage dependent groups of farmers and linkage independent groups. The former, is being increasingly promoted by developing agencies (according to Stringfellow et al., 1997) as it is seen as a good way to benefit FOs while simultaneously overcoming some difficulties and uncertainties of operating such linkages. Nevertheless, Kindness and Gordon (2001 quoted by Stockbridge, 2002) criticized this approach for being too costly. Linkage independent groups have more autonomy and, providing they have the skill to exercise this autonomy effectively, they may have more bargaining power than linkage dependent groups (Stringfellow and al., 1997) and be less prone to the risks of being dependent on a single buyer, supplier or service provider (Kindness and Gordon, 2001, quoted by Stockbridge, 2002). However, linkage independent groups have to face a managerial challenge since they have to make quicker and more frequent decisions in relation to investments (who to do business with, under what terms and conditions); and this may result in being difficult to achieve while adhering to the principle of participation and accountability to their members. Finally, most appropriate contractual arrangement for RPOs clearly depends on their individual circumstances. In circumstances where farmers have relatively little experience with formal cooperation and where markets are thin, linkage dependent approaches would seem to offer considerable advantages.

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<sup>18</sup> The latter is notably critical in the case of perishable products.

➤ *Analysis of performance criteria of the projects reviewed*

Project 2: FPFD		Project 4: BIODESA
• Target group	• Farmers members of FPFD (13,500 members)	• Small rural communities
• Scale	• Regional	• Local, but several regions
• Sustainability	• well structured organization • favorable institutional framework (protection measures) • negotiated agreements after a long coordination process	• uncertainty of market demand for this kind of non-food products • strong dependence upon external intermediation • long period of experimentation
• Income generation	• Yes	• Yes
• Indirect and spill over effects	• Boost activity of all actors • Increase the number of producers involved: risk of local market saturation (already 95% of demand)	• Boost activity of all actors • Increase the number of producers involved: facilitate product regularity and strengthen contractual relations
• Equity	• Benefit only to producers in the FPFD	• Yes because at community level

Project 11: World Bank, Jordan		Project 5: ESOP, CIDR
• Target group	• Smallholder horticulture producers	• Small groups of farmers
• Scale	• Objective: national	• Micro, but several regions
• Sustainability	• Requirement of: • - stable or growing market demand • - production management • - quality products	• Requirement of: • - market demand • - production management • - quality products
• Income generation	• To be assessed	• Yes
• Indirect and spill over effect	• Boost overall economic activity unknown	• Boost the activity of traders • Support commodity chain structuring • Foster competition • Positive effect on price paid to producers
• Equity	• To be assessed	• So far, work only with few producers

➤ *Lessons learned from the project review*

*Contracts only work in a favorable market and institutional environment.*

The projects reviewed suggest that contracts can consolidate commercial links to ensure production sales and provide a more stable environment to small producers (price and production stability). Yet the contracts, as implemented in the support programs, are not a stand-alone solution. For example, since 1992, the Federation des Paysans du Fouta Djallon, in Guinea (FPFD) developed onion and potato production for the Conakry market (project 2). They made commercial agreements with trader Unions on behalf of their members for the supply of potato, in collaboration with the line Ministries and the Chamber of Commerce. The viability of the contracts established depended on several factors: basically, the existence of a market demand, production management, as the FPFD also started to get directly involved in the input supply. It also depended on the existence of a stable financial market: the FPFD set up contractual arrangements with the same traders, for the supply of seasonal credits to producers. Even then, constraints remained, such as the sensibility to sector conjuncture which materialized in the breach of agreement by the traders (probably because of a reduction of international prices). Thus, an enabling political framework, including referee and legal system became necessary. After long negotiations, the federation obtained from the government measures to protect the local production: the suspension of potato importations and over-taxation of onion imports during harvest period. There was also an improving of market information produced by public services. The commercial agreements with the traders were resumed. Today, the local potato production represents 95% of the national demand. A work on improved inputs and product quality also reduced market fluctuations.

This case emphasizes the fact that contracts can only work in an already favorable institutional framework and that it is important to analyse the contract sensibility to possible market context modifications in order to anticipate the difficulties and to develop dialogue among concerned stakeholders.

*Contract farming is more prone to be developed for high-value cash-crops.*

In the ESOP project (project 5), the NGO CIDR tried to promote contracts with producers, on cereal markets and on new quality products (soya bean, cashew nut). It showed that the cereal market is less likely to promote contracts, because, due to low prices, the traders draw more advantages from price volatility and from high volumes sold than from supply regularity. With high-value cash crops (input-intensive and/or labor-intensive, such as horticultural production, or irrigated crops), contracts are more likely to take place.

*On export markets, contractual relations require long intermediation between unequal stakeholders.*

In the case of BIODESA (project 4), the support program is relatively old (about 10 years) and the technical assistance part was significant and. The NGO GRET has been working in Latin America since 1994 on the valorization of aromatic plants as a means for small farmers' communities to diversify the sources of incomes. The NGO played the role of intermediary between producers and European perfume makers and between producers and national Universities to undertake applied research on processing technologies. This example shows that one important role of outside intervention is to facilitate direct commercial linkages between farmers and international buyers. The remaining challenge stands on meeting the international quality standards, controlling technology innovation and managing production (quality, labor management and delivery on time). Agreements are difficult to enforce in such an activity where climate risks and crop failure risks are high. For new products, one of the difficulties lies in the fact that as long as the buyer is not committed to buying regular volumes, the production cannot be launched on large surfaces, and if so, it is not possible to develop the right technologies.

*Promoting contracts between large producers and small farmers can help these latter to get access to export markets.*

Since 2002, the World Bank in Jordan is being promoting IFMC for horticultural export market (project 11). The project was designed to face the fact that the exporters prefer to deal with large farmers. Thus, it tests a contract farming scheme between large horticultural producers and small-sized ones to help the latter access to the export market. In that case, small-scale farmers are allowed to benefit from the network already developed by a few large producers which have their own links with European importers. Moreover, larger farmers channel extension services and monitor quality requirements. An extensive assessment of the project effective impact on small producers remains to be carried out.

*IFMC and farmers' organization work best together.*

In the case of ESOP project, CIDR has created, on a very small scale, agri-business enterprises (ESOP) to process and commercialize agricultural products. They contract with small farmers groups, which organize the collection and transport. In return, the ESOPs supply services (inputs, advisory services), of which the costs are recouped from the price paid for the products. The originality of CIDR approach lies in the fact that producers are progressively involved in the ESOP's capital (up to a maximum of one third of it). The objective is to strengthen the interdependence links between the two parties, to counterbalance their possible conflict of interests. This case shows that RPOs reduce risks of farmers contract default (peer pressure, joint collateral, good communication within groups) and improve production management (organization of collection, storage etc.), so the contractual relations between the buyers and producers' organizations have more opportunities to work out.

### ➤ ***Vertical integration (hierarchical coordination)***

Vertical integration is based on hierarchical relationships. It involves the combination of two or more separable stages of production or marketing under a common ownership and management (Jaffee and Morton, 1995). Vertical integration is a means for a firm to concentrate more added value created in the commodity chain by grouping several activities (transport, storage, processing, export etc.). Moreover, vertical integration enables rapid decision making (Moustier, 1998). Vertical integration

may be a very effective institutional means of overcoming problems of risk and uncertainty (Arrow, 1975). According to Transaction Cost Theory, vertical integration is the more efficient governance structure when a transaction asks for specific assets, uncertainty is high and transactions have a high frequency (Williamson, 1985). Vertical integration contributes to reducing marketing risk and barriers to entry, since the firms or RPOs integrating smallholder farmers' activities may provide facilities, inputs and services and commit to buying farmers production. Nevertheless, vertical integration for small farmers is difficult to achieve on an individual basis since it requires sufficient assets, pooling resources and collective action is then often needed to achieve vertical integration.

Lessons learned are drawn from APM, a program led by the Foundation Charles Leopold Mayer (APM, 1999). This program supported RPOs of the cocoa/coffee/rice sectors in West Africa in their vertical integration undertaking, through training seminars in Senegal in the 1997-1999 period and the publication of pedagogical booklets to help RPO leaders to prepare their “business plans”.

Vertical integration is difficult to achieve for inexperienced RPOs, because it requires high organizational capacities. Currently, few producer organizations are prepared to do so, for lack of institutional strength and management abilities and given the high competition context among commodity chain actors. The main general constraints of RPO with respect to private enterprise come from (APM, 1999):

- the possible « free rider » behavior<sup>19</sup>,
- the unequal access to information and capacitating activities between RPO salaried staff and RPO members that can lead to dishonest behavior,
- the fact that leaders and staff remuneration are usually not linked to the economic results of the RPO; hence, they may not have incentives to improve its efficiency.

The APM program helped the leaders identify opportunities and margins of progress and make decisions. This diagnosis can be devised as a 3-stage study to be conducted with the RPO to:

- Conduct a commodity chain analysis: identify the different stages, the technical operations involved, the material means and know-how required to implement them.
- Identify the principal activities of the considered RPO at these different stages and analyze its specific constraints/assets.
- Prioritize activities to be developed by the RPO, through the following criteria:
  - The possible economies of scale: for instance, grouped input purchase or grouped transport will reduce unitary costs. Storage costs increase proportionally with the volume of production stored.
  - The specificity of the equipment: if equipment is specific to the considered activity, it will bring an advantage for the RPO. If it is not specific (e.g. a warehouse or a truck) it could not be a priority investment.
  - The existence of alternatives: considering the limited financial means of the majority of POs, the adhesion of their members depends on their ability to offer services at low cost. Many POs try to take charge of too many services to attract membership, and in doing so, they risk offering poor quality services. It is advised to look for alternative or complementary service provision outside the RPO. It is important to assess the existence and ability of other service providers, and their potential delivery at low cost and high quality level.
  - The possible advantage of the RPO to prevent dishonest transactions or behavior. This is linked to leaders' professionalism and/or to the social cohesion of the group. For instance, for credit provision, the group can play the role of joint collateral.
  - The degree of interdependence among producers (or externalities): the potential impacts of certain activities for the group need to be assessed. If there is no noted interdependence, it is not in the RPO's interest to intervene in the considered activity. For instance, diseases can spread in neighboring fields. Then, collective action may be necessary to manage crop spraying.

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<sup>19</sup> They occur when a person takes advantages from the collective action without participating to the charges.

➤ ***Promotion of the establishment of inter-professional bodies***

Inter-professional bodies are a form of "organic" (i.e. real entities in charge of implementing mechanisms), "constitutive" (i.e. they lead to new behavior from actors) and "programmed" (i.e. they lead to explicit agreement between actors) types of institutions according to Walliser classification of institution (Walliser, 1989). Inter-professional bodies are to resolve in a concerted way the constraints that hinder the competitiveness of a specific sub-sector. These are private organizations grouping various stakeholders involved in the different functions of a commodity chain (producers, traders, carriers, exporters...) and possibly State representatives (Gitz and al. 1998). It is a social construction based on dialogue and coordination among actors.

This coordination can lead to the establishment of contractual relations between the different operators and to debate with the authorities to influence the policy making progress. It tends to enhance the circulation of information among stakeholders and then, to reduce asymmetries of information, risks and to increase farmers bargaining power. The efficiency of an inter-profession leans on its legitimacy (effective participation of all members, legitimacy of each group representative, transparent mechanisms of decision, funding, etc). Inter-professions are particularly useful for quality oriented products where standards and enforcement rules are to be negotiated.

The interprofessional body not only has as objective the conflict resolution between individual agents but also the creation of more value thanks to collaborative behaviors among producers (agricultural ones and industrial ones) and the sharing of this value (Fraval, 2000).

The establishment of such a body is a long and complex process, which requires capacity building, information provision and participative analysis to elaborate a concerted diagnosis of the situation and to identify the common interests and the collective margin of progress. Moreover, although inter-professional bodies are private sector, Gitz et al. (1998) shows the important role of state in the emergence of inter-profession bodies through the creation of an enabling legal framework. The issue is to provide commodity chain stakeholders with a dynamic flexibility (Valceschini, 1993), i.e. an ability to face unexpected and unforeseeable situations and to manage it in a collective way. Thus, collective learning process and incentive mechanism are of tremendous importance (Fraval 2000). Hence, inter-professional bodies are not usual in developing countries. They are emerging preferentially in short supply chains with few well identified actors, or where a dominant group of actors takes the lead of the process, that is in chains where coordination problems are reduced. Examples of inter-profession bodies also exist for export goods, such as cotton in Benin, where RPOs are nationally organized after a process of transfer of responsibilities from semi-state enterprise to RPOs carried out by the state in the framework of liberalization process of the sector. If this type of organization facilitates coordination and exchange of information among stakeholders, inter-professional organization seems to benefit more to the most power-full actors of the sector, e.g. inputs suppliers or cotton ginneries in Benin (Cadot, 2003).

• **Horizontal coordination, Rural Producer Organizations (RPO) and collective action**

Horizontal coordination enables the pooling of different resources such as credit, labour force, transportation means for selling products or buying inputs, information... (Moustier, 1998). The Rural Producer Organizations (RPO) promotion can be an effective way of setting and strengthening horizontal coordination.

These organizations can assume several functions in the commodity chain, such as collection, grading, post-harvest and storage. They have a large scope of activities and functions (Bosc et al., 2003, Perret and Mercoiret, 2003). They include a large range of organisations, such as self-help groups, farmers associations, cooperative-type organisations (Bosc et al., 2003, Perret and mercoiret, 2003). Through the services they provide to their members, they have a role of intermediary with the other stakeholders and rural development actors. Through bulk purchase or selling, they increase farmers' bargaining

power. By organizing and rationalizing the transactions, they may play an important role in reducing transaction costs.

Nevertheless, creation and maintenance of an organization is costly. Its financing and maintenance ask for specific funding (Perret and Mercoiret, 2003). Even if the advantage of collective action for small farmers is high, voluntary cooperation faces several type of generic problems such as “free rider” problems (Olson, 1965; Jaffee and Morton, 1995) asking for the creation of incentive system (positive or negative) (Olson, 1965).

The problem of scale is also to be pointed out. Indeed, small groups have advantages over larger onessince their members are likely to receive a higher share of total benefits and thus, may more easily promote member commitment and knowledge of each other. Moreover, mutual trust is easily maintained and transaction costs are lower.

Nevertheless, small scope may limit potential economy of scale, potential for insurance and credit supply (limited mobilization of capital), and do not allow for specialized management functions. On the other hand, larger groups enable economies of scale with less investment per member and provide greater scope for pooling and spreading risks. Yet as group size increases, so will transactions cost. And larger groups are likely to encompass more divergent interests. Asymmetric information and power may prevail inside large groups (Jaffee and Morton, 1995).

Organizations with restrictive membership conditions can create barriers to entry and tend to create more unfavourable and unstable market conditions for farmers that do not belong to those organisations. Nevertheless, selection of members is often an essential condition for creating necessary trust among members. The creation of such barriers of entry, as the reduction of rooms of manoeuvre of members, should be addressed in comparison with the constraints that the organization tends to resolve (Moustier, 1998).

➤ ***Economic function: input dealing and primary commercialisation, transformation and qualification of product***

Private operators hesitate to engage in input and equipment marketing activities because farmers' demand is considered too low, uncertain and dispersed. The private sector often limits its activities to import/export and wholesale trade. As a consequence, when traders are scarce in rural areas, smallholder farmers have little or no options and low bargaining power, so they may have an interest in taking charge of retailing inputs and the commercialization of primary outputs.

➤ *Lessons learned from the project review*

*An operational learning process is key to fostering farmer-driven initiatives.*

In Madagascar, the NGO FERT (project 1) assisted farmers at community level in a first stage by creating small groups to organize input distribution, credit supply through small village banks and bulking up storage and trading etc. The primary purpose was to guarantee the availability of the inputs and the quality of the products, to reduce the transaction costs (transport, storage, collecting) and increase in the end their bargaining power. Each small specialized group, with technical assistance from FERT, grew in size and structured up into regional unions and then, national federation. This process took about 15 years. An operational "learning by doing" approach was adopted to ensure the viability of the promoted changes. Farmers were given responsibilities from the beginning, starting at grassroots level with small informal groups, while at the same time being given support to assess their needs of training, assistance etc. They were also entrusted with some funds to strengthen their abilities to take responsibilities. This example shows that primary commercialization is likely to be more effective if it is instigated by the farmers themselves, rather than the farmers' organizations serving the purposes of a project. The key element is to accompany the processes, with adapted capacity-building programs. Yet the FERT program implied large technical assistance during more than 10 years. This

case suggests that the creation of an effective farmers' organization setting is a long and difficult process, hindered their lack of management skills and by potential "free-riding" behaviors of leaders.

*Benefiting from adapted capacity-building process is a key factor of success.*

In Mali, PCPS (project 9) assisted the federation of service centers, which counts a total of 157 RPO members, to call for tenders with the main input dealers. This enabled the Federation to obtain cheaper inputs for its members. Yet, this initiative did not solve the problem of supply on time, nor gave guarantees on the quality of the inputs. Even though it is a quite large organization, the federation still cannot ensure satisfactorily input supply. This case shows firstly that grouped purchases at the local level not necessarily ensure efficient access to inputs for farmers. Farmers groups must have access to market information and understand the realities of markets (price fluctuations, control exerted by larger operators etc.), as was promoted by the federation. But they also need to master finance management, stock management, and ensure punctuality of delivery, respect of quality norms, transparency etc., which the above mentioned federation still failed to do. So, supporting collective organizations capacities is a key factor for RPOs to effectively and efficiently take on economic functions.

*The development of advocacy functions is key to support economic functions.*

The 2 projects reviewed illustrate the fact that the economic and advocacy functions cannot be thought out separately. The grouping of economic operations by RPOs might be a good start; nevertheless, it remains necessary for local farmer groups to structure up at larger scale to gain real bargaining power. Indeed, they need to attain a critical mass if they are to negotiate with traders and the authorities for better prices and a more favorable environment. Inversely, the control of economic functions by the RPOs is an indispensable step in their capacity building process to assume advocacy functions.

➤ ***Advocacy and representation of farmers' interests: from local to international level.***

Professional organizations at the national level facilitate the coordination with the other stakeholders and with the government. As previously mentioned those organizations have to reach a critical size to be able to get involved in advocacy functions.

➤ *Lessons learned from the project review*

Considering the constraints farmers may face when aiming at defending their interests with the authorities (dispersion, lack of information and analysis skills, poor level of literacy, legitimacy of representatives), the programs reviewed brought diverse support to farmer representatives. For instance, PRIAF (Project 10) organizes participatory studies, training seminars for RPOs on selected agricultural markets and policy making process at regional and supra-national level (West-Africa), to enable them to participate to public debates with other actors and policy makers. PSO in Madagascar (Project 3) brought a specific support to the creation of the Maison des Paysans to strengthen farmers' capacities to negotiate with policy makers. This was at the beginning of this process an extensive rural animation at village level, to encourage farmers to participate to the democratic debate. PROMOPA in Guinea (Project 2) supports the functioning of support service centers to RPOs in the 5 regions of the country to strengthen RPO leaders' capacities (advocacy) and members (literacy, information, participation to debates).

*Broaden access to information, independent expertise, learning-by-doing and training are necessary to ensure farmers and RPOs effective participation to the political debate.*

The *Maison des Paysans* (MdP) was created with the support of the PSO project (project 3) following the establishment of a coordination platform (CROS) aiming at orientating the regional rural development policy. CROS brought together farmers, the administration, economic operators and donors. Yet, the producers found it difficult to hold their position and felt the need for a better legitimacy, based on a broader representation. So the PSO supported the establishment of MdP, a regional producers' organization. This institution (representing 29 municipalities, with 119 elected

local representatives) organized thematic commissions to promote transparent debates and bring common positions on regional economic development before the CROS. The commissions deal with the main agricultural sub-sectors (rice, cotton, groundnut, cassava, livestock etc.) and thematic fields (credit, infrastructure etc.). Their capacities of negotiation with development partners have increased, as well as the legitimacy of the farmer representatives. The MdP has been building its members' skills (literacy, management, policy analysis etc.) through donor financial and organizational support over a long period of time.

The PRIAF (project 10) provides information and capacity building to rice sector actors. The RPOs' participation in studies, workshops and information production, aims to reinforce their position in the rice sector policy making. Moreover, the sub-regional scope of the program makes RPOs representatives exchange information and experiences, prepare common positions and weight in debates at regional level (UEMOA). This case suggests the importance of supporting RPOs in using their own sources of information and analysis. A learning-by-doing process, through participative commodity chain study, local and regional workshops to debate the results, is an efficient way to help farmers and their organizations to build their own political and economic vision.

#### *Build long-term partnerships among different actors.*

The Fédération des Paysans du Fouta Djallon (FPPD) was created in 1992 with the ongoing support from PROMOPA (project 2). FPPD has been developing horticultural production to supply Conakry market. Through negotiation with the government, they obtained policy measures to protect the local potato production, notably the suspension of potato importation during the harvest period. At the same time, commercial agreements with traders over credit provision and production supply were set up that closely interlinked both parties' interests. It should be noted that these successful negotiations came after a long structuring process supported by the MAE through capacity-building programs. The PROMOPA also entailed the promotion of coordination between the government and the RPOs, which helped the FPPD to make its voice heard on this specific economic matter.

### **1.3.2 Promotion of a new institutional environment**

The institutional environment creates the context and conditions in which stakeholders develop institutional arrangements. Interventions directed towards institutional environment changes generally have a larger scope than those focused on institutional arrangements.

For the institutional environment setting, the role of the state is central. In theory, governments have advantages over private and cooperative entities when it comes to investment and coordination. They possess the unique power of taxation and legitimate coercion (North, 1986). Moreover, according to Fraval (2000), the state has a major role to play in the creation of an institutional environment favourable to the setting up of an "economy of equitable exchange". Nevertheless, following the Northian analysis (North, 1990), institutional development and changes involve a "path dependence" process influenced by different groups' relative power, and by their perception of possible opportunities and threats posed to their interests by alternative paths of institutional and technological changes or stagnation. As such, interventions aiming to promote institutional changes should take into account the perceived interest of powerful groups (that are not the small farmers ones). It implies neutral analysis to make the perception of the powerful groups evolve towards small farmers' problems. With this perspective, the advocacy function of RPOs is of first importance to negotiate with powerful social groups changes in accordance with smallholders' interest. This also implies that institutional change is a tough and long term task.

Institutional environment changes can be conceived not only to favour an environment closer to perfect market competition conditions but also to foster other types of coordination, characteristics of

what Kydd et al. (2002) call Coordinated Market Economy, which favour strategic commitments<sup>20</sup>. Jaffee and Morton (1995) consider 2 types of rules that lead to a more conducive institutional environment: (1) rules defining, allocating and enforcing property rights, and (2) rules and conventions defining permissible and non permissible forms of cooperation and competition (e.g. standards, licensing rules, laws of contract and liability, company and cooperative laws and 'fair trading' conventions).

Based on these different statements, different types of interventions to promote a more conducive institutional environment can be implemented: the development and enforcement of the legislative framework and the support to policy design and implementation which entails the development of quaternary institutions and deliberative institutions.

- **Development and enforcement of the legislative framework**

This kind of intervention can contribute to an environment closer to perfect market competition conditions or it can create an enabling environment for the development of organisations and cooperation.

- ***Interventions intending to create an environment closer to perfect market competition conditions***

Three types of laws can be targeted to promote efficient market coordination:

- Laws on norms and standards intend to reduce information asymmetry and frauds. The establishment and enforcement of standards may also reduce transaction costs by increasing the available information to buyers and consumers (Jaffee and Morton, 1995). Nevertheless, from the smallholder farmers' point of view, this may increase barriers to entry, since it requires adopting new technologies and investing in specific assets to cope with standards requirements.
- Laws to regulate competition, such as anti-trust law, increase smallholder farmers' bargaining power, in situations where they would otherwise face monopolistic actors.
- Laws to allocate and enforce property rights, are seen as a prerequisite for efficient exchanges within a commodity chain (Hodgson, 1988, Jaffee and Morton, 1995). Lack of clear property rights limit smallholder farmer's capacities to take advantage of market opportunities, increase transaction risks and reduce incentives to invest in new technologies and assets.

- ***Interventions intending to promote cooperation and non-market coordination legal framework***

These types of law engender new possibilities and facilitate the emergence of non-market arrangements. They include the following types of laws: on contracts, on cooperatives and firms, on syndicate associations and NGOs, on the creation of inter-professional bodies.

While highlighting the problem of coordination failure that leads to low "level equilibrium trap" in Less Developing Countries, Dorward et al. (2003) put the emphasis on the need to develop new institutions capable to coordinate economic activity beyond local boundaries. Since neither state planning nor an unfettered market seems capable of achieving this, Stockbridge (2002) argues that the sorts of institutions, that have characterized Coordinated Market Economies (e.g. powerful employers' organizations, extensive networks of cross share-holding, and legal or regulatory systems designed to facilitate information sharing and collaboration – Kydd et al., 2002) would have a role to play in Less Developing Countries. From this perspective, he suggests that RPOs could be a good candidate for solving coordination problems since organized RPOs may be able to build up internal and external relationships of trust that are required to secure credible commitment forms and to cooperate in order to realize mutually beneficial actions and investments.

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<sup>20</sup> This distinction between those two types of institutional environment comes from Hall and Soskice (2001) and Kydd et al (2002) who define two "ideal types" of market economy: Liberal Market Economy and Coordinated Market Economy. In the first type, the main coordination mechanisms are competitive markets arrangements and hierarchy together with vertical hybrid arrangements between firms in a supply chain. The second is based on a larger set of organisations and institutions, supporting more horizontal or networked strategic interactions and relying more on non market relations to coordinate endeavours.

Interventions related to the promotion of changes in the legal framework are strongly embedded with the support to agricultural and trade policies design and implementation, types of intervention that will be developed below since evolution of laws depends strongly (but not only) of governments priority and willingness, and policy.

Several approaches and tools are used to promote new institutional environments. Support can be given to state institutions to design new laws such as direct support to state services to elicit, review law texts, facilitating text preparation, etc.... Nevertheless final adoption of new laws depends on public institutions and governance rules (especially, democratic rules). It also depends on the relative balance of power between state representative authorities, civil society and often donor agency. Interventions leading to the adoption of a new legal framework are not often promoted inside the projects but are put as conditionality for the implementation of the projects. This strategy is mainly used by multilateral donors, who have more power of negotiation and can dialogue directly at the government level. Other intervention related to this issues, is the support to local civil society to organize lobbying toward state institutions to make the law evolve. This type of strategy is mainly developed by bilateral donors or NGOs.

Project review did not allow us to raise directly lessons on the impact of Institutional Environment promotion. Nevertheless, literature review enables to point out some hypotheses on the issues of new Institutional Environment setting:

- Even if pure and perfect competition has been demonstrated to be efficient from a theoretical point of view, attempting to reach pure and perfect competition conditions may be counterproductive for small farmers. Hence, it can significantly increase barriers to entry. Indeed, products standardization for instance may require equipment investments both for producers and traders and imply high costs. (Moustier, 1998).

- Dorward et al. (2002a) suggests that investments in non market institutional arrangements are likely to be more effective and efficient than many investments in the wider institutional environment in situations with low density of economic activity (that are the current situation in Less Developing Countries) and argues that major historical and current advance in economic growth and poverty reduction were initiated by the development of institutional arrangements (East Asian tigers, green revolution, microfinance). Moreover, they suggest that changes in institutional arrangements are likely to yield more concentrated and tangible benefit for defined groups.

- According to Hall and Soskice (2001), institutions for strategic interaction, and thus Coordinated Market Economy, are more likely to evolve in countries in which state power is more dispersed and less concentrated and where government by consensus is a guiding principle.

- **Support to agricultural and trade policies design and implementation**

State macro-economic policies, agricultural and trade policies modify the context in which the smallholder farmers operate, especially through the evolution of the current Institutional Environment. Policy definition, and type of policy, is then a crucial issue for the farmer's connection to market. Even if the State power and means have decreased due to Structural Adjustment Programs, the State still have the legitimacy and the power to modify some key variables affecting markets' structure and functioning, and thus farmers possible connection to markets. Aside the legal framework, the State plays a major role in the definition of the type of relationships between domestic and international markets through the negotiation and appliance of international trade agreements (World Trade Organization, and regional agreement). Several options can be taken by the State in terms of more or less opening or protection toward international trade. Moreover, it can play a role in the domestic conditions of exchange of products and manage the instability of the product price, which is an important source of uncertainty that affects the smallholders adversely. To regulate the domestic exchange, several tools can be developed (such as quotas...). The State also can interfere through macro-economic policies (monetary reforms...), which have a large impact on price-competitiveness

of agricultural products and thus, on market opportunity for smallholders (engaged in export commodities), or it may favour quality improvement policy (Fraval 2000).

Aside the role of setting the conditions of exchanges on international markets, the State has the legitimacy to organize transfers between sectors through the tax system. It also has the prerogative to provide a comprehensive framework for interventions developed in different projects, and for several sectors. Another role of the state is to ensure the articulation between agricultural policies (which cover infrastructure development, agricultural services including research and technologies ...) and trade policies (conditions of exchange with international markets...).

Policy design is then a important issue. Félix (2003) pointed out several difficulties to design policies in Less Developing Countries such as total deficiency of the system of economic information and lack of reliable statistical data, difficulties in organizing internal negotiation with the stakeholders, lack of will from the states to undertake a long and harsh task and pressure of foreign aid. Other difficulties such as lack of dialogue among different ministries could also hamper the policy definition and implementation process. Other authors stress the importance of the implementation processes in policy reforms (Brinckerhoff, 1997; Omano 2003), which are very often neglected once the policy definition phase has been dealt with. Among others, those types of statement call for the development of participatory approach within more bottom-up approaches in terms of policy design. Jesus and Bourgeois (2003), also stress the importance of information sharing as a key factor to design policy and lowering the risk of unexpected outcomes.

Based on these statements, there is currently a large scope for interventions aiming at supporting agricultural and trade policy design and implementation. They encompass the following:

- financing external consultancy to design policy or create specific services,
- strengthening capacities of public bodies, especially through training of civil servants of line ministries to methods and tools to design policy (see section “capacity building),
- supporting statistical apparatus through fund provision to maintain it,
- supporting policy design process in itself by providing means to organize seminars and stakeholders fora to foster information exchange among stakeholders,
- supporting the restructuring of public institutions in charge of policy definition and implementation (creation of new services, and endowment in equipment)
- supporting the policy implementation specifically through human capital or assets dedicated to services in charge of implementation, enforcement of law...

➤ *Lessons learned from the project review*

The Agricultural Marketing systems Development (project 15) provided technical assistance to support the government in undertaking a series of policy impact studies (monetary policy, strategic grain reserve policy, regulatory and taxation policy) and provide a support to local policy after undergoing the decentralization process.

The PASAL program in Guinea (project 7) entailed an important component of support to the government for the design and implementation of agricultural policies. It was based on a market information system and surveys on rice commodity chain, mainly the monitoring of rice importations. These activities led to making operational proposals to the government about tariffs on imported rice. PASAL conducted training for Ministry of Agriculture (MoA) executives and organized working groups bringing together representatives from the MoA, the Ministry of Finance and of the Central Bank, to facilitate their coordination in the sectoral policy making process.

- **Promotion of quaternary or deliberative institutions**

Some authors (Kydd et al., 2002, Bourgeois, 1998) argue that new institutions should be promoted to facilitate a more participative process in changing the institutional environment that is, in devising "new rules of the game". These are named quaternary or deliberative institutions; among these are the negotiation platforms between representatives of rural producer organizations, other stakeholders and state representatives. As showed by Bourgeois (1998), these mediating institutions should not depend on the State, but the latter acts as a guarantor of efficiency. They firstly aim at sharing information between all the stakeholders. They can be the basis for the creation of structured inter-professional bodies and/or for the establishment of revisable contractual agreements (cropping season agreements for instance).

- *Lesson learned from project*

The support programs that are successful in establishing effective deliberative institutions lay emphasis on information and training of producer organizations, and on the strengthening of leaders' legitimacy through progressive structuring of producer organizations, as was described for the PSO project (project 3) in the 1.4.1. (RPOs section) They also encompass a support to the line Ministries and play a role of mediation in the setting up of coordination frameworks. Lastly they make sure that actors' participation is effective at all levels.

## 2. Project approaches main findings

The aim of this chapter is to characterize the diversity of approaches adopted by the selected projects and to give insight to the way the projects use the different interventions according to the approach they follow. Basically, the selected projects adopt two main different approaches: targeted approaches and global or transversal approaches. Targeted approaches focus on specific products and commodity chains. They are directed either towards existing markets or towards new market opportunities. For projects that put emphasis on existing markets, two operational entries are adopted: strengthening the smallholder farmers' position on existing markets and improving specific commodity chain functioning. Projects aiming at developing new commodity chains are based on the identification of new market opportunities and on supporting farmers to take advantage of these opportunities. Two operational options can also be distinguished: diversification toward production with secured market access or high-value production on the one hand and specific niche markets such as fair trade on the other hand. Global approaches concern not only the agricultural sector but also trade and industrial sectors. They aim at improving and making the economic and institutional environment more conducive to market development.

For each approach, we highlight its main characteristics and the key issues as well as elements of impacts in its implementation by the projects. Elements of impacts are recapitulated in evaluation criteria tables that are built for the most illustrative projects for each approach.

The following table presents for each project which approach has been adopted.

**Table 15 : Recapitulative table of approaches in different projects**

	Existing markets		New markets		
	Strengthen farmer position	Improve specific commodity chain	Higher-value products	Niche markets (Fair trade)	Transversal approach
1.FERT, Madagascar	+				
2.PROMOPA, Guinea	+				
3.PSO, Madagascar	+				
4.BIODESA, Latin America			+		
5.ESOP, West-Africa			+		
6.PROCAFE, Bolivia				+	
7.PASAL, Guinea		+			
8.Agric. Trade and processing, Mali		+			
9.PCPS, Mali	+				
10.PRIAF, Mali, Senegal, Guinea	+				
11.Horticulture, Jordan			+		
12.Cattle breeding, China			+		
13.BSMD, Bangladesh					+
14.RUSEP, Nigeria					+
15.IFAD, Tanzania					+
16.AGROPYME, Honduras			+		
17.FT cocoa, Ghana				+	

## 2.1 Targeted approaches

### 2.1.1 Existing markets

- **Strengthening smallholder farmers' position on existing markets**

The objective of this strategic approach is to reinforce smallholder farmers' position on existing agricultural markets, by encouraging production increase, input purchase, crop marketing and by increasing the capture of value added over the downstream functions of the commodity chain. It is usually based on the diagnosis of existing farmers' production systems and of the conditions of their market connection, through field survey. Projects intervene directly with producers, and more specifically with producers' organizations.

*The support programs can intervene to create producer groups at the local level such as FERT did in Madagascar from the start (project 1) by promoting the institutionalization of existing informal small groups. For those small isolated groups, the project strengthened the group's existing activities (production collection, storage, marketing etc.) through assistance on a one-off basis based on group demand. FERT then worked at a higher level to structure groups from grassroots to regional and national level. In that case, involved RPOs had diverse objectives such as:*

- To realize economies of scale in input supply and in produce primary marketing,
- To set up and provide services for their members,
- To advocate producers interests, either in sectoral or territorial frameworks,
- To collaborate with other actors by establishing commercial agreements (e.g. contracts) or by setting up partnerships with research/extension services for instance.

The PROMOPA in Guinea and PSO in Madagascar undertake “professionalization” programs to assist institutionalization of RPOs. These programs aim to strengthen RPO legitimacy toward the authorities and also give the financial and human resources to reinforce internal capacities of organizations.

*RPOs structuring occurs at variable paces depending on farmers' orientation and situation.*

The organization process of small farmers is largely influenced by their productions and resources endowment. For instance, farmers in irrigation systems have to organize themselves to manage the water system in collaboration with administration or to buy inputs. The same applies for farmers oriented towards cash export crops such as cotton or coffee (PCPS, PROCAFE). As a result, they are much more organized than subsistence farmers or staple food crops- oriented farmers. The interventions mobilized for this type of approach are mainly actions that promote services, new institutional arrangements and capacity- building. One key element is that the partnership between RPOs and the project is to be built over a long period of time (18 years so far for FERT in Madagascar, 12 years for PROMOPA in Guinea).

- **Improving specific commodity chain functioning**

Based on the identification of specific bottlenecks, the aim is to improve the organization and competitiveness of one or several commodity chains, which are considered strategic for the opening up marketing channels for small farmers.

➤ *Presentation of the projects reviewed*

**Project 7 - PASAL, Guinea** - PASAL had one component focused on rice commercialization. The direct beneficiaries were the traders, who also assume rice husking activities. The project set a partnership with applied research institutions to develop reliable and low-cost processing technology, which the traders experimented during a pilot-test phase. Besides it worked with local micro-credit institutions and traders' small groups to better adapt financial services to their needs (commercialization and equipment credits). These concomitant partnerships associated with the setting of a favorable broad market environment resulted in the increased turnover for traders, which in turn created an increased demand for rice production, the development of the domestic production and the increase of smallholder farmers' incomes.

**Project 8 – "Agricultural processing and trade" (PAPT), Mali, World Bank** - Within APT, the identified bottleneck in the mango commodity chain was one of product transportation from landlocked Mali to Europe. The project, working with traders and packers, installed a multi-modal shipment that allowed improving export logistics, reducing transport duration and increasing quality of the final product. This benefited to all stakeholders of this chain in Mali, including the small-scale producers. Moreover, as the export activity was traditionally taken on by Ivorian exporters, the project strived to promote packaging and export activities by Malian stakeholders, in order to repatriate some value-added (VA) in the country. This redistribution of VA benefited at the end to the Malian producers, thanks to the rise of prices paid.

In the case of the PASAL (project 7), the rice sub-sector was selected for its central role in national food security. In the case of APT project (project 8), mango cultivation was chosen for concerning mainly smallholder farmers. Specific objectives are diverse. These can be to improve quality of the production and to adapt transportation means and marketing activities in Mali, to ensure agronomic research's adequacy with market opportunities in Guinea.

➤ *Analysis of evaluation criteria for the 2 selected "commodity chain" projects*

	PASAL, Guinea	PAPT, Mali
• Product	• rice	• mango
• Market	• domestic	• European market
• Bottlenecks identified	• Commercialization: rice processing and low sale turnover	• High transport costs • High transport delays + conservation: quality issue • Technical operations (packing) outside the country (Ivory coast)
• Direct beneficiaries and interventions	• Traders-processors: equipment credit, commercialization credit	• Transporters: coordination for multi-modal shipment • Packers: set up of packing-houses in the region • Producers: produce quality, production techniques
• Strategic partners	• Guinean Rural Credit (CRG) • Applied research institutions: rice processing technology	• Ivorian export company and investors
• Impact on producers	• Increased volume of production	• Increased paid price to producers • Job opportunities in pack-houses
• Spill over effects	• Technology dissemination outside the framework of the project	• Unknown
• Equity	• To be assessed	• To be assessed
• Factors of success	• Previous improvement of road accesses • Rise of international rice prices during the period of the project and favorable currency rate • Favorable sectoral policy: protection tariffs • Differentiated quality of Guinean rice (steamed) compared to imported rice (non-steamed) • Participative diagnostic and long process of coordination	• Stable market demand for quality mangos • Good coordination among stakeholders

➤ *Lessons learned from the projects*

*This type of approach can bring indirect support to farmers, through partnerships with other actors.*

Past programs favored assisting producers to increase their production as a means to increase incomes. They focused on extension services, input supply etc. Yet these approaches often failed because the supply chain was not organized enough or because of insufficient market demand. On the other hand, PASAL or APT approaches targeting actors downstream of the production had positive effects on smallholder farmers, even if producers were not involved directly in the project implementation.

The two projects suggest that establishing partnerships among researchers, private operators, credit providers and policy makers is necessary to guarantee the long-term effect of the interventions.

*Programs that focus on a specific product often lack the flexibility to address other farmers' strategies.* Indeed, the commodity chain analysis method has limits since the different actors are related to multiple other markets (for farmers: land, water, labor, credit, inputs etc.) and are linked to other commodity chains and deal with self-consumption crops. In PASAL, the approach was successful because upstream there had been a long negotiation process with stakeholders, including farmers. In

APT, the mango cultivation had been particularly favored in orchard development for the last 30 years, because of excellent agro-climatic conditions in the region.

*This type of approach requires improving sectoral policies.*

In PASAL, local rice production is submitted to international competition (importations from Asia) and therefore the institutional and political framework was a crucial issue. The setting of a favorable sectoral policy was a prerequisite for the success of the intervention. Thus, PASAL worked directly with the government (at that time, there were no professional organizations in rice sub-sector), to elaborate sectoral policies, based on rice commodity chain monitoring that led to the establishment of tariffs on imported rice. Some other programs (PROMOPA in Guinea, PRIAF in West-African region, PSO in Madagascar) fostered at the same time the emergence and strengthening of professional bodies and rural producer organizations to defend their interests before the authorities.

### **2.1.2 New market opportunities**

As put forward by Giovannucci (2003), very few developing countries are in the position to be a dominant raw material supplier. Hence, differentiated and value-based products are seen by many producing countries as alternatives to get beyond the highly competitive and volatile commodity-based trade. These enable them to valorize other competitive advantages that may be less dependent on technologies and do not basically rely on low cost production. These competitive advantages may arise from process-oriented strategies such as organic, fair trade, or eco-friendly for which consumer markets are increasingly demanding.<sup>21</sup>

- **High-value products**

The option for the small producers to target high-value products (livestock/fishery, dairy products, fresh fruits and vegetables, forest products) can be oriented not only towards export markets but also towards domestic urban markets, which concentrate the purchasing power.

➤ *Presentation of the projects reviewed*

#### **New higher-value products for urban domestic markets**

**Project 5 - ESOP, Mali** - In Mali, the NGO CIDR developed new high-value products for urban domestic markets: the project helped to create small dairies in peri-urban areas of secondary towns, in a region where cattle breeding were not developed but where an emerging demand for quality dairy produce was identified. The constraints to local dairy development include: competition with imported powdered milk, organization of milk collecting especially during the dry season when the distances from the herds are larger resulting in great fresh milk losses. So, the development of milk production implied a complex organization and technical assistance, especially as farmers were involved in the organization and the decision making processes in the dairy units of which they share the capital. However, the program had a positive effect on the farmers' capacity of innovation and benefited to about 350 farmers.

**Project 12 - Smallholders cattle development, China, World Bank** - In China, the World Bank implements since 1999 a regional program to assist small farmer communities to diversify their incomes. Based on the fact of an increasing urban demand for meat products, the project proposes to smallholder farmers to develop small-scale cattle production and to sell it in the form of diversified beef products. Before the development of the project, the cattle breeding was a household self consumption oriented activity. The project strives to upgrade technical services (veterinary services, husbandry services, forage enhancement) and slaughtering facilities to enable producers to respond to the market demand. The project is still to be assessed.

#### **New high-value products for the export markets**

**Project 4 - BIODESA - Argentina, Bolivia, Uruguay - French MAE** - The BIODESA program has been trying to develop since 1994 a market for aromatic oils meant for international perfume makers. This project was designed as a means for small communities to diversify their sources of incomes. The production of aromatic plants was chosen because it does not interfere with their already existing productive activities: the plants are either by-products of already cultivated crops (e.g. Eucalyptus that is primarily used for timber) or products gathered in the forest, maintained but not cultivated. The challenge is to diversify the clientele, which currently consists of two or three clients, to reduce the risks of contract cancellation. Yet the development of business linkages and increasingly stabilized markets is a long and uncertain process. The program, though initiated nearly ten years ago and achieving encouraging results, only concerns a few communities.

<sup>21</sup> Fair trade is registering over US \$500 million in 2001, organics is expected to top US \$30 billion in 2002, and the US \$8 billion US specialty coffee industry now accounts for nearly half of the nation's total coffee sales (Giovannucci, 2003).

➤ *Lessons learned from the projects*

Projects 5 and 12 suggest that, even if a market opportunity has been identified by the project operators, the smallholder farmers are not likely to respond to it without specific support because, switching to new products for new markets, creates renewed constraints and risks.

The diversification on a quality-oriented product for the small farmers is likely to be affected by the possibly enhanced competition with market-oriented farmers. Indeed, specialized farmers are more likely to better perform on this type of markets and then, may exclude small farmers. This has to be assessed in the reviewed projects.

In ESOP (project 5) and BIODESA (project 4), the approach required heavy investments (market research, studies, equipment, training, establishment of business linkages etc.) over a long period of time. Accordingly, it is necessary to carefully assess the additional required means and the expected impacts (time delay, income returns, externalities etc.).

*This development for export of high value products requires focusing particularly on institutional arrangements to ensure a secured commercialization channel in the long term.*

In the BIODESA project, the limitative factor lies more in organizational issues than in the technical aspect of the interventions. This project example further demonstrates that interventions should not be limited to support the production side, but also integrate actions at the downstream level to valorize and ensure the sale of production. In the case of BIODESA, the NGO GRET has been striving to ensure the outlets by playing a role of intermediation with potential buyers. The duration of the support intervention appears to be a key point in order to build trust among partners progressively.

This project also shows that producers will innovate only if the risk taking is affordable and if the environment brings sufficient incentive (price level and supply regularity). In their specific case, the risks were reduced for the establishment of commercial contracts with European buyers because these are considered as reliable.

*Focus on a high value product is more viable within a diversification strategy than within a specialization one.*

One important thing to consider is how the new production is inserted into the farming system of smallholders (by-products in BIODESA, new activities in ESOP and in the World Bank project in China) and to take into account the instability of the environment in which they operate. As seen in part II 1.4.1, even contractual commitments are not an obvious answer to guarantee outlets. The projects reviewed promoted diversification of sources of income rather than specialization, so they limited the risks for the producers. Specialization must be thought off only in a long-term perspective and based on the progress of trust between actors.

- **Secured market access: “fair trade”**

The objective of Fair Trade is to overcome price non-competitiveness of smallholders on generic markets, by promoting another form of linkage between Southern producers and Northern markets (see annex B). The Fair Trade system (FLO) establishes a minimum guaranteed price and a social premium, which must be dedicated to community development (mainly social infrastructures).

FT has proved that it is an economically feasible system. It responds to consumers’ demand and development awareness. Not only a certain type of consumer is concerned about the producers’ living conditions but also governments and international organisms are taking part in the Fair Trade system.

➤ *Analysis of evaluation criteria for the 2 selected "fair trade" projects*

	PROCAFE	Kuapa Kokoo
• Product	• coffee	• cocoa
• Target group	• 3,500 members in 18 cooperatives	• 35,000 members in one cooperative
• Scale	• Local (concerns 3,500 households)	• spans 5 out of the 6 cocoa growing regions in Ghana
• Sustainability	• Depend on cooperative organizational, technical abilities; on sustainability of certification control system (skilled staff)	
• Income generation	• Yes	• Yes
• Externalities	• Community development, through social premium	• Community development, through social premium
• Spill over effect	• Growing in cooperative number	• Cooperative growing in size
• Equity	• Difference between producers who are part of cooperatives and those who are not	

➤ *Lessons learned from the projects*

Kuapa Kokoo (project 17), which is a Ghanaian cocoa cooperative, formed in 1993 by a group of farmers with the assistance of Twin Ltd UK, in order to increase their representation in the market, tends to demonstrate that the fair trade approach can be successful.

The cooperative is now well organized, and handles important challenges when exporting fresh products due to the high quality requirements imposed by the Northern importing companies. It comprises five main branches: Kuapa Kokoo Limited handles trading; the Farmers Trust distributes premiums; the Credit Union provides banking advice and loans; the Farmers Union serves as the governing body and the Day Chocolate Company produces chocolate for the international market. The Farmers Union is composed of village groups that elect committees and delegates at regional level, and ensures that the cooperative is run democratically. Since its formation, Kuapa Kokoo has shown a spectacular growth, with now over 35,000 members.

*However, this type of approach benefits to a limited number of producers and has high requirements in terms of farmers organizations, which then represents the main constraint for small farmers access to this niche market.*

This is partly due to the still relatively low demand of the FT products but also to logistic and organizational problems that may arise at the RPO level. The FT producers have to be organized within cooperatives that have proved to work well and to be run in a democratic way to be eligible. Access to this specific type of institutional arrangement is limited to smallholder farmers.

In PROCAFE project (project 6), the NGO CICDA has been working with coffee producers in Bolivia since 1994. It has been assisting FECAFEB, the National Federation of Coffee Producers and Exporters, which numbers 18 cooperatives, which all entered the FT system, and represents 3500 smallholder producers. But the cooperatives are small and scattered. The low-marketed volumes hinder their bargaining power and their dispersion hinders the possible economy of scale among them. Well functioning cooperatives require great efforts in the internal functioning and capacity-building. In Bolivia, cooperatives assume coffee collection, transformation, and commercialization and manage credit. The Federation provides technical assistance; organizes training courses, market research and promotion, representation and fund raising. CICDA supported FECAFEB in its service provision (technical advice, product certification and control, creation of a credit fund, information and training).

Nevertheless, persistent problems remain associated with cooperative internal functioning: faults in the control organization, difficulties in centralizing operations and problems in running the coffee collection. These result in default of advance payment and long payment delays. Besides, the communitarian system of decision making at the village level hinders the required rapid decision-making. Consequently, even members of FT cooperatives sometimes have to sell most of their potentially certified crop through the conventional channels with traditional traders, because of

organizational failings of cooperatives. Hence, today, only 20% of the production goes through FT system in the Bolivian case.

*This type of approach, relatively new, still lacks impact studies.*

The project reviewed did not make impact studies about the FT system functioning over the producers' communities and over the final price distribution (what part of the price we pay for a chocolate bar goes to the producer compared to the non-FT system?). If FT proved it can be an economically feasible system, the following questions remain: How can we scale up those interventions, considering the somewhat limited development of fair trade markets? How can we integrate the majority of producers, at least at a regional scale, to avoid differentiation and inequity among small farmers?

*Fair trade projects a priori exclusively propose an export-based development.* Hence, special attention should be given to the potential risks associated with a specialized strategy in FT products, even though guarantees are given to the producers for the selling of their FT products. Support to diversification of products and to the food crops, especially for the least advantaged farmers involved in FT may be considered within a FT oriented support program.

## 2.2 Global approach

This type of support program intends to account for the whole economic environment at the national scale for improving small farmers' access to market. Even if the focus is put specifically upon the agriculture sector (as in the project 15 from the IFAD in Tanzania), the choice of a strategy oriented towards specific actors is not conceived ex ante. These projects present their approach as aiming to create an "enabling environment" to develop private sector investment capacity. They do not intend to bring direct support to producers. But positive effects on producers are expected through improvement of the general functioning of the economy, in particular through economic growth. The assumption is that the re-distributive effects of economic growth will also improve the situation of the farmers.

In practice, interventions encompassed in these projects aim to enable economic actors to make the right strategic choices and to have the means to implement them. The support often materializes in lines of credit to beneficiaries or matching grants on a competitive basis.

New generations of projects are now designed this way (especially, DFID in Bangladesh, project 13). Yet evaluation on smallholders remains to be carried out.

### ➤ *Presentation of the projects reviewed*

**Project 13 - DBSM, Bangladesh, DFID and Sida-** This project has the objective to "enhance the number, growth rate and competitiveness of small and medium enterprises" through the setting of an "enabling environment". This approach is based on the assumption that SMEs "play an essential role in distributing the benefits of economic growth". The support program entails all the sectors of the economy, including rural markets and strives to create an investment friendly environment. The provided "services" encompass all types of material and human means necessary for the smooth running of a business (market information and research, training and technical assistance, alternative financing mechanisms, training in policy and advocacy, infrastructures, technology development, input supply etc.). They are supposed to be provided by existing private service providers, and if not, the creation of such services will be encouraged. The support is given through matching grants to economic operators. These disbursements are tied to agreed performance benchmarks. A specific part of the donors' funds is reserved for specific rural districts and important sub-sectors inside them, but they are not pre-defined. There has not been an impact appraisal on this project yet.

**Project 15 - Agricultural marketing systems development, Tanzania, IFAD -** It initiated an "Agricultural Marketing System" development program in 2002. The project has a holistic approach since it intends to provide assistance in all types of intervention. It was not specifically targeted at first, as it was to encompass all agricultural sub-sectors (for example, it foresees working nationwide with 1000 POs). It is the potentially eligible beneficiaries who call on the program's assistance, for conditions of resources (access to land, joint collateral).

### ➤ *Lessons learned from the projects*

*This type of approach targets actors with high social capital.*

In practice, the stakeholders most likely to benefit from the project are those that have a network of relations and access to information (social capital), and those with collateral (condition to access credit), so the smallholder farmers, as being among the weakest actors, might be excluded. The undifferentiated treatment of all actors on a national scale renders it difficult to take into account the diverse and specific situations of smallholders.

*This type of approach can exclude already marginalized regions.*

Such projects start to develop their activities in urban areas (Bangladesh) or in regions where the agricultural and socio-economic context is favorable (Tanzania), with the risk of excluding the marginalized areas. Hence not having impact studies, it is difficult to evaluate the impact on smallholder farmers, and notably on farmer differentiation.

To help small farmers to benefit from the programs, targeted support is likely to be the best approach (subsidized credit, technical support...).

To facilitate ownership, dialogue processes and institutional mechanisms were implemented at the local level by IFAD in Tanzania, in order to ensure the full participation of the small farmers and to take their needs into consideration. However, this approach generates important transaction costs.

### 3. A general picture of the projects

#### 3.1 Major groups of projects

To capture the large variety of projects supporting farmers' connection to market and to analyze how the projects' strategies and interventions are articulated, we built a matrix by crossing the types of actions identified with the different project approaches (see table 15).

**Table 16: Recapitulative analytical matrix of projects according to interventions and approaches**

Project approaches → Interventions ↓	Targeted approach				Transversal approach
	Existing markets		New market opportunities		
	Strengthen farmers position	Improve specific commodity chain functioning	Diversification (secured or high value markets)	Niche markets (Fair trade)	Improve global economic environment
Infrastructures					
Capacity-building					
Services					
Institutional arrangements					
Institutional environment					

We identified three major groups of projects:

- Projects that focus on new market opportunities more than on specific interventions (red box). These are notably projects aiming at developing diversification or fair trade production. They usually use all the types of intervention, excepting transport infrastructures, which are very often financed via other types of projects.
- Projects focusing on supporting the actors (green box) (farmers, traders exporters and/or service providers) through capacity building, support to services and promotion of conducive institutional arrangements.
- Projects following a global approach (blue box). These are the more prone to encompass the whole spectrum of actions.

While the first two types of projects may support institutional environment enhancement through the support of specific market regulatory laws or trade policies development, the third type get more involved and is more liable to handle more ambitious programs of institutional environment improvement. However, they present the risk of not reaching the marginalized small farmers, except if specific compensatory mechanisms are designed.

When referring to approaches, it stands out that most projects address the strengthening of the farmers' position on existing markets (5)<sup>22</sup> or their positioning on diversification markets (5)<sup>23</sup>.

In terms of interventions, all the projects reviewed deal with services provision and 13 projects deal with institutional arrangements (contract promotion, collective action on primary marketing, advocacy, etc). Surprisingly, interventions on capacity-building, which concern only 11 projects, do not appear as a systematic action, despite their strategic importance in the reduction of unevenness among stakeholders. However, this must be tempered by the fact that capacity-building may also be provided through services provision. The few projects that deal with the institutional environment (7) are symptomatic of the relative segmentation between interesting experiences in the field and the policy making process at a higher level.

<sup>22</sup> Projects number : 1; 2; 3; 9; 10

<sup>23</sup> Projects number : 4; 5; 11; 12; 16

### 3.2 Types of approaches promoted by the selected World Bank programs.

The majority of the World Bank programs selected from the World Bank's portfolio on "agriculture marketing and trade" that were briefly reviewed in part 1 section I.1.3, presents a global approach.

The World Bank used a variety of approaches in projects. It should be noted though, that few projects are explicitly encompassed within linking smallholder farmers to market, "agriculture marketing and trade" being a broad theme.

Some projects are based on producers' strategies' assessment and aim specifically at strengthening producer organizations or rural communities, but there are very few of them (5). Some target specific commodity chains or sub-sectors (seeds, animal feed) (15). Others take in the development of higher-value crops, mainly for the export market (8).

The rest of the projects (48) aim to create a global "enabling environment". They either have a holistic approach to the agricultural sector that does not target specific sub-sectors or farmers' specific situations or they intervene on the macro-economy. Many of the projects are structural adjustment programs.

**Table 17 : Type of approaches promoted by the selected World Bank programs**

Type of Strategy	Number of projects	Total loan amount	Share of the loan corresponding to the strategy
Strengthen position of farmers	5	USD 112 million	1,8 %
Improve specific sub-sector functioning	15	USD 828 million	12,5%
Higher-value crops	8	USD 787,3 million	11,9%
Transversal approach	48	USD 4,6 billion	69,5%
		Among which 37% of structural adjustment	
Other: natural resources conservation*	3	USD 56,75 million	0,9%
Information not available	6	USD 223,3 million	3,4%
<b>Total</b>	<b>85</b>	<b>USD 6,6 billion</b>	<b>100%</b>

Source: IRAM CIRAD Study - from the WB on-line programs database (see part I)

*Part III: Transverse lessons learned*

## 1. The central role of RPOs in connecting the farmers to the markets

Whatever the choice of interventions and approaches is, farmers' collective action is a necessary condition for improving the benefits farmers can get from their access to markets. Moreover, since small farmers usually have defensive strategies with respect to the markets due to the multiple constraints they face, their involvement in RPOs can create the conditions for setting a collective offensive strategy that enables small farmers to catch new market opportunities or even to create them. As such, farmer organizations appear to be fundamental in the reduction of markets constraints on access for the farmers. However, they also present some limits and paradoxical effects.

### ➤ *A key actor in promoting new institutional arrangements favourable to small farmers*

Numerous projects show how RPOs are important in reinforcing farmers' position in the technico-economic area of the agricultural marketing vis-à-vis other actors of the commodity chains (FERT – project 1, PROMOPA – project 2, ESOP – project 5).

Collective organization allows one to structure a sufficient critical mass of producers making it possible to negotiate better or to make contract with other actors. For example, they can internalise certain transaction costs through the organization of inputs purchase, marketing of crops, development of norms and standards strategy, or because they can offer collective guarantees.

As regard to vertical coordination, when RPOs are in a strong position to engage in the primary commercialisation area (buying inputs and marketing crops), they can develop offensive strategies to capture added value in the processing of agricultural products. The more they develop their skill and get experience in terms of collective organisation and bargaining power with other actors, the more they will be in a position to develop vertical coordination strategies.

### ➤ *Services providers*

PCPS project (project 9) shows that RPOs may have a comparative advantage in providing technical and economic services to small farmers:

- Services provision on a marketing base create a selection at the entrance, while small farmers may benefit from RPOs services delivery when they join,
- secondly, RPOs, being farmers based organisations, are in position to understand the farmers needs and to respond to them much more adequately than external actors.

However, reaching the small farmers is costly. Therefore, it may be necessary to support collective investment and activities of the PO aiming to reach the small farmers.

### ➤ *Representation and advocacy*

Regarding the field of agricultural marketing, project review (PRIAF - project 10, FERT – project 1, PROMOPA – project 2) shows that basically, RPOs can defend farmers interests in three domains:

- Farmers' participation in the conception and the decision making of the programs and projects that concern them in specific sectors.
- Farmers' participation with other private or public stakeholders in the policy making process regarding their market access reinforcement and the market environment enhancement (that includes for example negotiation for policy elaboration, formal recognition of specific product quality, negotiation about tariffs to encourage the development of the national production).
- Farmers' participation in a prospective reflection about the place of family agriculture in a liberalised and global environment, the challenge being to propose and defend general policy orientations which would be more consistent with small farmers' objectives, strategies and specific constraints.

The FERT (project 1) and PROMOPA (project 2) projects reveal the pertinence for a project to articulate a continuum from farmers grassroots technical activities up to RPOs institutional and policy level investment, thus reinforcing the farmers representatives legitimacy.

➤ *Support to RPOs*

Interventions designed to strengthen RPOs have great spill over effects on small farmers. To be able to play an effective role, specific investments in capacity building are required to help RPOs to conduct diagnoses of issues that directly concern their members, build prospective vision and design strategies, negotiate with other actors (institutional arrangements and policy making). These support actions must be adapted to the RPOs level of structuring and to the functions they intend to develop.

Several points need to be well thought-out when working with RPOs. Firstly, RPOs present a wide diversity. RPOs characteristics can differ in their conditions of creation (local initiative, external impulse, ...), their objectives (local development, natural resources management, marketing, etc), their membership features (women, young, small to large farmers), the type of relation they maintain with their social environment, the various financial and technical supports they may received, their dynamic of evolution and their level of structuring, etc (Mercoiret et al, 2001). From that point of view, even if RPOs can be concerned and play a role in every type of intervention and every type of approach, RPOs support actions must be adapted to the diversity of their specificities in term of their own objectives and internal level of structuring and professionalization.

Secondly, support to RPOs on the issue of market access provided by donors often results in a certain form of RPOs instrumentation with the objective to implement interventions that have been designed without their participation. RPOs have to be considered as full partners of the projects. Otherwise, they may get involved in activities that they cannot manage effectively or that do not contribute to achieve their strategic objectives. Therefore, strengthening them so as to have a clear strategic vision is a prerequisite for good negotiation during the phases of the project's construction.

Thirdly, emphasis should be put on supporting them in choosing the strategic options according to their resources, according to market structure and context. In fact, they may be ill-advised to assume functions that are effectively taken charge of by other actors (PRIAF – project 10 / see pedagogical tools developed by the APM network).

➤ *RPOs specialization and small farmers exclusion*

When RPOs act at grassroots level, they can integrate different types of farmers. The poorest among them can theoretically capitalize on experiences and successes of farmers already more integrated into markets. Furthermore, RPOs are by nature more prone to integrate the small farmers and have more potential to help small farmers to get benefit from markets.

However, the more RPOs are market oriented specialized, the more their members selection will be done according to strategic objectives (sub-sector specialization). RPOs may in that sense intensify differentiation between member and non-member farmers, and contribute to the creation of new barriers to entry (for example, when members of a cooperative benefit from external technical assistance while the non-members do not; or when they benefit from specific arrangements from their cooperatives, for instance production certification, such as Fair Trade, this reduces market opportunities for the non-members). They can also create differential access to new collective goods or services.

➤ *Should RPOs afford internalisation of the transaction costs necessary to reach the small farmers?*

Lastly, if RPOs can develop public goods provision such as infrastructure provision, market information services, economic service delivery, rural credit management system that may benefit all farmers, as other types of organizations they also entail cost of maintenance. Therefore, to sustain services provision, as it appears for the PCPS project (project 9), to mitigate the risks of exclusion of small farmers and/or to enhance integrative functions of RPOs, the additional specific costs involved to include small farmers (in the case of collective goods management and access), to reach them (in the case of services, information broadcasting...) and to ensure public goods provision, should be taken into account when designing public policies. For, being costly, RPOs' effective services

provisions to small farmers should be negotiated between existing RPOs and the State and, if necessary, publicly supported.

## **2. The necessity of a multi-actors approaches**

Actions aiming at helping farmers to get benefit from markets may not necessarily focus on small farmers, but should take into account the various actors involved in the sub-sectors. Actions at a multi-actors level (traders, farmers, public bodies and consumers) are likely to be more effective.

When addressing the issue of farmers' linkages to markets, opposition between the roles of private and public institutions, and between farmers and traders, are often emphasized. Despite the fact that conflicts of interests between producers and traders are often highlighted, the example of the PASAL (project n°7) demonstrates the potential spill over effect on small farmers of well thought-out interventions targeting downstream players, such as traders or processors, through the resolution of bottlenecks in commodity chains.

The project review (PRIAF project 10) also suggests that common interests and positive synergies may be constructed between farmers and traders, and by extension with other actors. In that sense, any type of deliberative institutions and inter-professional bodies, regrouping the various actors, should be promoted as they facilitate the search for collective solutions and the implementation of actions.

Nevertheless, even though rapid improvements of the farmers' linkages to markets can be obtained, key-factors for the setting up of favorable sustainable arrangements for farmers are the small farmers' capacity to negotiate and the strengthening of their collective capacity. Moreover, the project review shows that projects that are supporting both public and private sectors seem to be more efficient in creating an environment conducive to improving small farmers' benefits from their connection to markets. Another point is that research development, capacity-building processes involving farmer's representatives, public institutions and other stakeholders, with a view to establishing concerted diagnoses, appear to be strategic tools.

## **3. Development of new modes of coordination among actors**

More than a technical issue, where a solution can be found for any type of problem, enhancing farmers' linkages with market tends to be more an institutional challenge, characterized by the way actors are able to establish new modes of coordination among themselves which could be more in favor of the small farmers.

### *➤ Market coordination*

Firstly, as has been developed previously, since small farmers face many constraints in taking advantage of their connection to markets, the promotion of new institutional arrangements with suppliers or buyers, as a way to reduce production and marketing risks by securing inputs and outputs access, appears decisive (Project 8: Agricultural Trading and Processing Promotion Pilot project ; project 11 : Horticultural exports promotion). Nevertheless, market arrangements relevance (long term contract, vertical integration, spot market) relies on a rigorous combined analysis of the production risks (production cycle length, scale of investment, input specificity) and markets risks (perishability, rigidity of quality, rigidity of timing). Such analyses may be used to determine the appropriate form of arrangement for the various types of existing market and outlets: export, domestic, local. In the case of significant risks, vertical integration would be advised. When the risks are lower, spot markets may be efficient (Lieshout *et al*, 1995).

### *➤ The coordination of actors*

But in a wider scope, to take advantage of market opportunities requires producers in developing countries to partner and to promote new institutional arrangements with other market actors to implement the various interventions (infrastructures, services, capacity building). In fact, a commodity chain supply is a complex organization where various types of actors intervene. Direct actors

(producers, traders, processors, retailers, consumers...) become the owner of the product at one moment or another in the various stages of the supply chain. Indirect actors (suppliers, services providers, transporters...) usually never acquire the products, but their interventions make possible the product circulation from one direct actor to another, under certain conditions of price, quality, presentation, conservation or transformation. Institutional actors regroup public institutions, projects, direct and indirect actors' organizations, etc. Nevertheless, the development of any type of intervention requires a new mode of coordination. To be built efficiently in a sustainable way, it entails a complex and long process, as it requires the building of a consensus among actors and implies the learning of new relationships. PASAL program, for example, provides the demonstration of the importance of coordination between actors: between economic players, public authorities, services providers and support projects in the small traders credit line implementation combined with rice millers development policy in rice production areas in Guinea (project 7).

However, since actors' decisions are based on a diversity of convergent or divergent criteria according to their own interest, it is important to establish a mediation process with the objective of promoting a concerted identification and diagnosis of constraints, as well as to foster information-sharing. This mediation requires specific tools such as, for example, multi criteria analysis process and participative research development, information dissemination, actors capacities building in the field policy analysis (PRIAF : project 10). This process is moreover an interesting way to help the emergence of deliberative institutions.

#### 4. Strategic approach priorities

The choice of every action or approach has to be appreciated according to the specific situation, and there is no standard rule on that matter. However, since public financial resources will be engaged, it is strategic in helping to determine which is most likely to have the highest effect on small farmers linkage to markets improvement. The bibliographical and projects study reveals a certain number of lessons in terms of principles for the choice and implementation of the interventions and approaches. (Albert *et al.*, 2001; Delgado *et al.*, 1997).

These choices depend on the situation of the agricultural sector, particularly the density of rural population and the agricultural share in the GDP, the market development level (good and services provision, competitiveness among traders, etc), and the institutional environment quality. The approaches' choice of priorities can be summarized into :

- to reinforce smallholder farmers' position in existing commodity chains that are strategic for them
- to promote diversification of production aiming to reduce vulnerability (food and incomes).
- to promote diversification of production on niche and high value products
- to improve the market environment in order to facilitate the connection between supply and demand through a demand-driven process.

➤ In the situation where the agricultural sector is dominated by self sufficiency oriented farmers, or intermediate market oriented farmers, where markets are not very competitive, and where the institutional environment is still poorly developed, **targeted approaches** appear to be more favorable than the global approach. It might be interesting firstly to promote the development of a staple food market in order to help the small farmers to secure food self-sufficiency and to offer them the opportunities to increase their marketable surplus. Then, a diversification strategy may be implemented on a less risky basis to take advantage of new market demand opportunities.

A combination of strategic choices may be based on the following approaches:

- Targeted approach on staple food production and diversification on supplying the domestic demand. This includes the resolution of the bottlenecks to increase the outlets for the farmers, in particular processing and packaging adaptation to fully respond to the specificity of the local demand (PASAL,

project n°7). In parallel, actions may also target the reinforcement of the farmers' collective position by taking on primary commercialization activities (input purchase – output supply) with a view to reducing the market risks by enhancing farming contracts and modifying the system price by reinforcing their bargaining power (PROMOPA, project n°2). Support to production development, with the fulfillment of the previous steps, will have major effects. The strengthening of the farmers' position through primary commercialization activities may lead in a second stage to additional opportunities for capturing added value from the downstream commodity chain segments.

However, competitiveness with identical imported or substitution staple food must be carefully analyzed, in order to make the domestic markets development sustainable. A favorable institutional environment, through for example activating a tariff policy and implementing a coherent and transparent food aid policy (to avoid for example food aid coming into competition with the local production), has also to be well thought-out to avoid market distortion and difficulties for small farmers in the selling of their production. As a consequence, arbitration on the basis of the expected welfare redistribution (food costs for the urban consumers versus small farmers economic growth) may have to be made. Positioning of national RPOs in such public policy debates is therefore strategic for the small farmers to defend their interests.

- Targeted approaches on high value production diversification are likely to have major returns on improving small farmers situation. But given the initial low capacity level, the information gap and the low asset basis (land, credit, etc) characterizing the small farmers, high value production targeted approaches require specific, intense and long term support actions. *"For these reasons, farm diversification in the sense of identifying promising candidates among tradable agricultural output seems a necessity for both growth and equity, through research, infrastructure investment, and through appropriate institutional development"* (Delgado et al, 1997).

Another difficulty lay in the fact that these types of market opportunities could be captured by more wealthy or larger farmers as the result of the competition process. Therefore, the importance of the risks dimension implies implementing these supports in the long term and to imagine some specific mechanisms for improving risk control (contracts farming, insurance system, etc). Moreover, intermediate institutional support form involving a mix of public and private actions is necessary to build an environment conducive to high value production development (PROMOPA, project n°2). Another option is to take advantage of the market segmentation process.

- Approaches targeted on segmented demand through supply of differentiated and specialty products. The lowering production costs resulting from international price decrease trends and products standardization (both with the concentration of the technical and economic power in the dominant players' hands) leave little space for the small producers to participate successfully in the current agricultural markets. However, the demand segmentation trends coming from conventional markets, based for example on the emergence consumers with the willingness to pay for "ethical products", offer new market opportunities for the small farmers. Generation of new products responding to a specific demand, for example for goods with a geographic indication of origin, organic, fair trade, or eco-friendly products, is a promising way forward because they afford long term competitiveness for the small farmers. In fact, such production cannot be competed with by intensive production systems. At the same time, they offer the opportunities of capturing more added value for the small producers by promoting direct supply chains towards the consumers. However, to access these market opportunities requires a strong attention to be paid to organizational and managerial capacities of farmers organization, fulfillment of product standards, contracts adapted to farming that need to be progressively based on mutual confidence, etc. *"The channels for differentiated coffee often involve a shorter supply chain and can thereby represent opportunities for greater market access and capturing a greater part of the products' value. The ability to reformulate the supply chain wherein information, finance, and sometimes even risk is more readily transmitted between participants, may ultimately help*

*producers more than anything else.*"(Giovannucci, 2003). Given these requirements, long term support is therefore necessary as show projects BIODESA (project 4), PROCAFE (project 6) and Kuapa Kokoo (project 17).

➤ In a situation where agriculture is largely transformed towards market supply, characterized by an intermediate to highly market oriented farmers ratio and a market for goods and factors functioning well, then this situation will be much more conducive to **global approaches**. The mobilization of the diversity of interventions as institutional arrangements support, services specialization, property rights and product standards definition should help to enhance the market environment and create a environment conducive to specialized agricultural production and trade and diversification on high value and niche products.

However, a question remains on the effect of such an approach, specifically on small farmers, and a combination with targeted approaches might be necessary.

## 5. Intervention priorities

Whatever the type of strategic approach adopted by the projects, the combination of several types of intervention tends to be more efficient in enhancing farmers' connection to markets, as smallholder farmers often suffer from several types of market access constraints. A progressive structuring of the interventions, and their evolution, in phase with the socio-economic context, is crucial to obtaining a positive impact in terms of small farmers' connection to market, given the progressive evolution of their production conditions and their relationships to markets.

Infrastructure enhancement is a pre-requisite, since it changes the farmers' opportunities to connect to market when products' physical flows are a main constraint (remote areas). When infrastructures exist and physical flows are effective, farmers' integration to markets increases, and the problem of asymmetry of information, bargaining power, marketing risks on price and delivery becomes more stringent. Then, services and support for institutional arrangements become more necessary.

Regarding institutional arrangements support, priority should be given to collective action and contract-farming support, since the outcomes are more tangible and rapid, and may be more focused on small farmers. Nevertheless their efficiency relies on the institutional environment, in particular the legal framework. This evolution should thus be addressed at the same time.

But heavy investment in institutional environment enhancement may have minor effects and be useless however costly it might be as long as institutional arrangements are not developed enough among actors (Dorward et al., 2002). But it remains important to promote multi-actor deliberative institutions from the beginning of any actions: it is today impossible to elaborate sectoral policy without the participation of the actors concerned, even if these actors are still lacking in organizational skills.

For both types of interventions or approaches, the complementary implementation of individual, collective and public capacity building intervention is always a key factor of success. Whichever focus capacity strengthening has - individual, collective or public -, the promotion of institutional arrangements with small farmers cannot be thought of without it. Capacity building has facilitating effects on the other components of the projects. It contributes to the reduction of farmers' market constraints (asymmetry of information, bargaining power...) and fosters learning processes and negotiation skills that are crucial in any situation. As a consequence, capacity building interventions appear to have the highest spill over and long term effects. Therefore, *"more stress must be put on strengthening the organizational and managerial capacities of institutions such as trade associations and cooperatives for achieving better participation of smallholders and the poorest"* (Giovannucci, 2003).

## *Conclusion*

Supporting smallholder farmers in getting benefits from their linkages to markets becomes a burning and complex issue. The present study aims to contribute to the debate through an analysis combining a literature review on farmer's market access, based on neo-institutional economy, and on a bibliographical review of a variety of development projects, implemented in different developing countries.

After raising the question of the impact of globalisation on the smallholder farmers through the bibliographical review, the study analyzed the strategic approaches implemented and the interventions mobilized to enhance the benefits smallholder farmers draw from their connection to markets. The projects review allowed us to highlight the specificity of the various projects in their implementation. The study ended up with a transverse analysis highlighting some lessons learned issuing from both literature review and project experiences.

The present study "linking small farmers to markets" allows us to point out certain limits. As a starting point, it has to be mentioned that "Linking the small farmers to markets" cannot be tackled through the only angle of marketing functions and the related constraints affecting them. In particular, agricultural products have not only a marketable value but also a non-marketable one. It has already been pointed out that, at the farmers level, agricultural products fulfill particular social and symbolic functions, which do not have value on the goods markets. Moreover, the production of goods related to the environment and natural resource up keeping by farmers finds no remuneration on the markets. The difficulty remains in the internalization of these costs without creating markets distortion. This is an open policy question, which has not been tackled by any of the projects.

Secondly, marketing strategies of the small producers appear to be more strongly dependent on the existence of land, labour and risk markets, which determine the opportunities to produce and to secure earnings, than on the market characteristics of the markets. For the small farmers, the major risk component in the family farming activities (illness, pest and diseases, drought), managed by existing systems based on farmers' social networks are not adequate to face supplementary marketing risks (shift in supply and demand, product perishability, length of supply chain, process complexity, uncertainty in governmental policy making and practice). In theory, risks are insurable. In reality, very few operational systems exist and to keep on encouraging small farmers to join the markets, while prices are low and volatile, and the risks management systems are not adapted or absent, remains contradictory. An evaluation of the existing tools (cereal banks, contract farming, financial risk management instruments, etc) remains to be done on that matter. Furthermore, appropriate instruments need to be designed on the basis of the risks type, roles of different public bodies and private actors.

Finally, even if numerous efficient combinations of interventions and strategies have been reviewed and may be proposed to help poor farmers in order to take advantage of their connexion to markets, the relevance of these choices very often appears to be somehow out of proportion with the major trends of the international market that have been pointed out in the first part of the document: decreasing and instable agricultural products prices; increasing risk and poverty for the small farmers; dominant actors in position to take advantage of market opportunities; imbalanced policies generating difficulties to national agricultural assets on domestic and international markets for the small farmers, competition among uneven productivity levels and continuing protection by many industrialized countries for domestic agricultural producers.

If market development brings economic growth, unfortunately it does not guarantee a fair share of wealth. The debate is not around a binary question of pros and cons; liberal or interventionist policies. Each option shows its limits in terms of poverty reduction. Beyond this ideological debate, the question concerns more than anything the capacity of the various actors at the different local, national and international levels (producers, traders and consumers) to look beyond their own interests, and

possibly their conflicts of interests, to reach a common goal. A new generation of markets - and by extension, projects - based on deliberative institutions, equity and prosperity, sharing searching and / or eco friendly concern, announce that this new perception has become a reality and a major attention will have to be given to it in the future.

According to this vision, the choice of the intervention tools and strategic approaches should be at the service of the actors who are expected to build these new policies. Review of the literature and projects have shown that the role of public institutions has to be restored to liven up dialogue and negotiation processes aiming to reach a concerted diagnosis and a more pro-poor policy orientation. RPOs have a central but not exclusive role to play in strengthening farmers' position in traditional and emerging markets as well as to negotiate international public, sectoral and territorial policies more favourable to the small farmers. Care must be taken not to treat the RPOs as mere instruments, as is often the case, in the implementation of support programs but to consider them as full partners. Moreover, the other actors, such as traders, processing enterprises and international companies, and today more and more consumers are also concerned. Faced with this long-term challenge, capacity-building and new modes of coordination must therefore be promoted systematically and constantly.

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STUDY REPORT

## **Linking smallholder farmers to markets:**

**Lessons learned from a literature review  
and an analytical review of selected projects**

**ANNEXES**

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## Foreword

The following summaries of the projects were written drawing on available materials that are diversely documented. These include: project presentation documents from the donors (e.g. PROMOPA, DBSM) or from the project website (AGROPYME, RUSEP). For some of the projects, elements of results from internal or external evaluation, were available (cases 1 to 10 and case 17) and allowed to provide a more in-depth analysis of the projects. Some were also based on the authors' experience (IRAM for PASAL, PCPS, PRIAF) and one was complemented with interviews of the operator (FERT). For others, this kind of information was either non-existing (ongoing projects) or not accessible during the study (cases 11 to 16), so the summaries consist of a brief presentation of the project.

The compilation attempts to cover the range of approaches and domains of activities, though some are less represented among the available material (few examples from infrastructures projects), and it gives elements of results whenever possible.

Linking farmers to markets is not often the main objective, and is only a component of the projects reviewed. From the 17 analysed projects, only 6 of them explicitly mention market or trade in their title. (See also table 15 in the main report). The main objectives of projects are diverse: strengthening of capacities of farmers' organizations and/or other actors (PROMOPA, FERT, PSO, PCPS, and PRIAF), food security (PASAL), the development of rural markets (IFAD's project, DBSM, RUSEP), export markets (PROCAFE, World bank in Jordan, Kuapa Kokoo). Some focus on one sector, to improve commercialisation and possibly the production techniques of one type of farming (horticulture in Jordan, rice in Guinea, coffee in Bolivia, cocoa in Ghana, livestock in China), others adopt a global approach (projects from DFID in Bangladesh, from IFAD in Tanzania).

The budgets of the projects range from \$88,000 to \$30.3 million per year of implementation (Table 1). There does not seem to have been a relation between the cost of the project and the domains of activities or the adopted approaches. The amount dedicated to a program is more related to the donor (unilateral or multilateral) and to the scale of intervention. Therefore the objective is not to compare the projects that are very different in terms of financial means, contexts and institutional set up etc. Thus the purpose is to highlight the diversity of approaches and to draw some lessons about innovative tools and some key issues. In a second phase it will be necessary to analyse in greater details the results and if possible the impacts of a selection of projects to be able to draw conclusions.

Table 1: Indicative costs of the reviewed projects.

<i>Case</i>	<i>Donor, area</i>	<i>Cost per year (\$ million)</i>	<i>Case</i>	<i>Area</i>	<i>Cost per year (\$ million)</i>
1	MAE, AFD; Madagascar	2,196	10	MAE; Senegal, Mali, Guinea	0,088
2	MAE; Guinea, All regions	0,813	11	BM; Jordan	1,42
3	MAE, Madagascar South-West region	0,768	12	BM; China, 4 provinces	30,13
4	MAE; Argentina, Bolivia, Uruguay; regional scale	0,213	13	DFID; Bangladesh, National scale	4,89
5	MAE; 4 West African countries; Local level		14	USAID; Nigeria, 4 pilot states	
6	MAE, EC; Bolivia, 3 provinces in La Paz region		15	IFAD; Tanzania, 2 geographical zones	6,04
7	MAE, AFD; Guinea, National scale	0,93	16	SDC; Honduras, National scale	
8	BM; Mali, Southern region of Sikasso		17	DFID; Ghana	
9	AFD; Mali, Niono region	0,498			

## **Annex A: Case Studies**

## ***Case 1: Support to producers' organizations, FERT- Madagascar***

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### **Project identification**

Donors:	EC, MAE, AFD (main donors)
Scale:	national (8 regions)
Beneficiaries:	farmer's organizations
Budget:	average 1,8 M€ per year = USD 2,196 million per year
Duration:	since 1985
Operator:	FERT (a French Non-Governmental Organization dedicated to the development of rural economies, based on a network of agricultural producers' organizations and associated industries)

### **Objective**

FERT responds to requests from producers who wish to benefit from the experience of French farmers and their organizations with the aim of contributing to a real improvement in farmers' standard of living and generally to more viable rural economies. FERT encourages local initiatives with the support of local agents. Accordingly, FERT helps to find the human, technical and economic resources that are essential to the implementation of a continued dynamic growth structure in farming and rural development.

### **Context and project background**

Agriculture in Madagascar is above all a subsistence farming. Exportable agricultural products concern less than 20% of the agricultural households. The country is vast and has a large agricultural potential due to the variety of its ecosystems. Yet problems of internal (of being enclosed) and external (insularity) communications, among others, hinder the full expression of this potential. In the period 1975-1985, a collectivisation policy in the agricultural field was implemented. From 1985, the economy was quite suddenly liberalized. The State withdrew from the socio-economic activities resulting in the deterioration of the agricultural facilities and services. From this period also thousands of farmers associations were created, initiated by churches, or development projects built up by the State or foreign aid. In the latter case, many of these associations were created as an opportunity to receive the subsidies and services offered.

### **Project approach and activities**

At this time, FERT's action was aiming at creating groups of producers and helping them organize within associations to provide technical services and financing, to supply inputs and to collect and market agricultural outputs. So FIFATA ("Fikambanana Fampivoarana ny Tantsaha" or "Association for the progress of the farmers") was constituted in 1989.

Groups were formed on the basis of activities, which were then considered a priority. For instance, some groups specialized in providing rural credits. This network is structured in layers: the farmer-run village banks ("Caisses d'Epargne et de Crédit Agricole Mutuels – CECAM" or "Saving and Agricultural Credit Cooperatives") have merged into 8 Regional Units (URCECAM), then into an Inter-regional Union (UNICECAM). The network is in the process of being institutionalised, into an association called the ICAR partnership with the support of French "Credit Agricole". The groups formed to take charge of input supply and product collecting became local cooperatives. Those cooperatives have merged into Regional Unions in 4 regions. Since 1990, FERT backs up FIFATA directly. It diversified its actions at the request of Madagascan line Ministries and spread its actions to several areas, mainly collaborating with 5 regional federations of farmers' organizations. Today, FERT is present in 8 regions of Madagascar and its interventions concern 5 regional or inter-regional thematic programs:

1. Support to the agricultural cooperatives (PSCA)
2. Support to the development of cooperatives and other farmers organizations in the Menabe region
3. Support to the federative movement of farmers organizations
4. Support to the development of fruit and vegetable productions on the highlands of Madagascar.

The intervention consists of an institutional support, which takes place over the long term, while accompanying social changes. At the start of the program, the objective was to organize farmers at

community level were associations still did not exist. The group structuring was rooted in concrete issues and needs expressed by producers. Nevertheless it is based on a strong implication of expatriate technical assistants that are spread out in different regions and who are usually the instigators of internal orientations inside the associations.

The structuring of these associations adopted a learning-by-doing approach: whilst the organizations gain in autonomy and maturity, the activities build up at regional the national level and the services offered branch out. This takes a long time, because it has to do with acquiring abilities and skills and also with changes in social models.

The idea of the pre-eminence of collective action comes from the structure and history of the French model of agricultural professional organizations, FERT being originated and partly funded by those organizations. Collective action is regarded as a means to improve the marketing of agricultural outputs, to increase their bargaining capacities, essentially by doing input purchases and outputs sales in bulk, to provide credit, to manage services themselves (as opposed to contracting private services providers or count on the extension of public delivery systems).

FERT provides an institutional support to all farmers' organizations: training of leaders, members and technicians in partnership with French agricultural organizations or institutions (as the "Credit Agricole" for example) but also in partnership with FORMAGRI, a training Institution created in 1997 within the context of a program financed by the European Commission.

FERT offers specific assistance to cooperatives (15 dairy cooperatives and 57 generalist cooperatives) and cooperatives regional Unions. Those organizations provide technical and economic services to their members: input supply through 77 specialized shops; product storage and marketing; assistance in accountancy and internal functioning to enable them to progress towards autonomy; extension services on production techniques, field experiments, and study tours in partnership with the local NGO TAFSA.

Through its partnership with a French Financial Institution, FERT also provides a specific support to the CECAM network through INTERCECAM, a mobile team which trains and supports the CECAM local banks and the cooperative system.

## **Results**

In 15 years, even if FERT intervention has been mainly located in 8 regions of Madagascar, the structuring of the producers organizations has reached the nation scale. FIFATA, the association at the origin of all the organizations, is now being acknowledged by the government and finds itself often called upon to represent the farmers at State level. In December 2002, when the evaluation of the past actions was conducted, about 60,000 rural households had joined one of the FIFATA associations.

✓ The CECAM network is nearly self-sufficient, and covers a large area: 8 regions out of 15, 7 village banks, more than 46.000 members of which 90% are farmers. It diversified its offer of credits, to meet the producers' needs (input credit, material leasing, commercialisation credit, loan on landed property, cash bailout).

✓ Cooperatives: 57 general cooperatives and 15 dairy cooperatives, more than 5,700 members, more than 3,000 tons of agricultural products collected each year, 77 specialized shops.

## **Lessons learned**

### *Factors of success of FERT intervention*

Several elements can explain the success of the intervention, among them the partnership over a long period of time, and the strong presence of expatriate technical assistants who have played a significant role. The fact that the structuring of organizations was initiated at grassroots level around economic activities ensured the organizations' legitimacy. Yet until now the structuring of producer organizations has been subordinated to external technical assistance.

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Institutions & Développement. Technical and financial evaluation report of the action "support to developing countries" by FERT.

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## **Case 2: PROMOPA - Professional agricultural organization promotion project- Guinea**

### ***Promotion des organisations professionnelles agricoles***

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#### **Project identification**

Donor:	MAE
Scale:	national
Beneficiaries:	members of grassroots, regional and national producer organizations.
Budget:	€ 2 million = USD 2,44 million
Duration:	2001-2003

#### **Objectives**

Strengthen producer organizations (PO) to improve functioning of agricultural economy.

Strengthen the representation of PO at regional and national level and promote coordination between the government and economic actors.

#### **Specific objectives**

Elaborate a clearly defined policy of support to strengthen producer organizations; to reinforce coordination between the government and the producer organizations; to provide effective service delivery to farmers; to improve the organization and functioning of commodity chains; to increase incomes for the farmers.

#### **Context and project background**

The MAE has been intervening in Guinea with « professionalisation » programs since 1992, with two successive projects. They correspond to the phases of establishment of producer organizations. From 1992-1995, the « Programme National d'Appui à la Professionnalisation Agricole » (budget of 4 M €) supervised by the ministry of Agriculture, implemented activities of research/action. In 1995-1999 the « Programme d'Appui aux Organisations Professionnelles Agricoles » (PAOPA) (budget 2 M€) initiated support service centers (Centres d'Appui aux Organisations Professionnelles Agricoles- CAOPAA). The program supported producers in 4 regions and on 4 sub-sectors: coffee producers in the forest region; cotton producers in upper Guinea; horticultural producers in Fouta Djallon; and assisted the public services of rural extension. The actual PROMOPA support program concentrates on strengthening those organizations, helps them structure up at regional and national levels and fosters dialogue with the authorities.

Today there are more than 5,000 grassroots producer organizations in Guinea. Yet, their internal organization often lacks efficiency and the leaders are frequently insufficiently skilled and trained. This results in a half-hearted participation of the members and the lack of operational activities taken on by these organizations. Generally these organizations were formed on the same model that does not take into account their environment (i.e. illiteracy of the members, geographical dispersion of the farms). A significant number of these organizations were created with a view to resolving product commercialisation problems. Only a small number is operational, because of a lack of information on agricultural markets, their functioning and commercial functions. Besides, they have a low bargaining power with the commercial partners.

Fédération des paysans du Fouta Djallon (FPFD) (Federation of small farmers from Fouta Djallon)

The farmers created the FPFD in 1992 and its action spreads over the Moyenne Guinée region. The federation has two objectives: improve the economic situation of the small farmers and strengthen their organization and representation. In 2003 it numbered 310 local groups within 20 unions representing 13,500 members. The PROMOPA project provides the FPFD with expatriate technical assistants and national civil servants to support its actions. FPFD strives to develop 3 horticultural sub-sectors (potato, onion and tomato). It has a role of purchasing cooperative and deals with inputs (fertilizers, seeds, hand tools) and material (motor pumps, rotovators). It also acts as a commercial intermediary between producers and traders. It coordinates the installation of production infrastructures for these 3 sectors (structural improvement of marsh lands) and marketing infrastructures (warehouses). Last, FPFD takes on

an advocacy mission and represents the farmers before public and private bodies. It sets up capacity-building programs, such as training, advisory services in collaboration with public extension services, advice in finance management, information and literacy training. The FPFD is being supported financially and technically by the MAE, AFD, and the NGOs AFDI and CCFD, within the framework of PROMOPA.

### **Project approach**

The project has a two-fold approach:

Support the line Ministries for the elaboration of agricultural policies and facilitate coordination with representatives of producer organizations.

Support the producer organizations in their economic functions and organizational capacities.

### **Project activities**

The project is implementing several concomitant activities:

1. *Strengthening of CAOPAA.* Previous projects had installed regional support service centres (CAOPAA) and hired technical assistants to support the producers' organizations in the different regions of the country. The current project aims to consolidate these structures.

2. *Development of PO capacities.* The project strives to develop PO capacities and to foster the establishment of farmer representation at regional and national level:

- Training PO members and leaders on economic functions (how to organize the supply of primary inputs and commercialisation of produce) and structuring (literacy, internal functioning and management)
- Improve advocacy function of PO leaders: analysis of economic and technical context, analysis of functioning of the commodity chains, negotiating abilities. This part was executed in coordination with another ongoing project in Guinea, PASAL. A training seminar on rice sub-sector was organized in Dakar in 1997.

- Experience exchanges among the centres and the POs in Guinea and abroad. E.g. field visits of French farmer professional organizations to exchange experiences, were organized.

3. *Support the ministry of agriculture line department* (producer organization support division - DAOP). This component was in a stop since the beginning of the project execution. The objective was to assist the government in the definition of a policy of support to POs, to coordinate support initiatives of different donors and operators, to assist the improvement of the legal framework and establish coordination framework between the government and the economic actors and to set up an information system about producer organizations.

### **Institutional set up and modalities of implementation**

The steering committee is composed of representatives of line Ministries (Agriculture and Livestock, Finance, Cooperation), of the Chambre Nationale d'Agriculture (national level of Chambers of agriculture) and representatives of four producer organizations.

The government supervises and finances the work with the help of international donors. It contracts local NGOs to help the CAOPA to provide services to POs. The CAOPA also count 5 expatriate technical assistants (one coordinator and 4 assistants in the regional centres). Moreover civil servants from DAOP are at the disposal of the CAOPA. They are chosen by the PO or CAOPA and are accountable to them. Lastly CAOPA contract many partnerships with other institutions (other projects, chambers of agriculture, private service providers).

For the FPFD, this is well structured and functioning, PROMOPA provides the financial means so they implement themselves capacity-building programs. At term, those capacity-building programs should be directly taken in charge by the rest of the POs.

The CAOPA on average consist of a dozen staff members (one coordinator, one technical assistant, one accountant, several trainers and logistics agents).

In forest Guinea, and in upper Guinea, CAOPA works with Unions and federations to identify and assess the needs of organizations at all levels. In the Gaoual-Koundara zone, an initial contact with POs and diagnostic has been made in coordination with the grassroots groups. In Fouta Djallon, the functions of the CAOPA are taken charge of directly by the FPFD, which created in 1996 a « training » department. Its goal is to strengthen capacities of elected leaders; members and salaried technicians, with a view to managing production and commercialisation activities better.

**Results**

The implementation of diagnostics for the participants was of great importance to the POs, because it enabled them to reflect on constraints they were facing and to redefine their strategic orientations. This phase led the CAOPA to plan out its support actions precisely and identify the themes to work on.

Apparently the CAOPA are still quite dependent on technical assistance. Between the two projects PAOPA and PROMOPA, the CAOPA have stopped or slowed down their activities during 6 to 12 months in 2001. The degree of autonomy of the POs varies. Accordingly, the institutional form of CAOPA will have to take these differences into account, be adaptive and flexible.

Structuring actions defining the role and function of leaders etc. presently undertaken by the CAOPA should later on, be more the POs internal responsibility. Other missions, such as technical trainings, are more the responsibility of service providers and should be integrated in service centres under the supervision of the whole of POs in one region. Lastly, the services that are public responsibility, Pos can delegate representatives in the Chambers of Agriculture or in the public institutions.

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## ***Case 3: Regional development project, South-West Madagascar***

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### **Project identification**

Donor:	EC, MAE, UNDCP
Scale:	regional (Tulear region)
Beneficiaries:	producers, small farmers union
Budget:	Phase 1: FF 25 million; phase 2: FF 8 million (total= USD 6,15 million)
Duration:	Phase 1 (1994-1999); phase 2 (1999-2002)
Operators	Direct assistance from the MAE; CIRAD; AFDI

### **Objectives**

Build up the technical, economic and institutional capacities of stakeholders in the agricultural sector.  
Improve organization and professionalism in the rural community and improve coordination between farmers and other actors (public and private) in development.  
Protect the natural resources and preserve soil fertility; to promote crop diversification.

### **Context and project background**

The Tulear region is known as a poor one, with a limiting physical environment (semi-arid climate, high climatic risks and soils prone to erosion) and reduced agricultural production potential (5% of the territory is actually cultivated). The better lands are cultivated with cotton and rice. The cotton sector dominates in the rural economy of the region. It is supervised by a state-owned institution. The other cultivations are manioc, corn and groundnut. Livestock is kept as a means of saving. The Tulear region is also characterized by poor State technical services; a lack of social infrastructure, especially in education, with 70 to 95% illiteracy according to age group; extremely low private investment.

The degree of organization among the producers is considered low despite the presence of over 1,500 producer' organizations (of which 1,000 cotton producer organizations).

Other projects implemented:

The "Programme de Professionnalisation de l'agriculture" (PPDA), financed by MAE, from 1994 had the objective of structuring farmer organizations, with a view to make them an interlocutor to the government. There were two components: a specific support to the Ministry of Agriculture, and a support to producer organizations. Even though there were many existing POs the project had chosen to create a new organization and try to encourage the emergence of leaders. This new structure did not have any legitimacy among grassroots farmer groups and failed to represent them. So the project started a new process, this time trying to strengthen existing producer organizations.

Today the PADR (Plan d'Action pour le Développement Rural) process, supported by the main international donors and the installation of the GTDR (Groupe de travail pour le Développement Rural) on the regional level, presents an institutional framework that should permit the definition of a concerted development strategy.

### **Project approach**

The project has two components, one agronomic, and the other directed to the organization of the rural community. Until 1995-1996, this last component was somewhat set aside.

### **Institutional set up**

At the beginning the project created a Regional Guidance and Monitoring Committee (Comité d'Orientation et de Suivi - CROS), composed of 5 colleges (administration, territorial organizations, economic operators, producers' organizations and NGO / projects, including PSO). CROS supervises the project and also started a dialogue with other donors. It is now an institution that defines orientations for the regional agricultural development policies. Farmers' representation is consists of local representatives who are the partners of the project in the different sub-regions.

The operators are: CIRAD for the agronomic component (one technical assistant and one national agronomist) and AFDI for the support to the organization of the rural communities through the presence of 4 technical assistants and one national manager. AFDI was chosen because of its links with the French

Producers organizations (OPA), from which AFDI is expected to mobilize resources to support the process. The sub-contractors and others partnerships are numerous: TAFa (national NGO) for technical experimentations; APEL for working literacy teaching; French institutes (IFOCAP) and schools for technical and economic studies and the University of Tananarive.

### **Project activities**

PSO has evolved over time. At first it had been designed as a « classical » development project, focused on the improvement of production (improved techniques and applied research). At the initiative of farmer representatives from the CROS, who felt overshadowed by the other actors and felt the need to establish their own legitimacy through a broader based representation, PSO moved towards the constitution of a regional farmer organization that was to become the Maison des Paysans in 1998 (Mdp). As a consequence the activities of PSO have been progressively transferred to Mdp. At the start of this process, there was extensive work on rural animation in the villages, together with literacy trainings, information and farmer exchanges, in order that a network of farmers emerge to participate to public debates and to the creation of Mdp.

#### *Maison des Paysans*

The Mdp has fixed itself two objectives:

1. Represent the producers and encourage them to talk together to share their experiences.
2. Supply services to them (advice/information, on-farm experimentation, etc.).

At regional level the Mdp members are either individuals or formed into groups. There are 1,500 to 2,000 groups existing in different forms and purposes (specialized in the cotton sector, groups of water users, joint guarantee groups etc.). The Mdp concerns 29 “communes” and counts 250 elected local representatives, among which 34 are part of the general assembly. The Mdp consists of 7 colleges according to the main sectors (rice, cotton, groundnut, cape Pea, cassava, livestock, maize), and 7 commissions, which work on cross-disciplinary problems (training/information, land tenure, infrastructures, funding, etc). Intermediate levels, between local groups and the regional level, are now being set up. These are inter-communal groups that progressively adopt formalized statutes and operate in general assembly.

Its budget consists of membership subscriptions and financial support coming mainly from the PSO (which managed the funds until 2000).

In order to carry out its program, the Mdp acts, either through its team of 15 agents (mostly ex-agents of the PSO), 7 technical assistants and 3 local executives; or by entering into a contract with service providers. The Mdp activities, with the support of PSO, encompass different themes:

1. *Access to information and training:* working literacy centres (network of 90 village teachers), trained by the NGO APEL. It also provides training programs at the level of POs to build their capacities in the analysis of commodity chains.

*Monitoring of agricultural commodity chains* of South-West Madagascar (Observatoire des filières du Sud-Ouest malgache). This system provides information on prices. The results are sent out in different forms (posters on billboards, newsletter, and radio programs).

2. *Technical skills of farmers:* farm management advisory services, technical training, plant protection. The Mdp implements technico-economic experiments and follows up of a network of farmers. It promotes the development of cropping systems using direct drilling and develops a system of producing Cape pea seeds. It also promotes the development shops to sell agricultural inputs.

3. *Encourage farmer organization:* experience exchanges among farmers, animation and collective projects management.

4. *Assist farmers in elaborating and expressing their propositions:* work in thematic commissions, preparation of CROS sessions. Training for the leaders of the Mdp organized by IFOCAP and PPDA.

5. *Support to economic functions:* the leasing of ploughs, warehousing credit, training on product marketing. The Mdp strives to promote agreements among actors. There are successful examples of contracts passed between producers and economic operators, on onion, corn, groundnut and Cape pea. A pilot operation has been set up on the Cape pea marketing chain, involving producers' groups, seed dealers, brokers, who commit themselves for a certain tonnage, and the supportive institutions (PSO, Maison de Paysans and PPDA)

## Results

Today, the MdP and its local representatives const of a network of 250 elected small farmers, representing 29 districts. A synergy between the different development actors in the region has emerged. Yet the economical and social impact of the project is still unknown.

With the PSO ending within a short time, the MdP is seeking to diversify its partnerships and is negotiating new funding with the World Bank, FAO, EC, and AFD.

During the AG of the MdP in March 2001, it was suggested that the MdP should be more implicated in supporting economic activities, so as its members, through their membership contribution, take progressive charge of the sectors they find most rewarding. The limit to this approach is that the MdP also fulfils a function of public services. For this reason it cannot be entirely financed by its “clients”.

## Lessons learned

The strength of the PSO came from the fact that it:

- Implicated the producers in the control of the project, through the CROS, where in fact they still have little power to alter the course of the project. The creation of the MdP has enabled the producers to strengthen their position within the CROS. Now the MdP must gain its independence by managing its own budget. Similarly, the CROS can envisage taking on the function of a regional development committee, on the condition that it is independent from the PSO.

- Certain tasks sub-contracted to specialized services. One of the strengths of the project is to have encouraged the implantation of specialized services (public or private), and assisted their becoming professional. They did this by entrusting certain actions to them.

- Encouraged the establishment of contracts between farmers and private operators. For example, supply of inputs. Several shops of inputs have opened with the aid of subsidies

- Worked at different levels. It brought assistance to: individual producers (working literacy, information); grass-roots POs and their representation, MdP. This action at different levels is based on the principle that agricultural development can only take place if the capacities of *all* the actors are strengthened, not only those of the POs.

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Case study # 3 page 62 to 69.

**Case 4: BIODESA II - Biodiversity and agro-industrial development – examples  
from Argentina and Bolivia**  
**Biodiversidad y desarrollo agro-industrial**

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**Project identification**

Donor	MAE, FFEM
Scale	regional
Beneficiaries	rural communities
Budget	FF 510,300 (MAE) + € 450,000 (FFEM)= USD 0,64 million
Duration	2001-2004 (second phase)
Operator	French NGO GRET

**General objective**

The objective is to valorise the natural resources in Latin America to generate incomes for local farmers and to protect biodiversity.

**Specific objective**

Create networks among different actors in the sector, to put research centers in relation with rural development.

**Context and project background**

In Bolivia in the 1980's the University of Cochabamba started a research & development process to valorise aromatic plants, with the assistance of Canadian aid. The University developed processing units in rural communities for Eucalyptus. In 1993, GRET prepared a support project to strengthen the action of the "agro-industrial technology centre" of the University financed by the MAE and then by the EC.

In Argentina, in the 1990's the experience in aromatic plants was already significant (camomile, citronella). The Argentinean government aimed to develop non-traditional productions, and created a promotion and research institute on aromatic plants, which is a public/private institution. In 1992, the Argentinean government asked for EC support to diversify agricultural production. This led to the implementation of VESA project, which had a very ambitious scope (support to the whole sector, information, training, market research, applied research etc.) yet did not bring the expected results.

Given the relative failure on the VESA project in Argentina, GRET continued the work on a more realistic basis, dropping the idea of working on a national scale and continued the project as a pilot one, recognizing that the valorisation of new non-traditional products is a long process.

**Project approach**

The approach to generate incomes for the farmers is to diversify their agricultural activities by targeting high-value products and to valorise the existing aromatic vegetal species. This is accomplished with biodiversity protection and through the existence of a market for non-food forest products in Europe. The aromatic oils are for the export market, until now some perfume firms in Europe and USA.

**Institutional set up**

GRET adapted institutional set ups to the specificities in the different countries. In Argentina, the University of Patagonia supervises the project, where a "Valorisation Centre" has been created. This centre is partly funded on the University budget, partly by a private enterprise. The University provides the premises, a coordinator, a nursery gardener, a chemistry technician, and equipment. The private operator (Hierbas Patagonicas) organizes production through contracts with producers and buys the raw material, transforms the raw material inside the University from which it rents the processing facilities. It also assumes responsibility for commercialisation and export of the final products.

In Bolivia, the processing (oil extraction) took place in the rural area, where farmer cooperatives are in charge of small transformation facilities. The activities are financed through credit provided by the University of Cochabamba. The "industrial technology department" of the University is in charge of technology innovation and also buys the aromatic oil, refines it and exports the final product.

## Activities

BIODESA involves activities implemented in partnership with public research institutes (Universities). The latter conducted botanical research to identify the potential marketable products, through a species inventory; cultivated promising species in experimental plots and undertook the economic validation of the technical experiments. They also undertake R&D on processing technology innovation (low-cost and simple oil extraction equipment) and quality.

BIODESA also entails the organization of farmers to gather and/or process products through cooperatives. Moreover to reach and sustain export outlets, the project involves market research and promotion of commercialisation. Market research requires external intervention from the GRET who provide its commercial network.

## Results

In Bolivia, more than 200 species have been studied. Several products have been inventoried and marketed, among which:

- Eucalyptus, which is a by-product of timber activity, collected during maintenance cutting. The sustainability of such an activity relies on effective forest management. The extraction of the aromatic oil takes place in the rural communities. It is processed by small private operators with a low-cost technology. The operators sell the distilled products to the University, which refines the products and exports them. The processing activity gives employment opportunity to 150 persons. The processing capacity installed in rural areas could permit the processing of other products but this has not been the case because of the lack of other aromatic plants identified in the area.

- *Romerillo* is a forest product that is not cultivated but traditionally collected for firewood and medicine. It took 6 years from the start of research to the actual marketing. The extraction is taken on a by farmer association, who purchased the equipment on credit. *Romerillo* sales have progressively increased until 1998, when the client stopped its purchases, without apparent reason.

In Argentina, about 40 plants have been studied, from which only 5 have been marketed. Among these, the main product exported is pine oil from a species that was imported for the reforestation of Patagonia. The supply of raw material is assured from trimmings. The first sales took place in 2000 with the first significant quantity in 2002 to Belgium. In 2002, this activity enabled about 10 producers to be hired in the plantations during winter, to collect the raw material.

## Lessons learned

✓ For this diversification and new market development project to work, an external intervention was necessary. GRET played the role of commercial intermediary between local partners and international buyers.

✓ The R&D process is a very long, iterative and costly process. In this case, it took at least 6 years to market new aromatic plants. A long commitment from the donors is therefore necessary to achieve and sustain the commercialisation.

✓ There is a distinct rhythm between research process and development that needs to be taken into account.

✓ Interaction between local developments and setting up a commodity chain.

✓ The actors implicated are very different from each other resulting in strained and un-straightforward business relations. The project worked with rural poor and marginal communities, small rural entrepreneurs, small farmer cooperatives, universities and large foreign firms.

✓ There is now a new opportunity to enter niche markets (organic, fair trade)

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## **Case 5: ESOP – Implementation of services enterprises linked with farmers' groups – examples from Mali, Benin and Togo**

### **Promotion des entreprises de services aux organisations de producteurs**

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#### **Project identification**

Donor s	MAE (40 %) + UE + private NGOs
Scale	local
Beneficiaries	small and medium-scale local farmers
Budget	14 MFF = USD 2,61 million
Duration	1997-2001
Operator	French NGO CIDR

#### **Objective**

Set up service providing enterprises whose actions will support the local farmers and improve agricultural activities' profitability.

#### **Approach and institutional set up**

The CIDR has a good knowledge of the regional contexts because, before launching this project, this association had worked for a long time in the same areas. The CIDR acts as supervisor and operator of the project, and set up "service provision enterprise" linked with farmers organized (ES-OP) required to:

- Conduct market surveys and commodity chain analysis,
- Identify potential promoters through CIDR's contacts in the area, which are based on progressively built mutual confidence,
- Set up offices and if necessary processing units,
- Create a kind of ROSCAs with trading aims or "*tontines commerciales*" (a group of some 15 reliable producers)
- Train staff and then launch business activities.

In general, the CIDR supervises and follows up the operation during the first years, by providing a technical assistant, then a CIDR representative conducts a follow-up mission once a year. Local or international external consultants may be provided on as occasions require. The set up of the service providing enterprise is founded on the following hypotheses:

- market-oriented cost recovering service,
- interdependence between the ESOP and the farmers, through contracts and ESOP capital sharing,
- financial autonomy of the ESOP,
- management of the enterprise by the employees.

The program implemented by the CIDR to promote the ESOP entails projects in 7 countries involving various contexts. In this document 3 of them will be briefly described.

#### **TOGO – SOYA BEAN MARKETING**

##### **Context**

In Togo, CIDR identified soybean as a marketing opportunity. Before the project, soybean was cultivated on a very small scale in rural households. With the production increasing, soybean is now partly sold, partly consumed internally (about 30% of production). Sales occur at 2 periods: at the start and during the campaign. Newly grown soybean is competing with cotton for land use. The government focuses its efforts on the cotton sector and therefore is prudent when looking at the introduction of soybean as a new cash crop.

The targeted markets are first, the domestic supply of animal feed industry that processes soybean into roasted soya, which can replace, among other things, the cotton oil cakes in the animal feed. The other outlet for the production is human consumption (flour).

##### **Project activities**

The CIDR set up the ESOP at the beginning of the project and provided a technical assistance during the first years. In 2002 the ESOP became a Private Limited Company whose shareholders were the

employees, the producers through their *tontines* and the CIDR. The ESOP employs 4 permanent people and some temporary workers.

The ESOP buys soybean production from the *tontines*, a priori excluding other producers. The main condition for entering soybean marketing with the ESOP is that a minimum quality and quantity supply are required. These *tontines* are groups of 10 to a maximum of 15 co-opted producers, including a sales representative and a person with legal authority. These structures organize soybean gathering and collecting. They are, as a new form of coordination, a means of reducing transaction costs and risks for both the producers and the ESOP.

The ESOP provides services to producers. It imports and deals in certified seeds from Ghana. Some producers are able to pay cash for the inputs but most of them pay for the seeds at harvest time. The ESOP also provides technical support to the producers: regular visits from technicians, where production techniques are discussed and settled with the producers. Lastly, the ESOP/CIDR published a guidebook on soybean production techniques. Another objective of the CIDR is to strengthen the abilities of individual and collective actors through the training of ESOP managers and employees (in management, accounting etc).

## **Results**

- In 2001, 450 producers (among which 25% were women) benefited from ESOP activities, started to cultivate soybean and to organize into *tontines*. Sales volume increased from 54 tons in 1999 to 182 tons in 2001 (2002 estimate: 216 tons), while the production costs have decreased from 150-180 to 55-75 CFA/kg. The price paid to the producer has also increased and so provided them more stable and regular income. It enabled them to diversify production and as a consequence to lower their production risks. In 2001, 30 *tontines* were created, trained in the improvement of trading techniques (weighing, quality control), and were supplied with information on prices and costs. This commercial network was strengthened because of the regularity of soy bean supply, the adequacy to the consumers' needs and the constantly improving quality of the production. The financial results of the ESOP (turnover of 48 million CFA in 2001) and the added value created enabled the enterprise to invest in support services to producers. Moreover, the traders adapted themselves to the activity initiated by the ESOP. They started to use scales and to sell the new product, thus creating competition and bringing about an increase of the price paid to the producers.

- On another note, the farmers and the ESOP find it difficult to estimate the future production (climate risks) and the prices. The producers fear they might be unable to meet their commitments and they therefore commit only on small quantities.

- The training provided by the ESOP to the producers is in actual fact free for them, although it was at first planned to be charged to them. The services therefore take a part of the ESOP budget and are covered through the margin made on processed products. This is the way CIDR has found to cover costs of services and avoid conflicts of interests between the roles and functions of a private trading company and the service providing structure.

- To sum up, this action has been successful because it was based on a new profitable crop, where demand has strongly increased and because it relied on groups of producers that remained small and dynamic structures where mutual reliability is important.

## **BENIN – CASHEW-NUT MARKETING**

### **Context**

The region, where cotton production dominates, enjoys a relatively favourable context with good agricultural production, fairly large surfaces and enough labour available from the Northern part of the country.

Cashew nut does not need much input, but is labour-intensive. Tending and collecting the nuts are done by workers whose wages are one third of the harvest. Product is dried in the open air after the nut is separated from the false-fruit (cashew apple). The cashew nut export market is an already significant one in Benin.

### **Project activities**

The ESOP was created in 1999 and is now a private Limited Company, its staff being composed of 2 managers. A CIDR technician, based in Benin, supervised the operation during the first 2 years of activity. The capital is shared as follows: 45% for the 2 co-managers, 40% for the *tontines* and 15% for the CIDR. The ESOP acts as a brokerage system between *tontines* and buyers. This brokerage is based on a contract that sets requirements on a minimum quality and volumes. The ESOP deals with cashew nut and, to a smaller extent, soybean and maize. It helped create a network of producers (*tontines*) and fostered business connections between *tontines* and buyers. The ESOP provides the producers with technical services (regular visits by technicians) while CIDR provides training to *tontines* representatives and the ESOP co-managers.

### **Results**

In 2001, about 40 *tontines* are in charge of cashew nut collecting and transport. The production increased from 331 tons in 1998 to 730 tons in 2001.

The traders rapidly adapted their behaviour to the changes initiated by ESOP (e.g. the use of a weighing machine). ESOP, through its quality requirements, set up a more stable export quality standards (while the other suppliers mix the local products with lower quality nuts imported from Nigeria). Actually, the good quality of those products becomes a major competing factor to be able to work in confidence with the exporters. Some exporters and local merchants had directly contacted the *tontines* for cashew nut supply. Yet, the exporters have not always paid the correct prices that should valorise the quality produced, arguing that the volume of production is too low.

Nevertheless, after a rapid growth in 1999 and 2000 due to a favourable development of the cashew nut market, ESOP is now meeting difficulties, partly caused by a major price fluctuation and an insufficient production. In addition, the company finds difficulty in meeting the expectations of the producers regarding purchasing prices.

## **MALI – DAIRY-UNITS AND SUPPORTING ECONOMIC INTEREST GROUPS**

### **Context**

The ESOP set up 5 dairy enterprises, located around secondary urban centres in the Southeast and East of the country. They do business all year round with the producers from the near rural areas (30 km maximum from the city). The ESOPs produce quality products for the local market.

The region is mainly dedicated to the cultivation of cotton. The milk production is dispersed and was not much valued before the dairy units were created. The bovine stock started from a core of draft animals and animals used as a means to saving. Milk was considered a by-product and was part of the payment in kind given to the cowherds. Each breeder produces between 2 and 3 litres a day. The targeted consumers are urban people, with a middle purchasing power.

Technical services to producers, especially to breeders, were non-existent in the region since the State services have been privatised. There was a real need for a sanitary control system, feed improvement and artificial insemination services.

The number of organizations of producers in Mali has soared for the last years, but very few operate efficiently. There were no groups of breeders in this area before the ESOP started (except for one city).

### **Project activities**

Contracts are passed between each dairy farm and groups of breeders, who centralize the deliveries. A private agent under contract with the ESOP provides this service, which includes sanitary control of the herds, feed improvement and artificial insemination. The producers therefore benefit from these services without directly bearing their costs, which are included in the negotiated price for the milk supplied. The ESOP also supplies animal feed to the groups of breeders, depending on their granted quotas, through grouped purchases that allow cost reductions. The ESOP also take charge of the promotion activities (radio games, gifts, sport events, etc.). The ESOP process fresh milk into curdled milk, yoghurt, cream and pasteurised milk, which are new products in these areas, where most of the dairy products marketed are made from imported powder milk. Milk is collected daily from the producers, processed in the dairy units and sold to consumers directly at the dairy unit (20% of the sales) or through a network of itinerant resellers (70% of the sales) and to local *depot shops* (about 10 shops). Milk prices are fixed twice a year (dry season and winter) to ensure relative price stability. Seasonal variations in the production are opposite to

the variations of demand: during winter, the production is so abundant that the dairy-farm cannot dispose of the whole production. As a consequence a system of quotas was set up. During the dry season, due to climate and livestock transhumance, the low level of production and the increase of collecting distances it is difficult to collect enough production to satisfy the increased demand.

A private agent under contract with the ESOP provides services, which include sanitary control of the herds, feed improvement and artificial insemination. The producers therefore benefit from these services without directly bearing their costs, which are included in the negotiated price for the milk supplied. The ESOP also supplies animal feed to the groups of breeders, depending on the quotas they are granted, through grouped purchases that allow cost reductions. The ESOP also take charge of the promotion activities (radio games, gifts, sport events, etc.).

Additionally, a “service centre” was created, jointly managed by the five ESOP with the help of the CIDR to provide finance management support.

## Results

As an example, Koutiala's dairy farm was created in 1991. It stayed under CIDR's supervision until 1996 then it became a private limited company, with CIDR sharing the capital. It employs 2 co-managers and 4 employees who are granted regular training by the CIDR. In total 112 positions have been created by the five ESOP, of which 35 are permanent. The created jobs range from support/consultancy, to selling of products and transportation. Moreover, between 300 and 350 breeders benefited permanently from the ESOP activities. As to the results of the dairy farms, in 2001, 226,000 litres of milk were collected, for a turnover of 121 million CFA and an operating result of -1 million for the whole network (2 dairies among 5 were at their starting point). Nevertheless, milk sales development is irregular and there are disparities among the different ESOP. It is therefore not easy to draw a conclusion from these experiences.

The main difficulties lay in improving business and production managements (norms, hygiene, and loss rates) and sales management. The service delivery is not yet fully effective while the recommendations are not always followed by the producers. Besides, the cost of external control of management is still very high because the limited number of dairy farms does not permit economies of scale. The potential increase of the sales will depend on a proactive sales policy. Yet the development of the activity is weakened by the competition from imported powder milk, and by the fact that milk sales are very sensitive to changes in urban purchasing power. For all these reasons, the viability of the dairy farms remains fragile.

## Lessons learned

- The operation is relevant for *quality markets*, but is more critical in traditional markets (staple foodstuffs and livestock): the ESOP set up seem to be particularly appropriate for selling new products (dairy products in Mali), new cash crops (soy bean in Togo and Benin) and generally for products destined to export markets or local agro-processing businesses, for which quality requirements are essential. On the other hand, this concept is less relevant for products already efficiently traded through traditional channels (food crops). It is therefore of crucial interest to analyse the chains and conduct market surveys.

- The operation requires entering high value-added activities, to be able to conciliate commercial functions and costly services provision. Indeed, there can be a conflict of interests between the ESOP, which must ensure its profitability, and the producers who strive to obtain the best possible prices, especially when they can turn to other cash crops (e.g. cotton in Togo) or to other operators. This implies functioning with contracted commercial margins. A clear advantage of the ESOP for the producers is to bring technical services; the income stability and regularity for the farmers, i.e. the ESOP capacity to develop outlets and draw up contracts with the producers (help forms of new coordination to arise).

- A key element that made the operation successful is that the ESOP built contractual relations based on confidence, on the setting of realistic objectives and constant efforts of communication. Moreover, the *tontines* are light structures that facilitate the keeping of commitments as well as the dialogue and mutual confidence through the cooptation of their members. Yet, from a “local development” point of view, dealing only with these structures restricts the number of producers able to contract with the ESOP, excluding a category of them.

In addition, the attempt to build a vertical integration between production and agro-processing is good for distributing added value to farmers but requires to very good mastery of the production and management methods (training and information).

- The ESOP certainly played a role of catalyst in improving transaction practices. The other economic actors were able to adapt themselves to the new rules, i.e. by offering better prices and improving the transactions practices (weighing etc.)
- Sustainability of the ESOP: the enterprises will need to strengthen their capacities and to have access to support services (staff training, market information, consulting services etc.) and for that purpose to put means in common and share their experiences.

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## Case 6: PROCAFE - Coffee marketing support program – Bolivia

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### Project identification

Donor:	EC, MAE, UNDCP
Scale:	regional, (3 provinces in La Paz region)
Beneficiaries:	3,500 households of smallholder coffee producers (15,000 persons) and 18 cooperatives
Budget:	600,000 € = USD 0,73 million
Duration:	1994-2001 (2 phases)
Operator:	CICDA

### General objective

Obtain profitable prices for coffee producers to divert them from coca production

### Specific objective

To enter a Fair Trade system and/or a certified organic production, in order to obtain increased prices for coffee producers.

To improve cooperative management by the producers in order to realize economies of scale and valorise regional production

### Context and project background

The regional economy of La Paz department, where bananas, rice, fruits, coca and coffee are cultivated, is an economy that has been integrated into domestic and international markets for a long time. More than 21,000 households of smallholders depend entirely of coffee production. They produce about 95% of the national production. Coffee in Bolivia represents the fourth export cash crop. Smallholder coffee producers suffer from volatile and constantly decreasing international prices. They do not have access to information; do not have real bargaining power. Moreover, the yields are decreasing and uncertain.

In the 1980's the coffee production was organized by State cooperatives. They benefited from export quotas, within the framework of International Agreement for Coffee that fixed quotas per country with a view to regulating the international price. Following the breach of the agreement in 1989, coffee prices fell drastically and price volatility increased. As a consequence, many Bolivian producers had turned to another cash crop, the coca. In a context of State disengagement from the productive activities and of competition among actors, a group of associations and cooperatives decided to consolidate their position by striving to export their production directly. The FECAFEB (Federation of Bolivian Coffee Producers-Exporters) was created in 1991. In 2001 it regrouped 18 cooperatives and counted about 3,500 producer households. FECAFEB supports its members in the commercialisation of coffee: quality promotion, technical assistance in exportation, training courses. It sets up short-term contracts between cooperatives and importers. Today the key issue for the small cooperatives is to produce quality coffee for special markets (organic, fair trade) and to be able to negotiate with buyers to obtain remunerative prices. The main constraint lay in the fact the cooperatives are numerous, fragmented, small-sized, and produce small volumes. They also lack skilled and professional managers, and financing resources.

### Project approach

The project aims to strengthen the FECAFEB and its cooperative members so they become full actors in the marketing and exporting of coffee in the region; and to obtain, through economies of scale and through fair trade and organic systems, enough income for their members.

### Project activities

The intervention consists in the provision of technical assistance to FECAFEB and cooperative members. The first step was to assess the organizational and economic capacities of the cooperatives. Then a coordination committee was set up among partners to implement and follow up the actions. The interventions consist in:

#### 1. Technical assistance to producers

- Technical training, dissemination of information about production and processing techniques;

- Organic certification and organization of the quality control system, through the setting of a network of FECAFEB salaried inspectors.

#### *2. Support of commercialisation and coordination of productive activities*

- Setting up of a department specialized in marketing within FECAFEB, to be responsible for market promotion and broking activities.
- Organization of promotional trips to Europe.
- Organization of collecting committees in the local communities.

#### *3. Access to credit fund, support to credit management*

- Establishment of a credit fund for the collecting, processing and export of coffee from the cooperatives. The management of this fund is the responsibility of specialized NGOs and in one case of a private bank. The credit is allocated directly to the cooperatives, after validation by FECAFEB.
- Training of leaders about credit management.

#### *4. Capacity-building for leaders*

- Training of FECAFEB leaders and cooperative managers on the following themes: organic coffee production; collection organization and quality control; marketing management, finance management and accountancy

#### *5. Permanent institutional support*

- Support to FECAFEB in its relations with the government and other stakeholders.

### **Results**

The establishment of ecological practices (biological pest control, soil conservation etc.) enabled the maintenance of soil fertility and in cases a rise in coffee yields of 30%. There was a rise in coffee quality through improved techniques of coffee processing, which in turn brought higher prices than for conventional coffee.

In 2001, about 2,600 producers within 18 cooperatives produced 110 containers of organic coffee, which represents 20% of cooperatives production and 30% of Bolivian production. Moreover about 30% of the coffee is sold under Fair Trade conditions. These first commercial successes are due to product quality improvement, to the organic certification, to the increased access to credit and also to the relative growth of fair trade markets.

Nevertheless difficulties remain to be addressed. The organization of the certification control is still failing and some cooperatives risk losing their certification. The centralization of activities was a relative failure because of the persistence of production fragmentation: the cooperatives continue to export very low volumes; they manage credit at local level and there is a high manager turnover, whilst the decision processes are slow. They often display opportunistic behaviours towards the FECAFEB, which remains only a commercial intermediary. As a consequence, cooperatives still have low bargaining power, do not reach the expected economies of scale and find difficult to meet their commitments in terms of quality.

Collecting mechanisms still do not function well. Because of weakness in the collecting organization, and even if the coffee is produced organically, between 50 and 70% of the coffee is marketed through traditional individual traders who can offer better delivery conditions and pay cash.

Therefore institutional support must be provided on a longer-term basis, to strengthen the organizational capacities of the cooperatives and consolidate FECAFEB' ability to take better advantage of market opportunities.

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## ***Case 7: PASAL - Food security support program – Guinea***

### ***Programme d'appui à la sécurité alimentaire***

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#### **Project identification**

Donor: MAE; AFD  
Scale: local, regional (forest region in the southeast) and national  
Beneficiaries: rice producers, traders, and urban consumers  
Budget: FF 15 million = USD 2,80 million  
Duration: 1997-2001 further to PNASAs (1992-1995)

#### **General objective**

Contribute to food security in the country, by making it more self-sufficient

#### **Specific objective**

Develop Guinean rice production and marketing, with a view to reducing rice imports.

#### **Context and project background**

Considering that rice is the main strategic crop for food security, PASAL focused on this specific sub-sector. The State monopoly on rice imports was abolished in 1984, at the same time marketing activities have progressively been transferred to private companies. In 1994 two companies regularly imported more than 50% of this cereal. At the beginning of the project, only 1/4 of the Guinean production was marketed, covering only 1/3 of national demand. Given the importance of rice imports, the price of Guinean paddy is dependent on the international price. The latter has increased by 30 to 50% between 1990 and 1995-96 and by 20% between 1997 and 1998. Such increases have pushed up local production. The other factors of success of the operation were:

- The recent improvement of the road network has opened up the production areas, now more accessible for the collectors.
- Guinean consumers prefer the quality of the locally produced rice (steamed rice) to the imported one

PASAL is the continuation of an a previous program financed by French aid, which aimed at developing Guinean food crop production. In 1991, MAE and AFD started to implement the “Rice Sector Support Program” (PNAFR) later called the “Food Security Support Project” (PNASA) when it merged with the SIPAG (Market Information System), financed by the EC. PNASAs objectives were to lay the foundations of an information system on food crops, to undertake test-actions with the economic operators to improve commodity chains and propose economic measures to obtain a durable reduction of the food imports. The project has not made possible to set up an effective system of tariffs on imported rice. The development of rice processing and the organization of producers and traders were insufficient and the dissemination of information was poor. PASAL therefore aims to pursue and enlarge upon the past efforts of PNASAs.

#### **Institutional set up**

The Ministry of Agriculture and Livestock (MoAL) supervises the program. The partners are the applied research institutes and local micro-credit institutions: Crédit Mutuel de Guinée (CMG) (especially urban customers); Crédit Rural de Guinée (CRG, 70,000 members) which has a 10-year experience in financial services provided through a local network. It is an objective to transfer the credit operations to local bodies (CMG, CRG) before the project ends. Besides, the SIPAG will be transferred to the Chambers of Commerce, which might assume a part of the funding.

#### **Project approach and activities**

The intervention adopted a sub-sector two-pronged approach, after having conducted an extensive participative commodity chain analysis, which identified the main bottlenecks and avenues for progress. It worked in collaboration with the public and private stakeholders.

### *1. Rice marketing improvement*

- Technology innovation and dissemination: applied research institutes coordinated with the beneficiaries (private economic operators) developed a prototype husking machine and to come up with low-cost and reliable husking technology. PASAL provided equipment credit to the operators through a partnership with two local credit institutions.

- Commercialisation credits to traders: PASAL financed, through credit provision, traders working capital to increase their turnover and foster competition among traders, in order to reduce price speculation. The traders, to be eligible, had to set up small “joint collateral groups” (ACM). These ACM are small associative groups (10-15 persons) where members are co-opted and function with mutual guarantee. PASAL would select the beneficiaries and CRG/CMG would provide the funds.

### *2. Support to sub-sector policy making process*

- Strengthening of the Market Information System (SIPAG) and establishment of a Monitoring System for rice importations.

- Training to MoAL executives about macro-economy analysis, international exchanges, and analysis of commodity chains.

- Support to the tariff policy making on rice imports: writing of notes summing up agricultural production; proposals; and organization of working groups bringing together representatives of MoAL, of Ministry of Finance and of the Central Bank.

## **Results**

The technology development component resulted in a technological jump: 800 husking machines were purchased, whilst only 64 were acquired with the direct support of PASAL in 3 years. The processing costs decreased and the quality of processed rice improved.

The commercialisation credits allowed rice trade in collection areas to be widened. Fifteen ACM were created, representing more than 600 beneficiaries, proving by a repayment rate close to 100% that this form of institution is viable. Hence trade activities are perceptibly getting organized and structured.

**Credits have boosted the commodity chain by compelling the traders to use their working capital to reimburse their credit. As a consequence it created a demand for paddy, which in turn increased the producers' incomes.**

## **Lessons learned**

✓ The commodity chain downstream approach proved to be efficient in improving the marketing channels and have a positive effect on production dynamics. The farmers, though not involved in the implementation of the project, indirectly benefited from the marketing chain streamlining.

✓ Technology Innovation: importance of collaboration with R&D institutions together with the beneficiaries to ensure low-cost technological choices adapted to specific needs. To help the spreading of these new technologies, they were first experimented on by the beneficiaries and various types of credits have been tested.

✓ Partnership with local institutions

Credit provision relied upon a partnership with well-established institutions that are able to take charge of the credit management. Such an expertise cannot be acquired rapidly, so it is necessary to rely on the existing system.

✓ Need for an efficient tariff policy

Nevertheless the results are still unsecured. Imports have increased in 1999 (46% in volume), due to the international price decline and to the poor efficiency of the tariff policies.

Hence the crucial importance of setting up efficient tariff policy measures, which would reduce the impact of the market fluctuations worldwide and would enable domestic prices to be stabilized.

The work undertaken on one food crop will be an enabling experience with a view to extend this kind of actions to the main foodstuffs and therefore tackle the food security problem, by analysing the effects of a substitution for the imported products as well as for the producer strategies.

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## ***Case 8: Agricultural Trading and Processing promotion Project – Mali***

### ***Sub-project: exporting mangoes to Europe***

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#### **Project identification**

Donor:	IDA
Scale:	Sikasso region
Beneficiaries:	small-scale mango producers
Budget:	total project cost: USD 6 million; sub-project cost : not documented.
Duration:	1995-2000 for the whole project, over the last 2 years for the sub-project

#### **General objective**

Improve the supply-chain for the mango export market at the local level, strengthening the linkages between the small producers and the local and international markets.

Capture the returns from value-added production to Mali by developing new communication channels for trade exchanges.

#### **Specific objectives**

To provide employment and increasing revenues with the set up of domestic logistics (grower services and packing operation); becoming a regular supplier to Ivory Coast; raise Mali's market share; reduce the number of intermediaries, and increase the growers' direct gains by improving sales prices.

Encourage crop diversification.

#### **Context and project background**

Mali's agriculture is strongly dependent on a few major crops (such as cereals, rice, and cotton), and livestock. The economy relies on two main export commodities, cotton and gold, representing 85 percent of the exports. Most smallholders, the hundreds of thousands of cotton growers, have been striving to diversify their production to other crops, such as horticultural products, as complementary cash commodities in the dry season. So far, this alternative production has remained anecdotal given the current small capacity of such sub-sectors (in terms of production shares and export returns). As part of these practices of diversification to horticultural production by the smallholders, mangoes have been particularly favoured in orchard development for the past thirty years in the South of the country, because of excellent agro-climatic conditions. The region of Sikasso, at the heart of the cotton region of South Mali, is also the most important centre of horticultural production of the country, supplying the neighbouring dryer zones and export markets. However, despite the good agro-climatic conditions, the sub-sector is still little known and developed.

Mali's specificity, with regards to mango cultivation, is the large share of smallholders in the production. These growers are part of a trade network comprising village associations and traders intervening in the production, collection, packing and shipment phases of the commercialisation towards external markets (France is the main importer). However, another specificity of this export chain is the role of Ivorian exporters. They have been responsible for the export logistics, since all Malian products used to pass through Ivory Coast before being exported to Europe, through the many pack-houses established at the Northern border. Mali did not manage to improve its infrastructure and logistics to be able to develop an efficient supply-chain for fresh produce exports, despite a once dynamic horticultural production, a comparative advantage in a number of products, and a long experience in the export sector with cotton. This situation can be explained by the fact that Mali did not adopt a market strategy defining horticultural exports as a trading opportunity for the agricultural sector. Sea shipment logistics for the exportation of its mangoes was not deemed as a potential for increasing the participation of this sector as an export-earning provider, thus restricting the exportation of mangoes to the small market of air-freighted fruit.

At the origin of the operation was the “Agro-Processing and Trading Project” whose objective was to address key constraints in the sector for private investments in agricultural processing and trading, mainly through capacity-building of private operators and technical support (technical assistance, studies, and training). The project management was entrusted to the Agricultural Trading and Processing Promotion Agency (APROFA), a non-profit, government-funded agency, responsible for providing marketing

opportunities for smallholders' agricultural products for the local, regional and international markets. In 2000, the Agro-Processing and Trading Project supported a test-and-trial operation to promote mango exports, which ended up in a failure. Under the supervision of the World Bank, APROFA had to undertake drastic restructuring.

### **Project approach**

Part of the new operation plan for the 2000-20001 campaign was an innovative pilot operation with mango exports. The objective was to significantly increase the volume of mangoes exported from Mali to Europe by, on the production side, improving the product quality to adapt it to market requirement (production and processing); and on the commercialisation side, overcoming transportation bottlenecks by developing sea shipment logistics to connect Sikasso (where the Malian pack-house is located) to the importing markets of Northern Europe, through Ivory Coast.

### **Activities**

The operation was set up at two levels: upstream, the project assisted small producers in developing an efficient supply-chain; downstream, the agency facilitated the creation of a joint venture with an Ivorian private operator. The pilot operation of exporting sea-freighted mangoes from Sikasso is the result a successful partnership between all stakeholders, with the APROFA in the coordinating role.

#### *1. Services to the Production Level*

- Training and technical assistance (field services, inputs supply, quality management, conservation techniques, harvesting techniques, seedlings improvement).
- Data collection on the plantations and the growers
- Incentives for the establishment of producers' organizations
- Production adaptation to demand requirements (varieties, orchard restructuring), quality control and certification (more than 400ha certified organic), and national regulations (labour laws and other regulatory frameworks).

#### *2. Services to the Marketing side*

- Organization of the primary marketing actors and their active participation into the collection stage of the chain (through training and trials at the local market level with cooperatives)
- Training in export standards application (selection and conditioning of the mangoes, quality control),
- Logistics improvement (identification of transportation subcontractors, packing to reduce the losses, container shipment, dialogue with local customs and regulatory authorities)
- Partnership with a local bank to finance the operations
- Partnerships with specialized export companies

#### *3. Multimodal Shipping System*

To connect Sikasso to Rotterdam, multimodal transport was set up (rail, road, air, sea). This logistical innovation was made possible because of the new customs regulation in UEMOA and also because the railway to Abidjan was renovated.

#### *4. Joint Venture with Export Company in the Ivory Coast*

The project identified an exporter in the Ivory Coast not yet involved in the mango sector, willing to set up a joint venture and thus split the risks. One of the innovative aspects of the project is that financing it did not rely on banking sources. The capital of the pack-house was raised by the private operator. All costs were borne by the commercial program, except for technical assistance from APROFA.

### **Results**

In 2001 (first year), 220 tons were exported and 600 tons in 2002. Shipping delays were brought down to 10-12 days into Northern Europe, which represents half the usual transit time and amongst the lowest in the world for mangoes. Quality levels were high, with no loss in terms of repacking or discarded produce. Employment in the pack houses reached 150 persons. The mango producers benefited from a significant increase in their revenues. They were able to re- invest in orchard production and diversify their sources of income from cotton to mango, and subsequently other crops such as sweet potatoes, melons and tomatoes. This diversification has a positive impact on financial sustainability, spreading the risks by having multiple cash crops.

The producers' organizations became direct partners with the commercial operators in charge of the packing and the exportation. Credit schemes are now available to the farmers for the importation of quality seeds.

**Lessons learned**

These changes relied on the simultaneous application of innovative and locally adapted tools or knowledge. The absence of expatriate personnel and the reliance on local and national social capital was crucial to the success of the operation by not only alleviating the cost of such human resources, but also by promoting local know-how which resulted in more effective management and operational practices.

**Source**

Danielou M., Labaste P., Voisard JM., August 2003. Linking Farmers to Markets: Exporting Malian Mangoes to Europe, Africa Region Working Paper Series No. 60. The World Bank group.

## **Case 9: PCPS - Business centers project – Mali**

### **Projet Centre de Prestation de Services**

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#### **Project identification**

Donor:	AFD
Scale:	Niono region (Niger Office zone)
Beneficiaries:	village associations and other producer organizations
Budget:	CFA 1.874 billion = USD 3,49 million
Duration:	1995-2002

#### **General objective**

Improve the situation of producer organizations.

#### **Specific objective**

Set up a sustainable service delivery system for the POs.

#### **Context and project background**

The intervention zone of the project is the Niger zone characterized by irrigated rice cultivation. The Niger Office manages, through State delegation, land and water use. It assumes functions associated with irrigation. PCPS assists in the third phase of the program for the rehabilitation of irrigated areas. Rice production has risen from 65,000 tons of paddy in the early 1980's to 250,000 tons in 1997-1998. This evolution, together with the rice sector liberalization, resulted in the emergence of new actors in the domain of input supply, credit, rice processing and commercialisation. These activities are taken on by producer organizations, which differ in function and in their level of structuring. Over the estimated number of 700 POs, only 20% seem to be functioning. The main problems encountered by the farmers and their organizations are indebtedness and insolvency (finance management issues), which block access to new loans. The result for the farmers is a decline in income that can lead them to lose their means of production, and for the organizations, the difficulty of developing activities of common interest and of managing commercialisation activities.

#### **Project approach**

The program started at the end of a long support process with the producer organization in the Niger zone. The idea was to help the willing PO to directly manage and finance service centres, to provide them legal advice and management services, and to help them develop their skills in organization, management and negotiation, so that they improve the efficiency of their activities in input supply and rice marketing. Initiated in 1995, the PCPS program brings indirect support to the local POs, through the provision of legal advice, finance management support and other services. An experimental phase (1995-1997) involved about ten producer organizations paying for services of consultants. In 2001, there were about 60 organizations that were members of five centres, supported by 5 management consultants and 3 legal consultants. The consultants are grouped into a joint venture (Delta Conseils).

#### **Activities**

The Ministry of Rural Development and Water managed the project during phase I (1995-1999). The second phase was supervised by the Assemblée Permanente de Chambres d'Agriculture of Mali (APCAM). The implementation of the project was given to a French consulting agency (IRAM), supplying one technical assistant during the first 3 years, and then the program continued without any technical assistance, but with occasional field missions from IRAM. Thus, Faranfasi So was progressively taking on the implementation.

The service centres are associative structures, run by Faranfasi So association, which is managed by the POs themselves. The managers are farmer leaders that have been chosen by the members: they set the subscriptions, manage the funds and decide of the orientations of the actions.

The actions undertaken by the centres are:

- Training of PO leaders,

- Offer of consultant services, in management (internal organization, accountancy, establishment of commercial contracts, economic operations, negotiation with local banks), and legal matters (land tenure, commercial conflicts).

- Set up of management tools,

- Negotiation with other actors: banks, traders, NGOs, donors.

The subscription from the members partly covers the service costs and consultant fees. In fact, the service centres recover at best 30% of the costs of the services delivered. They are therefore still dependent on the subsidies given by the project.

## **Results**

The negotiations conducted by the farmer leaders and the consultants enabled in numerous cases to clarify and resolve indebtedness problems. This enabled the PO to regain access to loans and resume their economic activities (rice threshing for example). The Faranfasi So centres have become an essential partner to the principal actors in the zone (Niger Office, banks, Chamber of Agriculture). Negotiations are ongoing about the possible banks' participation in the service cost sharing, given the number of cases the banks contracted with the centres members.

The sustainability of the Faranfasi So centres will depend on the consultants' capacity to foster the economic results of the POs. It will also depend on the capacity of the Pos to diversify the sources of funding (State, banks).

The remaining difficulties to be addressed are:

- Difficulty of the POs to adapt to a liberalized environment,

- Lack of management training of the farmer leaders,

- Ongoing indebtedness for a certain number of producer organizations.

Nevertheless, the assets of the centres are:

- Well-established centres, properly managed by the elected managers,

- Diversified services, adapted to the needs

- Existence of an economic impact, through renewed access to credit

## **Lessons learned**

The larger the project is, the more it is necessary to strengthen communication capacities of producer organizations, to avoid the leaders being cut off from their base-members. Besides a producer organization cannot take over numerous activities, because it has neither the competence nor the authority to do so. It can advantageously sub-contract some activities to service providers (other producer organization, NGO, private providers).

It is important to strengthen the existing capacities first. The training programs must be designed to put farmers in practical situations, "in the field" and foster farmers' experience exchanges.

The program was based on a few basic principles that were factors of success: concerted initial diagnostic, adaptation to farmers' requests, voluntary admission to the program, significant financial contribution from the beneficiaries, contractual relations with the project operator, service accountability to clients, progressive learning process, and importance of a prospective approach to encourage the institutional autonomy of the centres.

## **Sources**

Presentation and overview note, internal to IRAM.

The role of Rural Producer Organizations in the World Bank Rural Strategy. Rural Development Strategy, Background Paper, #8, world Bank, Washington, 161

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## ***Case 10: PRIAF-RIZ - Strengthening information of stakeholders of rice sector– Mali, Guinea, Senegal***

### ***Renforcement de l'information des acteurs des filières rizicoles***

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#### **Project identification**

Donor	MAE
Scale	Mali, Guinea, Senegal and preparatory actions for Burkina Faso, Niger, Benin and Ghana
Beneficiaries	professional organizations' leaders, among which producer organizations, public institutions and policy makers are involved in rice sub-sector
Budget	(phase 2002-2003: € 145,000) = USD 0.177 million
Duration	2002-2004
Operators	CIRAD, APM, IRAM, CIEPAC

#### **Objectives**

The project aims at reducing disparities among actors in the rice sub-sector with regard to information and economics analysis, in order to improve the decision-making process of the actors considered. This in turn would lead to better economic development and improved food security.

#### **Context**

For the last 15 years, West-African countries have engaged in a liberalization process in the cereal sector, within the framework of structural adjustment programs. These resulted in the disengagement of the State from economic functions (input dealing, credit, output marketing). In the same time, there was a drastic reduction of budgets for public services, which hindered the functioning of agricultural statistical services. Within the UEMOA, there is an ongoing process of harmonization of commercial policies, notably with the setting up of a Common Exterior Tariff. In this context of sector restructuring, the producer organizations must take their economic decisions, although it is difficult for them to access the right and timely information, which constitutes a hindrance for their development.

In West-African countries, the place of rice production varies in function of production systems and national markets. The fact is, that rice is the most marketed cereal in domestic markets and also the most consumed crop in urban areas. Nevertheless most of the national rice production systems are unable to satisfy the internal demand whereas they face great imports competition.

#### **Project background**

The project is the continuation of two previous pilot projects. The purpose of one was to set up a Monitoring System of rice marketing chains and for the other to strengthen the capacities of producer organizations in the rice sector.

##### *1. Rice sub-sector monitoring system in West Africa*

This program was implemented from 1999 to 2000 by APCAM (Permanent Assembly of Chambers of Agriculture) in Mali, the DAPS project in Senegal, PASAL project in Guinea and at regional level, APM program from the NGO FPH. CIRAD was the operator for the whole program with financial support from MAE. The program established flexible rice sub-sector monitoring systems in the countries mentioned, where this production has a strategic role in food security and national economy. Market information was collected, analysed and disseminated from different national or international sources, complemented by field surveys and then valorised during workshops that brought together all the stakeholders in a view to facilitating discussion and coordination among them. The program established 3 monitoring systems; it initiated a regional exchange network, and disseminated national information bulletins. The remaining constraints at the end of the pilot phase were: discontinuity in the financing that resulted in activity irregularity with the risk of the partners giving up; the establishment of such a monitoring system was slow to materialize, because of an over-hierarchical and sectorized administration; poor implication of professional organizations.

## 2. "APM rice"

This program was implemented from 1993 to 1999, by APM, and a consortium of 3 NGOs (Solagral, IRAM, CIEPAC), with financial support from the EC, French aid and FPH. The objective was to provide information and training to producers' leaders about agricultural policies and markets and enable them to defend their interests in agricultural policy debates with the other public and private stakeholders. A seminar was organized in Senegal in 1997, about the rice sector and on this occasion guidebooks were published and pedagogical tools were issued in the local language. The project enabled PO leaders to define the needs precisely, to establish a regional coordination network concerning PO specialized in the rice sub-sector. The access of POs to an independent expertise and to services (information, training, advisory services) was reinforced. Some difficulties occurred in the implementation of the project that were noted at the end of this phase: difficulty in reaching a large number of producers and leaders; weak structuring of POs and poor legitimacy of leaders; difficulty for the POs to manage financial resources to make the network function and as a result an insufficient ownership of information systems by the PO.

### **Project approach**

The lessons learned from these two experiences led to the preparation of the PRIAF-Riz project, entailing the following objectives:

- Ensure access for all actors to timely information;
- Strengthen their capacities of analysis, abilities to make proposals and negotiate;
- Create a regional information network (among different countries), to put in common the experiences and conduct regional analysis;
- On a national scale, strengthen the development of information, training and coordination activities in partnership with inter-professional bodies;
- On a regional scale, strengthen the move towards information exchange and studies between the three countries, and at the same time implicate intergovernmental institutions and professional organizations;
- Initiate the extension of activities to other countries in the region, notably Niger and Burkina Faso.

PRIAF fits in with other programs, such as PASAL in Guinea (see case # 9) and its second phase DYNAFIV, which aims at structuring stakeholders into inter-professional groups and contribute to the elaboration of food security policies.

### **Activities**

- *Strengthening of the sub-sector monitoring systems*

To elaborate a plan of action to reinforce the implication of all stakeholders; review monitoring system; identify priority themes of study; collect and analyse data about priority themes; provide material means, training and human resources.

- *Development of information networks on the rice sector component*

Systematically to send out the documents produced by each monitoring system (mail, e-mail, creation of a web site); develop a common analytical framework; organize regional workshops; carry out studies; develop partnerships with regional institutions (ECOWAS and UEMOA).

- *Strengthen PO position in debates on agricultural policy making.*

PO leader training (selection of beneficiaries, themes, modalities of implementation).

- *Develop networks of POs implicated in rice sector.*

Identify a regional issue and conduct a study, and organize seminars.

### **Results**

The project is being currently implemented, therefore the impact is not known thoroughly. Yet in 2002, a closer association occurred between professional organizations and the information systems.

A midterm evaluation revealed the main difficulties that need to be addressed:

- Insufficient appropriation of the information systems by the professional organizations;
- Limited use of information, due to difficulty in adapting its dissemination form to the different needs,
- The nascent structuring of professional organizations results in the difficulty of reaching a large number of beneficiaries and hinders their capacities to act as full partners.

**Sources:** CIRAD-CA, CIEPAC, APM, IRAM, 2002. *Projet de Renforcement de l'Information des Acteurs des filières rizicoles, en matière de marchés et politiques.*

## ***Case 11: Horticultural Exports Promotion and Technology Transfer Project - Jordan***

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### **Project identification**

Donor:	IBRD
Scale:	national
Beneficiaries:	small-scale and medium scale horticultural farmers
Budget:	loan amount: \$ 5 million; total project cost: \$ 6,57 million
Duration:	2002-2006 (4,5 years)

### **General objective**

Support export oriented private sector investment in the agricultural sector.

### **Specific Objective**

The project objective is to pilot-test the development and improvement of horticultural export marketing through a system of out-grower farming.

### **Context and project background**

Since the Gulf war of 1991, Jordan's markets in the Gulf countries have shrunk and export prospects have been eroded. The country is slowly regaining its share of this traditional market. Jordan is pursuing an export diversification strategy into the stable, fast growing markets of Europe to reduce vulnerability. At present, Jordan's production capability far exceeds its export capability. The local market, although growing, is relatively small and cannot absorb surplus production. In fact, even though horticultural production grew by 29% in the year 2000, about 25% of total produce was wasted because of lack of adequate exporting outlets. European markets, however, are more demanding in their quality and safety standard requirements. These considerations call for substantial improvements in produce quality in Jordan, in terms of better standards of production, post-harvest handling, packaging and preserving the integrity of the cold chain all the way to the European consumer. To serve the European market, Jordan would also need improvement in market information and logistics to monitor the demands of off-season, niche markets in Europe and to respond to them in time. Based on a study in the 1990s, there are at least 12 crops where Jordan has definite commercial potential (strawberry, grape, asparagus, melon, green bean, eggplant, tomatoes, pepper, peach, nectarine, cherry and raspberry). The factors that restrict export marketing of fresh produce are: critical mass to source destination market, given the fact that fresh produce markets in Europe prefer to deal with a few large suppliers, considered more reliable. Presently, about 6 large-scale farmers-exporters have developed their own private links to the European market. Small-scale farmers depend on the limited number of strict exporters (about 5) that serve as middlemen in exporting to Europe.

### **Project approach**

There is scope to increase Jordan's export to Europe and to the Gulf countries by expanding the access to small-scale and medium-scale farmers to these markets. The strategic approach to achieve this goal is to link the small and medium scale farmers with the large-scale farmers, which would lead to improvements in quality and capitalizing on past successes of the large farmers in exporting to Europe and the Gulf. The out-grower farming between large and medium/small scale farmers would achieve bulk volumes demanded by the target markets and improve the income of participating farmers. This requires the building of technical capacity of farmers to improve practices and produce quality.

### **Activities**

The implementation of the project first identifies and selects large farmers according to agreed selection criteria; has those farmers select out-growers and prepare contractual agreements between the parties; establish a baseline survey to set up appropriate benchmarks for the out-grower system.

The project has 3 components:

#### *1. Horticultural Export promotion*

- The Ministry of Agriculture (MoA) and the Jordan Export Development and Commercial Centres Corporation (JEDCO) will implement this component. A specialized department in JEDCO will be

dedicated to the promotion of horticultural exports. This new department would be temporarily established in JEDCO, until a private sector farmer/exporter association is ready to take it over. The choice of JEDCO was justified because it is a private/public entity and has a broad mandate of promoting Jordan's exports.

- Promoting activities: provide information on markets and products, on quality standards, carry out market research
- Capacity building activities: JEDCO would help build capacity through activities such as export awareness workshops, export packaging, transportation, and quality standards, marketing extension, and supply capability studies. It would contract out these activities to the most suitable entity
- Advocacy activities: AMD and JEDCO would work together to promote a supportive policy environment conducive to high-value agricultural exports. They would play the role of catalyst to bring government attention to key policy issues that restrict horticultural exports and advocate their repeal and replacement with export friendly ones.

### *2. Strengthening of support services*

- Adaptive, Technology Development and Transfer. Support would be provided under the project to assist farmers to adopt and adapt new high-value crop varieties into their farming systems. A competitive research grant/fund (CRGF) would be available for which national research entities would compete in providing problem-solving oriented research and technology transfer services to farmers. Farmers participating in the project would be assisted through adaptive trials, verification, and up scaling of production practices for production of high-value fresh produce.

- Capacity Building for Small/Medium Scale Farmers. Under the project, a program would be developed to support large growers/exporters to get existing small/medium-scale farmers up to speed as out-growers. A selected group of contracted out-growers would be supported (through JEDCO) to have a well-planned, escorted visit to key markets in Europe to enable them to see first hand the full requirements of the market and how their competitors are organized to meet these needs and demands. Training in the form of workshop and field demonstration trials would also be provided to out-growers in areas such as on-farm management and post harvest systems.

- Technology Transfer Specialists (TTS). About 16 technology transfer specialists in horticulture from existing public research institutions would be inducted and supported under the project to provide just-in-time technology help to farmers participating in the project.

### *3. Quality and certification improvement*

- Support would be provided to the Plant Protection Directorate of the Ministry of Agriculture to improve its capacity for testing pesticide residues in order to satisfy the demanding quality requirements of the target export market.

- Cold Chain Integrity for Quality Control at Airport. The project will select farmer/exporters who have a dependable cold chain

## **Expected results**

One important result of this pilot project will be to gather knowledge on how to facilitate horticultural export marketing; draw lessons on how to organize farmers at different levels of development for successful agricultural development. The project programs a survey to document the participation of farmers and the project impact.

## **Sources**

Horticultural Exports Promotion and Technology Transfer. Project Appraisal Document (P076961), June 2002.

<http://web.worldbank.org/external/projects/main?pagePK=104231&piPK=73230&theSitePK=40941&menuPK=228424&Projectid=P076961>

## ***Case 12: Smallholder cattle development project - China***

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### **Project identification**

Donor:	IBRD, IDA
Scale:	4 inland provinces (Henan, Hebei, Anhui, Shanxi)
Beneficiaries:	smallholder cattle breeders (estimated 138,000 households)
Budget:	loan amount: \$ 93,5 million; total project cost: \$ 180.8 million
Duration:	1999-2005 (6 years)

### **Objectives**

The project aims to develop smallholder cattle production within existing crop farming areas with large by-product surpluses and to improve the quality and marketability of cattle in order to enhance farmer incomes. The project put special emphasis on assisting small farmers in 4 inland provinces to develop cattle production. It will help the farmers diversify their farming systems and sources of income

### **Context**

The project aims to assist the government policy of developing its beef cattle sub-sector in response to emerging market demand for quality beef, which has a strong potential for commercial development. Rapidly rising unmet demand for quality beef by urban markets, due to increased urban incomes and the economic growth of urban business centres, has led to substantial imports of quality beef, as domestic beef production has not grown fast enough to satisfy demand.

There is an increasing competition for the country's grain resources by human and livestock populations. As a result, the project has based its strategy of increasing cattle production on the feeding of under utilized low-value crop residues, such as agro-processing by-products, which are available in significant quantities. Crop residues have potential as low-cost cattle feeds and are an alternative to burning, which is the current method of disposal.

Among the specific identified sub-sector constraints, the following can be noted:

A significant lack of marketing and transport infrastructure has a negative impact on commercialisation. Limited farmer access to information limits their ability to respond to market opportunities and improve quality of production. The processing sector is underdeveloped and loss-making as a result of outdated equipment and poor marketing strategies. Lastly, the regulatory system needs to take account of grading, standardization and quality control. There is a need to improve meat inspection and introduce price-differentiated beef grading.

### **Project approach and activities**

The approach is by sub-sector from a national point of view, but provides new market opportunities for small farmers in selected regions, which did not produce cattle for market before. The project has 4 main components:

#### ***1. Cattle breed and feed improvement (\$2 million)***

The project will establish beef cattle breeding programs and cattle performance and monitoring to ensure genetic upgrading, while maintaining the pool of local indigenous breeds. The project would support two existing Henan and Anhui provincial breeding centres by upgrading and extending bull stations. The project would also support the construction of a small mill in Shanxi to produce cattle feed.

#### ***2. Cattle production development (\$132 million)***

This component aims to increase cattle production and productivity in existing farm areas. It will support access of farmers to livestock applied research, extension and veterinary services; introduction of improved breeds, improved feeds, and improved husbandry practices.

- Household cow-calf raising: technical assistance to farmers to establish small household cattle breeding and production units (2-3 heads per household).
- Household cattle fattening: technical assistance to households with sufficient home-grown crop by-products to set up small livestock fattening enterprises.

- Feedlot production: feedlots would provide a market channel for young stock sold by project households. The project would provide support through loans for feedlot expansion or upgrading. The small feedlots will be using existing crop by-products that would otherwise go to waste, such as corn stalks, oilseed cake or bran that are not suitable for human consumption.

### 3. *Market development* (\$25 million)

- Live cattle market development: develop marketing facilities and market information system;
- Beef market linkage: assist in the developing of agro-processing sector into a linkage between production and markets, in order to exploit the added value that can come from grading and quality assurance. Processors produce for supermarkets and other consumers would match supply and demand. By doing so, they give essential information to farmers and feedlots about the type and quantity of beef required.
- Cattle slaughtering and processing: upgrade and expand four existing slaughterhouses (one in each province).
- Quality assurance: processors and slaughterhouse would participate in the quality assurance program, through granting of necessary equipment.

### 4. *Institutional strengthening* (\$20 million)

The project aims to assist the government in developing a reliable grading system compatible with international practices. The project will support the Animal Husbandry bureau; assist the meat inspection services to upgrade their regulatory systems for grading and quality control; support research and development.

### **Expected results**

Farmers' incomes are expected to rise from their current levels to about US\$200-300 per year. In addition, the project will also provide employment opportunities in the rural economy through commercial development. The development of the proposed 9 cattle markets, 130 feedlots, and 5 processing enterprises would provide additional employment for about 3,000 people. The project impact is to be assessed

### **Sources**

Smallholder Cattle Development Project. Project Appraisal Document, December 1999.  
<http://web.worldbank.org/external/projects/main?pagePK=104231&piPK=73230&theSitePK=40941&menuPK=228424&Projectid=P045264>

## ***Case 13: DBSM - Developing Business Services markets for SMEs - Bangladesh***

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### **Project identification**

Donor:	DFID, SCD, SIDA
Scale:	national
Beneficiaries:	all sectors small and medium enterprises
Budget:	GBP 13,6 million = USD 24,46 million
Duration:	2002-2007

### **General objective**

The program's goal is 'to promote broad based, and sustainable, pro-poor growth'.

### **Specific objective**

Enhance the number, growth rate and competitiveness of small and medium enterprises through the emergence of an effective and sustainable market for business and financial services for SMEs'.

### **Context and project background**

There are around 27,000 registered SMEs in Bangladesh, with an average of between 10 and 50 employees. There are probably several million more unregistered enterprises (1-9 employees). It is estimated that more than half of these are owned and operated by women.

Government estimates show that the SMEs contribute about half of the industrial sector's total contribution of 11 percent of the value added to GDP. SMEs employ about 5 million people, or about 82 percent of the total non-agricultural labour force in the country. In Bangladesh, as in most countries, SMEs create the greatest number of jobs.

### **Project approach**

The proposed Developing Business Service Markets (DBSM) program will enlarge an existing SDC program targeting business development services for SMEs.

The program is based on preparatory work undertaken in DFID over the last three years in researching the background for a business development services (BDS) initiative.

Business services (BDS) can be defined as any non-financial service offered to businesses on either a formal or informal basis. They may be a separate service for which businesses pay a fee, or embedded in a commercial transaction, such as training on how to optimise output from a purchased piece of machinery. At the heart of the program approach is the concept that businesses thrive best when markets for their inputs and outputs are functioning effectively, and Government focuses on its core functions rather than seeking to displace or distort markets.

### **Activities**

First the project will improve the competitiveness of specific sub-sectors by developing markets for business development services, serving those sectors. The program would work with commercial providers of these services in adapting productivity tools to meet SME needs (solving the information asymmetry existing between provider and consumer). The program will work to improve specific aspects of regulatory and enabling environment to enable markets to work better for SMEs. A central tenant will be raising the voice of smaller business to demand improvements to counter existing constraints and distortions.

The project has 3 components:

#### *1. Market development for generic BDS*

- The project initially carries out diagnostic surveys of key business service markets and pilot new services and generates a service sector database for partnerships with providers. The component will use this information in working with providers in delivering new or expanding current services to SMEs. The program will use matching-grants based on performance targets. Where service providers do not exist in key sub-sectors, and there is a strong rationale for provision, the program will support the establishment of new providers (known as the 'business centre' approach).

#### *2. Sub-Sector Development, Cluster Development, Rural Markets*

- Selection of 3 sub-sectors on the basis of the rate of employment, market potential, pro-poor growth potential, and social / equity issues. The project carries out in depth diagnostic research, such as the mapping of the sub-sectors, identification of key constraints, validation of service opportunities, and design of supply and demand-side intervention strategies. The BDS can be market access, infrastructures, training and technical assistance, technology/product management, alternative financial mechanisms, input supply, policy and advocacy.

The final part of this component is dedicated to improving functioning of weak rural markets.

*3. Development of a conducive business environment.*

The purpose of the component is to improve the enabling environment for SME growth and competitiveness, mainly by increasing the capacity of the SME sector to advocate for change on its own behalf. It will also work actively with the media in campaigning for regulatory change.

**Expected results**

The impact of the project is to assesses, in particular to see if there is an actual development of BDS market in the poorer rural areas and to evaluate to what degree the smallholder farmers have been able to successfully participate to the program and generate incomes.

**Source**

DFID Project Memorandum, September 2002. Developing Business Service markets for SMEs (DBSM)

## ***Case 14: RUSEP - Rural Sector Enhancement Project - Nigeria***

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### **Project identification**

Donor:	USAID
Scale:	national, with 4 pilot States in the first year
Beneficiaries:	agricultural producers and entrepreneurs
Budget:	the available information concerns the “sustainable agriculture and economic growth” USAID program: expenses in 2001-2002 are \$19,880 million, while \$11,131 million are and planned for 2003.
Duration:	2001-2003

### **Objective**

The objective of RUSEP is to develop domestic and regional agricultural markets through the identification of market opportunities, dissemination of market information, training, technology transfer, and the development of linkages.

### **Context and project background**

Nigeria has the largest domestic market in sub-Saharan Africa and accounts for 40% of the West-African regional market. The existence of such a large market encourages the support program to increase trade and investment in the agricultural sector by strengthening the role of rural farmers, increasing private sector participation and harmonizing strategic regulations among institutions in the country and nations in the West African sub-region. The objective of the project is to develop a market-oriented agricultural sector with the aim of enhancing the capacity of smallholder farmers to respond to opportunities in domestic and regional markets in a progressively changing economy.

### **Project approach and activities**

Market development involves the identification of crops with market opportunities in each agro-ecological zone, the organization and training of farmers and traders, to respond to the demands of existing and potential market opportunities, and the development of a market information system to facilitate increased access to, and use of, improved agricultural inputs. This aims to generate effective business linkages and agricultural trade. RUSEP provides a coordinated approach with existing public and private support (input and credit) institutions to increase the effectiveness and impact of research.

It is complemented with support services such as access to seed, fertilizer, processing machines, and credit, through partnerships with relevant institutions. The coordinating office of RUSEP is located at IITA (International Institute of Tropical Agriculture). With partnerships with local, state, and federal policymakers, RUSEP will also seek to influence the emergence of an enabling policy environment that would make the Nigerian agricultural sector competitive in regional markets. The operational partnerships bring together the IITA, Winrock International, the Federal Ministry of Agriculture and Rural Development, local government officials, agribusiness firms, NGOs and farmers.

RUSEP implements the following activities:

1. *Capacity building and strengthening of farmer associations* and entrepreneurial skills of farmers to enhance agricultural commercialisation:

- Training of extension agents and peer educators among farmers on techniques of producing chosen commodities to meet market demand. The peer educators are presented by farmers themselves and they have the responsibility of going back to train their colleagues with the extension officers providing monitoring support. They disseminate information on recommended practices for the commercial production and explain the different specifications from the requesting industries. RUSEP also provides materials and documents to help the entrepreneurs in their business activities, as well as a web-site that provides a collection of information: real-time commodity prices, input prices, business opportunities, to buy and sell products, market intelligence (international prices, future prices, and market research, assessment of the demands of the marketplace, sectoral trends). It also presents a database featuring the input dealers, credit institutions, NGO, private agri-business etc.

2. *Designing of an agenda of intervention* for identified market opportunities to drive transfer of agricultural technologies to areas with comparative advantage and high potential for commercialisation. *Development of market information system* in each target area giving real time information to guide farmers, traders, agro-processors, and policymakers.
3. *Creation of market linkages* between agro-entrepreneurs, credit support schemes, input dealers, and farmer groups, in particular through seminars and coordination platforms.

### **Results**

Some quantitative results are available from the assessment of USAID “sustainable agriculture and economic growth” program in Nigeria. In 2002, an estimated 11,000 farmers have received technical assistance to improve production of honey, fruit, dairy products, fish and staple foodstuffs. Producers in the 4 pilot States have realized \$2,4 million in sales through USAID-leveraged commodity contracts. In 2 States, over 150 input retailers were trained to distribute inputs and to provide appropriate information to purchasers on the proper user of inputs. The purchases of improved seeds and agrochemicals reached \$21 million.

### **Sources:**

<http://www.rusep.org>

[http://www.usaid.gov/policy/budget/cbj2004/sub-saharan\\_africa/Nigeria.pdf](http://www.usaid.gov/policy/budget/cbj2004/sub-saharan_africa/Nigeria.pdf)

## ***Case 15: Agricultural Marketing Systems Development Project - Tanzania***

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### **Project identification**

Donor:	IFAD, African Development Fund
Scale:	national for the policy development support, and initially 2 geographic zones for the other components.
Beneficiaries:	the smallholder farmer members of producer groups and grass-roots institutions; small-scale traders and processors operating in rural areas; and medium-scale agribusiness entrepreneurs.
Budget:	\$ 16,34 million loan amount, for a total project cost of \$42,3 million
Duration:	2001-2008

### **General objective**

Bring about a comprehensive change in the agricultural marketing sub-sector with the objective of making rural markets work better and empowering smallholders within them

### **Specific objective**

- Strengthen about 1,000 POs to enable them to have a better bargaining position and more leverage on policy formulation, identification of marketing opportunities and price negotiations for both inputs and outputs;
- Assist the Government in rationalizing the existing policies relating to regulation,
- Improve market infrastructures through construction and rehabilitation of rural roads, and post-harvest facilities;
- Strengthen capacity of the Ministry of Cooperatives and Marketing (MCM) to collect, compile and disseminate agricultural marketing information;
- Help PGs, GIs, traders and processors to access inventory and capital loans from the commercial banks as required for promotion of marketing activities;
- Establish and strengthen both vertical and horizontal linkages among POs, processors, and exporters.

### **Context and project background**

Agriculture is the dominant sector, accounting for about 45% of gross domestic product, 85% of rural employment and 73% of all exports. Over the last five years, the government has been pursuing programs of liberalization of all agricultural markets and removal of state monopolies on the export and import of agricultural products. The agricultural economy still faces important constraints among them: lack of a conducive marketing policy environment in the country (overvalued exchange rates, prohibitive regulations and high taxation); inadequate market infrastructures and transportation; lack of economies of scale and vertical integration; lack of market information and communication systems; and shortage of both investment and working capital for undertaking production, marketing and processing activities.

IFAD has financed eight programs in the United Republic of Tanzania, of which four are ongoing. Progress has been achieved on decentralization of decision-making power from the centre to the districts, empowerment of civil society institutions and beneficiaries, increasing agricultural production and promoting grass-roots microfinance institutions. However, the potential benefits of these programs, in terms of enhancing farmers' incomes, have not been fully realized due to continuing obstacles in the policy, legislative, regulatory and institutional framework, including the lack of incentives for product improvement and diversification in the agricultural marketing sub-sector.

### **Project approach**

Given the multidimensional and holistic nature of the program, with major emphasis given to rationalization of overall marketing policies and improvements of related infrastructures, it is expected that all rural market participants will benefit from the program. It has used decentralized participatory and consultative process, led from the grass roots and coordinated by the Ministry of Cooperatives and Marketing, to design the program. The following institutional mechanisms and modalities will be used to secure participation during implementation: the POs savings and credit cooperatives etc. will be organized and supported according to a demand-driven approach; resources will be provided to develop ownership,

at both the district and national levels, with participation of beneficiaries, civil-society organizations and government, through dialogue, public-awareness campaigns; and provision will be made for a participatory impact monitoring and evaluation assessment system that can address the beneficiaries priority concerns and be used and applied for assessing performance and impacts of their respective enterprise operations. The policy support component will be national in scope, while the other components will be confined initially to two geographic zones, where poor rural households are predominant (GDP below the national average), with potential for improvements (significant volumes of marketable surplus, complementarity with existing IFAD projects, presence of basic market infrastructures).

### **Activities**

The program will comprise three components, implemented in two distinct phases, with the first phase to be devoted mainly to articulation of a conducive policy environment; establishment of infrastructures; strengthening of POs and industry associations; and pilot experimentation.

#### *1. Policy Development Support*

- National policy development process: Technical assistance will be provided to support the Government in undertaking a series of policy impact and assessment studies (monetary policy, strategic grain reserve policy, regulatory and taxation policy).
- Support for local government policy development: Under the existing decentralization policy, the district councils will be responsible for undertaking all development activities, including the mobilization of internal resources and formulation of related policies. The program support will include technical assistance and other services (workshops, study visits).

#### *2. Producer Empowerment and Market Participation.*

- Strengthening of the grass-roots-level producer groups: Provision will be made to support 1,000 POs and small-scale traders involved in marketing activities through training programs about dynamics, organizational structure and financial needs; technical training to enable members to identify marketing opportunities and prepare business plans, business negotiations and communication skills, confidence building. The work will be carried out by private-sector contractors and NGOs.
- Empowerment of producers through market information, extension and research. To strengthen the MCM to collect, analyse and disseminate market information; undertake market studies and analysis, disseminate the results to producers to help them to organize their production and business plans; organize training courses for farmers, POs on grading and quality control of agricultural products. The major cash crops (coffee, cashew nut, tea, cotton, etc.) and food crops (maize and rice) will be included.
- Improvement of vertical and horizontal linkages between producers and other market actors: mainly through private-sector contractors or NGOs, provision will be made to provide training and technological assistance to improve the producers' exchange functions (bulk buying of inputs and selling of outputs) to increase their bargaining power and relative share of end retail price compared to other actors; prepare prototype contract documents and manuals; and enhance the institutional links between the producer groups and the other marketing industry associations (such as the Tanzanian Chamber of Commerce, Industry and Agriculture (TCCIA), distribution chains in Europe, America and neighbouring countries, and a number of end-users (hotels, schools and hospitals,) through organizing workshops, seminars, and study tours.
- Establishment of district-level private-sector capacity development: support four specific activities: formation of local TCCIA; development of business skills through training and technical assistance; establishment of an appropriate market information system directly linked to business activities; and provision of support services for local business promotion.

#### *3. Financial Market Services*

The objective is to test, on a limited scale, a variety of lending instruments

#### *4. Rural Marketing Infrastructure Support*

The objective is to address the high marketing transaction costs associated with inadequate infrastructures. The program will put emphasis on the rehabilitation of existing roads. Support will also be provided for the construction or upgrading of physical market infrastructure, on a cost-sharing basis. The construction and rehabilitation of storage facilities to be initiated by the producer and marketing groups will be supported through an inventory credit scheme.

The program will provide training and institutional support at the district level.

**The results of the project** still have to be assessed.

**Sources :** IFAD, Executive Board –December 2001 Agricultural marketing System Develop Program, republic of Tanzania. EB 2001/74/R.18/Rev.1

## ***Case 16: AGROPYME : marketing of agricultural products – Honduras***

### ***Agro Pequeñas y Medianas Empresas***

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#### **Project identification**

Donor: SDC

Scale: national

Beneficiaries: producer cooperatives in horticultural production, private service providers (SMEs)

Budget: not known

Duration: 2001-

Operator Swisscontact, Helvetas

#### **Objective**

Help the development of small and medium-sized enterprises (SME) in the processing and marketing of agricultural products.

Substitute importations of horticultural products.

#### **Context and project background**

Since the beginning of 2001, the Swisscontact-Helvetas consortium in Honduras has lead a project for the development of SME, which will be extended to include Nicaragua and El Salvador from 2003. It focuses on strengthening the market for services, in particular market information, personnel training and business consultancy. Honduras imports a large volume of food (approx. US\$ 500 million per year) but it has the potential to produce this food nationally, as regards, for example, vegetables or processed canned food. In addition, the sales potential is good with increasing demand on the world market for organic produce (cacao, pepper, etc.). There is further potential in supplying the needs of Hondurans living in the USA with native specialties. Agropyme aims to increase the competitiveness of production and processing businesses, so that they can successfully meet the demands of the above markets. To this end, there is a need to strengthen market-oriented service providers. Information about sales potential is not easily accessible in Honduras and to some extent even monopolized. Agropyme would like to improve the transparency and access to relevant information.

#### **Project approach and activities**

Agropyme aims first to identify market opportunities, through market information and research. It then selects agricultural SME that are likely to respond to these opportunities. To be eligible, the SME must: have production means (land, access to water etc.), be market-oriented, and be ready to pay for advisory services, be structured in associations and be innovative. Besides, Agropyme works with leading service providers, in order to ensure that the quality and volume of the agricultural products are as required by the market. In Honduras, the capital required is for the most part covered by international donors. For a variety of reasons, the formal banking system only has a limited capacity in this respect. Agropyme supports appropriate service providers in turning promising ideas into professional business plans in order to present them to other donors and banks.

The program promotes strategic partnerships, coordination with other support programs, other actors and financial institutions to conduct in depth studies to identify the bottlenecks in the development of SME, to design strategies, and to create a market information network to identify market opportunities. A common Internet platform has been launched.

Agropyme has two components:

##### *1. Support service providers*

The project conducts a national diagnostic of non-financial services offered in Honduras, through surveys, to identify the service providers and to assess their needs in term of support and training. Then it sets up training for service providers to resolve specific constraints, to enhance the service offered and to develop tools to promote those services with potential demand. So far the project team has a database of about 60 service providers.

##### *2. Support to agricultural SME.*

Agropyme selected two specific sub-sectors with high growth potential and opportunities to export to regional markets.

- Horticultural sector: In horticulture the importations represent USD 148 million, mainly from Guatemala. This situation results from climatic hazards (drought, floods) in Honduras, and also from the decrease in international prices, the poor level of investments in horticultural activities, and higher quality requirements.

Agropyme has conducted market surveys, has selected horticultural cooperatives with the potential capacity to produce for the national and international markets. For example, **COHORSIL (Cooperativa de Horticultores de Siguatepeque Limitada)**, created in 1980 by 14 producers. Today the cooperative counts 380 members. Agropyme provides technical assistance and training to assist them in supplying the domestic urban markets.

- Beekeeping: beekeeping in Honduras faced many problems (invasion of African bee in 1985, diseases in 1998 and climatic factors) that resulted in poor public and private investments, even though there are significant marketing opportunities. Agropyme financed a market survey and they brought their support to a number of cooperatives to target market opportunities through training at national level on technical themes.

The results of the project have to be thoroughly assessed.

#### Sources

<http://www.agropymeonline.org>

<http://www.swisscontact.org/english/pagesnav/frames.htm>

## **Annex B: Fair trade and ethical trade**

# FAIR TRADE AND ETHICAL TRADE

By Rocio Sanz

## 1. What is Fair trade

Fair trade is an alternative approach to conventional trade that aims to improve the livelihoods and well-being of small producers by improving their market access, strengthening their organizations, paying them a fair price, and providing continuity in trading relationships.

Fair Trade aims to contribute to the alleviation of poverty in the South through establishing a system of trade that allows marginalized producers in the South to gain access to Northern markets. This alternative trade builds on the producers' skills and enables communities to play an active part in their own development, while at the same time satisfying a consumer demand in the North (EFTA, 2001).

The fundamental characteristic of fair trade is that of equal partnership and respect - partnership between the Southern producers and Northern importers, fair trade shops, labelling organizations and consumers. Fair trade "humanizes" the trade process - making the producer-consumer chain as short as possible so that consumers become aware of the culture, identity and conditions in which producers live. All actors are committed to the principle of fair trade, the need for transparency in their working relations and the importance of awareness raising and advocacy work. The idea of the "invisible hand" has given way to the idea of working "hand in hand", with the market regulated by democratic authorities.

Fair trade has developed as a social movement whose goal is to create a concrete solidarity between citizens of the North and producers of the South. It is based on the search for a new equilibrium in North/South relations, which shouldn't be based on relations of power, but on partnership and horizontal decision-making.

The European Union has only recognized this North/South dimension of Fair Trade (CEC, 1999):

“The idea of Fair Trade applies in particular to exchanges between developing countries and developed countries; it is not directly relevant for merchandise produced within the EU, where social and environmental standards are already part of legislation. Such is the nature of production in the European Union, that producers and salaried workers already benefit from a level of environmental and social protection that is at least as high as that which has been established for products pertaining to Fair Trade.”  
COM (1999) 619 p.4

The main achievements thanks to the Fair Trade in the producer communities are:

- Reduction of the uncertainty and risk
- Consequent increase of the loan capacity
- Consequent increase of the technological innovation capacity
- Increase of the work productivity
- Empowerment of producer organizations

The birth of Fair trade (Thomson, 1995).

In 1964 Oxfam created the first Alternative Trading Organization (ATO). Parallel initiatives were taking place in the Netherlands and in 1967 the importing organization, Fair Trade Organization, was established. At the same time, Dutch third world groups began to sell cane sugar with the message "By buying cane sugar, you ...give poor countries a place in the sun of prosperity". These groups went on to sell handicrafts from the South, and in 1969 the first fair trade shop opened.

*Target: Development of the rural communities*

Development is a complex process that demands a dynamic balance between complementary, yet sometimes contradictory, objectives. The development of export products for fair trade shouldn't result in the central objective being forgotten; that the diversification of food producing activities and production are one of the bases of rural producers' autonomy. Regarding this, different organizations and producer

groups have carried out some initiatives. Kuapa Kokoo has used the social premium to run a project through which, women made soap from discarded cocoa husks. They also used this premium for making palm-oil mills.

A cooperative in Cameroon, Macecoop, were selling coffee to Cafédirect through Twin, and now they are also producing and selling them cocoa for a new product that Cafédirect has developed.

It is relatively easy for one FT cooperative to start producing a second FT certified product: Once one cooperative has been certified by FLO for one product, if it starts producing another one, they can get the FLO certification for the second product automatically.

The goals of Fair trade are (Oxfam, nd):

1. To improve the livelihoods and well being of producers by improving market access, strengthening producer organizations, paying a better price and providing continuity in the trading relationship.
2. To promote development opportunities for disadvantaged producers, especially women and indigenous people, and to protect children from exploitation in the production process.
3. To raise awareness among consumers of the negative effects on producers of international trade so that they exercise their purchasing power positively.
4. To set an example of partnership in trade through dialogue, transparency and respect.
5. To campaign for changes in the rules and practice of conventional international trade.
6. To protect human rights by promoting social justice, sound environmental practices and economic security.

The FT organizations are committed to:

- Providing as direct sales as possible
- Giving producers a fair price
- Ensuring pre-payments when necessary (so that producers have enough working capital to buy raw materials and basic needs during production)
- Ensuring a long term relationship

The farmers who can enjoy the Fair Trade system are smallholders, gathered together in a cooperative which works in a democratically. One of the main problems is that small producers are usually isolated. They have lost control over the price paid for their produce. They need to get this control back through FT and selling direct to the consumer. One of the main core values of the Fair Trade system is the direct farmer/consumer link. The consumer can tell the farmer what they want e.g. if the packaging is not desirable it can be changed or in the case of bananas if the consumer wants uniform yellow blemish free bananas the farmer can supply it, but otherwise, it is the 'middleman' that states what they think the consumer wants.

## 2. FT Organization network

The concept of *fair trade* was originally developed by Non-Governmental Organizations (NGOs) interested in trade and development. The first *fair trade* initiatives involved the creation of alternative trading organizations or "*fair trade* businesses". Churches or charities often started these, although several have now become independent companies. This movement led to what we understand now as "World Shops" – or solidarity shops-, which are retail stores where we can find fair trade handicrafts and food products.

There is another marketing route for Fair trade products, which was developed in 1988 in the Netherlands and consists in Fair Trade certification. The objective here is to follow normal distribution patterns in order to facilitate greater access to fair trade products (EFTA, 2003).

In Europe, the certification is done through 17 different national initiatives (Max Havelaar", "Transfair", the "Fairtrade Foundation", "Rättvisemärkt"...). In 1997 there was an important coordination improvement with the creation of Fair Trade Labelling Organizations International (FLO, nd) which coordinates at EU level and at an international level. The certifying agencies are responsible for continuing to monitor producers, importers and traders qualifying to use *fair trade* labels to ensure that the criteria are strictly respected.

The following table shows some data about the Fair Trade organizations that work at an international level. Since 1996, cooperation between these four international networks has developed considerably. Under the acronym of **FINE** they hold regular meetings to coordinate their work. FINE is particularly involved in developing an integrated monitoring system for the whole Fair trade movement and in advocacy work at international level.

	FLO	IFAT	NEWS !	EFTA
Established	1997	1989	1994	1990
Type of members	National labelling initiatives	Producer organizations, alternative trading organizations	National world shops associations	Importing associations
Members in countries	17 in 17 countries	148 in 48 countries	15 in 13 countries	12 in 9 countries
Members in Europe	14 in 14 countries	42 in 13 countries	All	All
Location	Bonn, Germany	Oxford, United Kingdom	Utrecht, Netherlands	Maastrich, Netherlands

### 3. FT products and prices

FLO is responsible for creating a set of standards for each product they label. The products that you can find in the supermarkets under the FLO label are: Coffee, Tea, Rice, Bananas, Fruit juice, pineapples, mangoes, honey, sugar, cocoa, dried fruit.



They have set a minimum guaranteed price and a social premium for all of them. If the international market prices of the products are higher than the minimum guaranteed price, then producer organizations will receive the international market price and on top of that, the social premium. The expenditure of Fairtrade premiums -for the Kuapa Kokoo case- is divided between supporting the development of a strong commercial trading company, the provision of income bonuses and the funding of community projects (water wells, latrines, workshops to educate women on health/ financial management, technical workshops on production, pest control and shade management....) (Ronchi, 2002).

In the **cocoa** case: The minimum price that is offered by the FLO licensees is 1 600 US\$/T raised by a premium of 150 US\$/T. For organic cocoa another 200 US\$/T premium is added. If the market price is higher than 1600 US\$/T then the Fair Trade price is this price raised by 150 US\$/T.

In the **coffee** case:

- Importers must guarantee the FLO minimum price (US\$ 1.21 per pound for Arabic coffee) and pay a social premium (US\$ 0.05 per pound) above that minimum or above the world market price (whichever is higher). Certified organic coffee must get a further premium (US\$ 0.15 per pound).
- Importers must offer pre-financing equal to 60% of the contract value upon request

The pricing system for **bananas** is a little different (FLO, 2003): The price should be equal to or higher than the total of the Fairtrade minimum price and the Fairtrade premium defined by FLO. FLO's FT minimum prices for bananas are country-specific and based on costs of production. FLO will review the country-specific FT minimum prices at least every two years.

FT minimum prices from 1 January 2002 are as follows in the table below. They are stated in US dollars to refer to an 18.14Kg box

Country	FT minimum price USD/box	
	Farm-gate	FOB
Windward Islands	5.75	
Dom Rep organic	5.50	
Dom Rep conventional	4.50	
Ecuador organic		7.25

Ecuador conventional		5.25
Costa Rica		6.00
Ghana		6.75
Colombia		5.25
Peru	Is set for “fruit on plant” <sup>1</sup> at 2.20 US\$/box	

The FT premium for bananas is US\$ 1.75, paid on top of the FT minimum price for all origins. It shall be split in two: US\$0.75 for business support<sup>2</sup> and US\$1.00 for social, environmental and business development<sup>3</sup>.

#### 4. FT challenges

It is now clear that Fair Trade is neither a marginal ‘niche’ market nor a passing fad but is increasingly seen as one of the few genuinely successful approaches to development aid. Today, Fair Trade is an established principle in almost all European countries, which has been successful with certain consumer groups, has a steadily growing distribution network throughout the EU and is even providing job creation opportunities in Europe.

One of the most pressing needs facing Southern producers is to expand the Fair Trade market in Europe, both to accommodate a greater proportion of their production, and also to give access to other fair trade producers in the South, who, because of the limited market, have yet to be included in this system. Expanding the European market is an uphill struggle due to (Sanz, 2003):

- Competition with trans-national companies' marketing strategies
- Import license control
- Positioning in retailing
- European policies that militate against trade in certain products (i.e. sugar).

#### 5. FT Impact on producer groups

There is a danger that Fair trade can create only “islands of development”, since it only interacts with very few cooperatives in the world (for the cocoa case, there are only 8 cooperatives engaged in the FLO FT system). The type of development generated can also be questioned. Fair trade champions a model of development resting on the expansion of the people’s ability to be autonomous, on nutritional sovereignty and rural development. But, despite everything, doesn’t focusing mainly on export production force us to rush towards producers with attendant risks, albeit watered down, that are the same nature as those strategies of “export-driven development” offered by international finance institutions? (Johnson, 2002). Admittedly, in the present context of deregulation and opening of markets, the mechanisms set in place by Fair trade have allowed the most marginalized producers and workers to obtain benefits, but how is it possible to find a balance between the demands of access to the world market and the local market? Therefore, real social development will not be produced without a strategy of local and regional development.

#### 6. A model of farmer empowerment and organization: Kuapa Kokoo & TWIN

**Kuapa Kokoo** is a Ghanaian cocoa cooperative formed in 1993 (with assistance from Twin Ltd UK and the Dutch Development agency SNV) by a group of farmers who wanted to increase their power and representation in the market. It now has over 35 000 members.

Fair Trade helps support Kuapa Kooko's goal to use sustainable techniques that are safe for the environment and public health by encouraging shade cultivation, composting, and minimization of chemical inputs. The cooperative comprises five main branches: Kuapa Kokoo Limited handles trading; the Farmers Trust distributes Fair Trade premiums across the farmers and their community development

<sup>1</sup> “Fruit on plant”: Export quality bananas still on the plants, ready to be harvested.

<sup>2</sup> Business support includes maintenance of compliance with the minimum criteria and cross-subsidisation of non-FT sales

<sup>3</sup> Social and environmental development includes progress on meeting the progress requirements of the criteria, training to increase awareness of FT and improve the participation and representation of cooperative members and plantation workers, and other agreed social and environmental improvements.

projects; the *Credit Union* provides banking advice and good loans; the *Farmers Union* serves as the governing body, and the *Day Chocolate Company* produced chocolate for sale on the international market. The Farmers Union is composed of village groups that elect society committees and delegates at the regional level, who elect delegates to the National Kuapa Kokoo Farmers Union.

The Farmers Union represents one element of Kuapa Kokoo's efforts to ensure that the cooperative is run democratically. The Union's elected representatives make all decisions that will ultimately affect farmers and their communities. In addition to its democratic nature, Kuapa Kokoo prides itself on the transparency of its dealings with farmers. For example, the cooperative has built a reputation for credibility by using accurate weighing scales that can be understood by all farmers.

Since its formation in 1993, Kuapa Kokoo Union has shown a spectacular growth, from 49 to more than 500 primary societies, with over 35,000 members. Many expressed an urgent need for money management assistance and access to credit. In response Twin coordinated a feasibility study, funded by DFID, for a village based credit facility. This led to the launch of the Kuapa Kokoo Credit Union in July 2000. More than 20% of Kuapa members have now joined the scheme. Loans are made for projects such as making palm oil, which provide an additional income during the difficult months between cocoa seasons.

**The Day Chocolate Company** is unique of its kind. In 1998 Kuapa Kokoo farmers voted to expand their business and gain significant understanding of the Western chocolate market. So The Day Chocolate Company was born - part owned by Kuapa Kokoo (33%), Twin Trading (52%) and The Body Shop (14%) and with support from Christian Aid and Comic Relief. Kuapa Kokoo owns one third of the company, 2 members sit on the board and a board meeting is held every year in Ghana.

The Day Chocolate Company was launched with part of the company's financing underpinned by a guarantee facility provided by DFID. DFID's intervention reflects the realization that market based poverty reduction initiatives are of developmental interest and suited for experimental support. This guarantee was provided to overcome a market failure, i.e. the gap between the necessary rate of return from financing of high-risk ventures –launches into mature and 'hard-to-contest' markets- and efforts to improve producers' livelihoods (Tiffen, 2002).

**Twin and Twin Trading:** TWIN is, in essence, composed of two separate companies (Novotrade, nd):

- **Twin Ltd**, a registered charity carrying out producer support and development work mainly in Africa and Latin America. Twin Ltd provides a range of technical assistance and training activities to improve the organizational and governance capabilities of the organizations that, in turn, assist primary product producers to improve the quality and reliability of their output. Twin's focus has been on developing the trading strengths of our coffee and cocoa producers although it also works closely with farmers of peanuts, sisal products and cotton.

- **Twin Trading Ltd** is a not-for-profit trading company, which buys the coffee and nuts directly from our producer partners. For the past 7 years our highly experienced traders have been responsible for sourcing, blending and overseeing the manufacture and packaging of coffee for *Cafédirect*, one of the first fair trade coffees to be placed on supermarket shelves throughout Britain. Twin Trading Ltd also imports and wholesales commodities to both fair trade and commercial markets in Europe, USA and Japan.

TWIN and TWIN Trading are particularly concerned with facilitating communication and organization between producers and their organizations to help them to work together to plan their production, exporting, and marketing, so as to maximize the value added, ensure sustainable income and invest in their future.

## 7. A fresh fruit case: FT bananas

The Fair trade bananas have been relatively recently launched in the European market. This product has experienced big success, especially in the Swiss market, where the last measured Fairtrade share of the banana market is over 15 %. Fairtrade national initiatives, in conjunction with retailers, regularly organizes huge promotions to boost banana sales, particularly in the UK, the Netherlands and Switzerland. For the moment, bananas are one of the most dynamic products on the Fairtrade market.

On the other side of the distribution chain, it is difficult for small farmers to compete with plantations in the conventional market (Schreck, 2002). The reasons for this are closely related to difficulties that small farmers have meeting the export market's quality expectations. The market's quality requirements refer

largely to the cosmetic quality of the bananas. Quality requirements limit the volume of supply available for export, particularly from small-scale growers.

The banana growers from “Finca 6” in the Dominican Republic recalled market-related concerns as among their greatest problems (including quality, price, the market, the rejection rates). This suggests the market access the Fair trade initiative provides may be the most critical advantage producers receive from their certification.

To put this into perspective, consider that during the summer of 2000, an average of two containers (about 2000 boxes) of Fair trade bananas were purchased each week from the Association of Finca 6, whose membership totals around 275 members. Of these, only the best fifty or so were selling their bananas, since they were the only ones producing bananas that would meet the quality standards.

When Fair Trade criteria concerning the social and environmental relations of production and the goal of providing an alternative to the conventional system are subordinated to quality, it seems that working “in the market” takes precedence over “against the market”.

Quality requirements placed on exporters by distributors farther along the chain have become an unofficial gatekeeper, permitting only “the best” of the small-scale producers to access the lucrative, specialty market.

#### a. The Fair Trade bananas network in Europe

AgroFair is an importer and distributor of organic and Fairtrade tropical fresh fruit, combining ‘Agriculture’ with ‘Fairtrade’. The company was established in 1996. At present, its products are sold in Belgium, Denmark, Holland, Finland, Italy, Austria, Switzerland and the UK.

AgroFair’s way of working is characterized by ownership by the producers, and direct collaboration with them. AgroFair buys all products directly from the producers or their organizations, without the intervention of intermediary buyers. All fruit producers, organized as plantations or co-operatives, are registered in the International Fruit Producers’ Register of the FLO and some of them are also certified organic producers.

On top of the guaranteed minimum price, AgroFair pays its producers a supplement (\$1.75 US dollar for each box of bananas of 18.14 kg). This supplement, called the Fairtrade premium fund, pays for, amongst other things: free healthcare, clean water, maternity and sick pay and housing schemes. The growers themselves decide on how the social premium money is spent per year. AgroFair’s goal is to use natural methods of agriculture and the company encourages and works with its producers to change to organic production wherever possible.

The International producers cooperatives own 50% of the shares of the company. The other 50% is owned by the NGO “Solidaridad”, which is a Dutch development organization for Latin America. It finances projects in the South and communicates the importance of Fairtrade to the Dutch and European public through its campaigns. Solidaridad has launched very successful coffee, banana and clothing brands in the Netherlands.

Agrofair UK has a joint venture between Agrofair (67% of the shares) and Twin (33%) and it is responsible for the marketing and sales in UK and Ireland.

Agrofair Italy (CTM) is directly responsible for the marketing and sales in Italy. CTM is a co-operative union based in Italy and aims to participate and promote a fair structure of international trade based on the principles of justice, co-operation and sustainable development. It operates a chain of FT shops in Italy.

#### b. The Fair Trade banana producers

The cooperatives engaged are:

##### **Ecuador: El Guabo**

A cooperative in the Southwest Ecuador consisting of some 150 members who together own a total of 700 hectares. All in all, more than a thousand people earn their living at El Guabo. In November of 1997, fourteen farmers organized themselves in order to participate in and benefit from Fairtrade. Today, the original fourteen have grown into a substantial group of farmers who are now able to manage their own

exports, have quality-monitoring systems in place and have much improved living and working conditions. They have also become aware of the detrimental effects of conventional methods of growing bananas and have progressed towards environmentally friendly production. El Guabo now supplies a substantial part of AgroFair's total import and is the founding member of the International Producers Co-operative, which has 50% of the shares in AgroFair Europe.

#### **Ecuador: Grupo Agricola Prieto (GAP)**

Certified by FLO in 2001, this family company exists since 1996 and it is certified organic. The workers of GAP have established different committees for assuring that the extra funds generated by the Fairtrade business will benefit the workforce. They have now programs in place for health care, school materials for children, and religious and sports programs.

#### **Costa Rica: Coopetrabasur**

It is a cooperative run by former workers of Chiquita, now they have some 70 members owning 300 ha. For some years, they sold their bananas to Chiquita, but since 1997 they have been FLO certified and sell 70% of their bananas under the Fairtrade label. Since becoming Fairtrade certified, the co-operative has made considerable progress in both social and democratic structures and it has started an extensive environmental program. This has involved setting up an organic project of 30 hectares, stopping the use of certain harmful agrochemicals such as paraquat, recycling plastic waste and limiting spraying. The Fairtrade premium has been used to hire an agronomist and 5 environmentalists, to increase wages, and to improve medical care, education and housing.

#### **Peru: Asociacion: Valle de Chira**

This is a banana co-operative recently formed with the support of AgroFair Assistance & Development. It involves some 100 small producers with 0,5 to 1 hectare. each, maintained by themselves and their families. Valle de Chira is an area in the North of Peru which until recently produced for the local market only. Bananas are traditionally grown in an organic way and the producers are certified as such. Biorganica is an export organization, partly owned by Valle de Chira, which takes care of the export business for Valle de Chira. AgroFair has recently purchased the rest of the shares with the intention that Valle de Chira can buy them from AgroFair in stages, when they have the means to do this.

#### **Ghana: Volta River Estates Ltd. (VREL)**

VREL is the only banana exporter in Ghana and is of strategic importance to the country, which is keen to reduce its dependence on cocoa and gold exports. VREL is based in a part of the country where up to two thirds of people are out of work, without any social security benefits and health care and primary education have to be paid for. VREL became Fairtrade certified in 1996 and since then has put in place a democratic structure. The workers are well represented through the local branch of the General Agricultural Workers' Union (GAWU). Each of the four sites has three elected representatives, including a women's representative, who meet regularly. The Fairtrade premium money has been put to good use increasing wages, establishing a health care system, converting temporary contracts into permanent ones and making the plantation more environmentally sound. At present, production has been greatly reduced due to the fact that the whole farm is in the process of conversion to organic growth. VREL expects production to be back to its normal levels as of January 2004, but its bananas will then be certified both Fairtrade as well as organic.

## **8. Ethical trade**

**Ethical trading** is an important and effective means of bringing benefits to workers in the south. It is having a real effect on large companies in the United Kingdom, encouraging them to look at all their trading activities (BATS, nd). The Ethical Trading Initiative (ETI) consists of companies, NGOs and Trade Unions "working to improve conditions of employment in the supply chains" of the goods sold on the High Street in the UK. It arose mainly because of pressure from consumers, who wanted retailers to act responsibly towards their suppliers at farm or factory level.

The ETI code is based on international standard briefly, includes:

- No forced labor
- Freedom of association and the right to collective bargaining

- Safe and hygienic working conditions
- No child labor to be used
- Living wages to be paid
- No excessive working hours
- No discrimination
- Regular employment to be provided
- No harsh or inhuman treatment

Fair Trade has a different focus. It is an alternative approach to conventional international trade, being a partnership which aims at sustainable development for excluded and disadvantaged producers in the 'South' – Africa, Asia, Latin America, the Caribbean. These producers have no access to mainstream markets, so Fair Trade seeks to change the unfair structures of world trade to help create a fairer society. Poverty alleviation is a main objective.

#### *The ETI in action*

Each member of ETI is expected to take part in at least one pilot project, targeting particular products in South Africa, Zimbabwe, China, Costa Rica and Sri Lanka to date.

#### *Sri Lanka*

The NGO members of ETI have been keen to test approaches to monitoring in the clothing industry that make greater use of local NGO and trade union input, and ETI member companies agreed to explore the possibility of a pilot project in Sri Lanka. Discussions have been undertaken with suppliers, trade unions, NGOs and the government in Sri Lanka, with a view to developing a proposal looking at hours of work, living wages, freedom of association and housing.

#### *Costa Rica*

In 1999, ETI supermarket members requested a pilot project on the banana industry in Costa Rica, after allegations of infringement of the basic ETI code. A visit to Costa Rica was undertaken to consult with potential partners, including the main banana companies, the unions and NGOs involved with the banana sector. A pilot project was agreed in principle, and it is planned to monitor 8 plantations. Since this project arose in response to allegations of specific labour rights violations, there is a need to work out how to respond fairly and appropriately to allegations of breaches of the ETI code, making no assumptions about the validity of the alleged breaches.

## 9. How does Fair trade differ from “ethical trade”?

Fair Trade and ethical trade are two distinct mechanisms aiming to improve incomes and working conditions of workers and producers outside North American and Europe. Both are borne out of consumer concerns for the origin and conditions of production of goods or services they purchase (Montague, 2003)

Fair Trade seeks to address the unfair trading conditions met by third world producers when dealing in international markets. Fair Trade is purely a civil society initiative that began with the emergence of alternative trading organizations. These organizations developed direct trading relationships for products such as coffee to ensure a better price paid to producers. With the emergence of labelling initiatives and the Fair trade Labelling Organizations International (FLO), mainstream companies began dealing in Fair Trade, dealings independently monitored by the FLO. The standards developed by FLO are enforced by labelling organizations such as TransFair Canada and TransFair USA, thus assuring consumers that producers received a fair deal.

**Ethical trading** describes approaches within the global trading system that attempt to incorporate responsibility for social and environmental impacts into all aspects of supply chain management. It can be distinguished from **Fair Trade** initiatives that are limited to addressing terms of trading for small producers (Earth Summit, 2002). However, some commentators argue that this narrowing of the debate is not helpful when companies (both mainstream and alternative trading organizations) are together addressing a range of societal and environmental issues. Ethical trading initiatives seek to address living and working conditions of producers and also the adverse impacts of production methods on the environment. Demands that trans-national producers take greater responsibility for the rewards and

conditions of those who contribute their labour to the global production chain have intensified over the past decade. This has largely resulted from the campaigns by various non-governmental organizations (NGO's) that have raised awareness as to the unsatisfactory living and working conditions faced by many of the world's poorer producers. Many companies have consequently incorporated Voluntary Codes of Conduct (VCC's) to address these issues.

Ethical trading initiatives necessarily involve stakeholder collaboration. It is not enough for one company in the supply chain to adopt ethical practices. These practices must be incorporated into all links in the chain. Therefore the development of partnerships is central to the development of ethical trading initiatives.

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