



## **WALKING TIGHTROPES: SUPPORTING FARMER ORGANISATIONS FOR MARKET ACCESS**

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*Despite their mixed record in the past, Farmer Organisations (FOs) are being asked to play an increasing role in supporting commercial agricultural development among smallholder farmers in Sub Saharan Africa. As NGOs, donors and governments encourage both scaling up and diversification of FOs' activities and membership, this paper draws on research on FOs in Malawi to suggest principles for policy and practice in support to FOs. With limited resources and facing a very challenging environment, these FOs generally need external support for start-up, but getting the balance right between external and internal resources, between accountability and leadership, between flexible and effective structures, and between over- and under-ambition means that FOs and their supporters walk a difficult set of tightropes. External support needs to be skilled, sensitive, consistent and patient if FOs are not to be another development disappointment at the start of the 21st century.*

### **Policy conclusions**

- Farmer organisations (FOs) can encourage market access and commercial agricultural development but face many challenges, require sensitive but committed support, and are unlikely to succeed in directly helping the poor in more difficult environments
- There are many stakeholders with different interests in FOs, but long term success requires a primary and consistent focus on facilitating members' profitable engagement in commercial activities.
- FO establishment and governance, the activities they undertake, and the external support they receive must 'fit' each other and the organisational and agro-economic challenges they face.
- Successful FOs facilitate linkages between their members and a range of external service providers, but limit the range of services that they directly provide to their members. FOs should work to improve the quality, competitiveness and scope of private companies' services to members. Where critical services do not exist, FOs should exercise great caution in taking on these activities themselves.
- FO establishment and governance requires a difficult balance between local adaptability, diversity and accountability to members and centrally established clear, stable and standardised rules, procedures and structures, with effective and appropriately rewarded but low cost professional management. Separation of FOs from political influence is particularly important.
- The greater the challenges facing FOs, the greater the need for external support, but the greater the likelihood of it subverting and undermining long term FO development. Some long term subsidy is justified for most FOs, but this must be delivered with minimal distortion to member-focussed development. It should build governance and capacity, skills and resource development at different levels among FOs, their members and supporting organisations. Policy makers should establish an appropriate legislative environment, including support for independent, transparent, and clearly defined FO auditing.
- External support to FOs should be long term, should not be overambitious, and should patiently help FOs to learn from their mistakes and build their capacity in organisational and financial management and democratic processes.

### **Background**

Recent years have seen a widespread interest in FOs as mechanisms for supporting agricultural development. It was hoped that structural adjustment and market liberalisation programmes would lead to commercial organisations replacing parastatals in the provision of agricultural marketing services, but growth in private sector investment in these services has been disappointing. Responses to this situation vary. The evolving Washington Consensus has called for more thorough market liberalisation together with other measures to overcome problems inhibiting smallholder market access, for example increased investment in infrastructure, in legal and market institutions, and in agricultural research and extension services together with a greater role for producer groups (World Bank, 2002; Bingen et al, 2003). These calls are reflected in national policies, for example the Malawi Poverty Reduction Strategy Paper (Malawi Government 2002) places a very strong emphasis on promotion of farmer associations (to facilitate farmer access to inputs, credit, output markets, market research, and technical training and to improve coordination within the smallholder sector). Policy analysts and advocates who are more sceptical of some aspects of the Washington Consensus also emphasise roles for farmer organisations in improving smallholders' access to services (see for example Peacock et al, 2004) while Collion and Rondot (2001) explicitly see FOs as 'a new mode of economic and social regulation' to replace governments' hierarchical coordination.

FOs, however, have a mixed record, and this experience urges caution in relying on FOs for too much. While some FOs have made considerable advances in improving their members' incomes through better access to market and other services, many FOs have failed. A large literature warns that FOs are undermined by attempts to encourage them to scale up too rapidly or to take on too many or over-ambitious activities. They can also be undermined by subsidies, by a failure to focus on core commercial activities offering clear benefits to members, and by donor and government support and interference that interacts with them more as development agents than as private businesses (Stringfellow et al, 1997; Collion and Rondot, 2001; Lele et al, 1981; Hussein, 2001; Kindness and Gordon, 201; Hussi et al, 1993). Against this background this paper examines a number of different FOs in Malawi, where FOs have played a variety of roles over the last 30 years. Conclusions are largely supportive of those in the wider literature but provide further insights to policy makers facing questions about what functions FOs can be expected to fulfil, and how they can be encouraged to expand to effectively fulfil these functions on a significant scale. We examine in turn divergent stakeholder interests in FOs and organisational and contextual challenges before setting out principles for policy and practice in FO activities and tasks, in FO establishment and governance, and in external support and policy.

Table 1 Different Stakeholder interests in FOs				
Interests	Stakeholders			
	Farmers	Private sector	NGOs	Public sector*
Overall objectives	Improved livelihood opportunities & security	Knowledge & business opportunities to increase profits	Improved rural service delivery, economic growth, welfare & poverty reduction	
Specific objectives in their own dealings with FOs				
Access to commercial services	Financial, input & output markets, & technical services			
Low transaction costs	Trust, grading, etc			
	Economies of scale in transactions			
Improved information flow	Market & technical info.	Market (& technical) info.	Community (& market & technical) info.	
Power	Farmer lobbying		Empowerment	
Cost effective rural entry	New markets	New suppliers/clients	For a wide range of economic & social services	
Improved food security	Household food security		Household food security	Household & national food security
* Does not include extension staff working directly with FOs to improve their market access.				

### Stakeholder Interests in Farmer Organisations

A variety of stakeholders have different interests in FOs playing different roles (see Table 1). While many of these interests and roles are complementary, there are also conflicts between them – for example private sector and FO member interests in reduced transaction costs may require small and homogeneous membership (to keep down costs of group coordination) and a focus on a narrow range of high value activities – but this may conflict with the need to expand membership to gain economies of scale in marketing and with public policy, donor and NGO objectives to extend FO coverage to include poorer and more vulnerable groups.

A wider public interest in FOs also relates to the role they can play in promoting economic coordination for pro-poor growth. Kydd and Dorward (2004) argue that ‘extensive coordination mechanisms’ are often needed to overcome ‘low level equilibrium traps’ in poor rural economies. Before the introduction of structural adjustment and market liberalisation policies, most African states attempted to provide this through extensive market regulation, intervention and investments in market infrastructure. The Agricultural Development and Marketing Corporation’s (ADMARC’s) activities in Malawi in the 1970s and 1980s provide an example of a system that also used farmer clubs to achieve considerable success in smallholder agricultural development (see Box 1). FOs may then provide a potential alternative mechanism for promoting economic coordination in liberalised markets (see also Rondot and Collion, 1999), but as ‘soft’ coordination mechanisms they have less potential scope and reach than the ‘hard’ pre-liberalisation systems (where these could be made to work).

### Challenges

#### Organisational challenges

FOs are characterised by multiple involvement of members as owners and suppliers of capital, as clients and (for some) as employees. These roles can lead to conflicting interests which do not arise in the same way in NGOs or private companies. The nature of these conflicts will vary with the regulations under which FOs operate – their own articles or by-laws and national laws relating to different forms of association.

An example of the difficulties posed by these multiple roles for members relates to the scale and pricing of services offered to clients. The need to provide dividends to members’ capital, repay loans, and accumulate capital for investment suggests FOs should try to maximise profits and returns to capital. However members may be more interested in access to low cost services through low prices. Donors providing equity may also wish to extend the reach of services to poorer or more remote clients, although this may dilute and reduce FO profits and increase risks of failure.

The active involvement of FO members in different roles in FOs also poses ‘collective action’ difficulties. Collective action involves individuals cooperating to solve a shared problem or set of problems by establishing and implementing rules to promote common interests and action, and to prevent ‘free riding’. Agreeing and implementing these rules is a major challenge and is generally more difficult with larger and more heterogeneous FO membership and where the benefits of collective action are uncertain, not clearly limited to or identified with FO membership, and of varying importance to members’ livelihoods.

#### Box 1 Malawi Government Coordination and Support to FOs in the 1970s and 1980s

Experience with government-sponsored cooperatives and other FOs in Africa has been largely negative as a result of lack of autonomy and political interference, sometimes promoting corruption (Lele et al, 1981; Hussi et al, 1993). However Malawian experience with FOs supported by the Ministry of Agriculture and ADMARC in the 1970s and 1980s was much more positive. Very high rates of maize productivity growth and credit repayment were achieved, although with limited human capacity development, through interlocking of government sponsored credit and ADMARC input supplies and monopsonistic control of output markets. Ministry of Agriculture extension agents also spent much of their time coordinating credit, input delivery and produce marketing services to farm clubs. Although most of these clubs were growing maize and failed in the 1990s (as a result of simultaneous shocks from drought, from political and economic liberalization unraveling the interlocked system, and from macro-economic instability) a significant number survived growing cotton (with some difficulty) or have revived with new opportunities to grow burley tobacco.

Other special difficulties arise in FO leadership and governance. Different organisational and leadership 'cultures' and structures may be appropriate to different stages of organisational development. Young commercial organisations often benefit from strong, centralised but flexible leadership unconstrained by bureaucracy. However, where FO members lack basic literacy, business skills and experience this may provide opportunities for local elites to capture the organisation and allow leaders to misuse FO resources. Leadership succession may also pose problems in these circumstances, and accountability to members may be problematic where external donors are more important sources of capital and resources than FO members.

### Environmental or contextual challenges

The context in which FOs operate in Malawi poses a number of challenges. These include: physical and natural difficulties in agricultural production (for example poor soils and uncertain rainfall); poor infrastructure; poor health status and the effects of HIV/AIDS; poor services (for example absent, late, poor quality and/or unreliable input and output markets); an unfavourable macro-economic environment; low levels of wealth and economic activity; low levels of literacy; and a weak and often inappropriate institutional environment. The latter includes poor security, traditional attitudes to business and business relations, difficulties in separating FO leadership and management from politics, and inappropriate and/or poorly enforced regulations for FO governance.

These environmental challenges exacerbate many of the organisational challenges faced by FOs, as they reduce the benefits of FO membership, increase uncertainty, encourage short term planning horizons, limit members' willingness and ability to invest in FOs and make FOs susceptible to capture by elites.

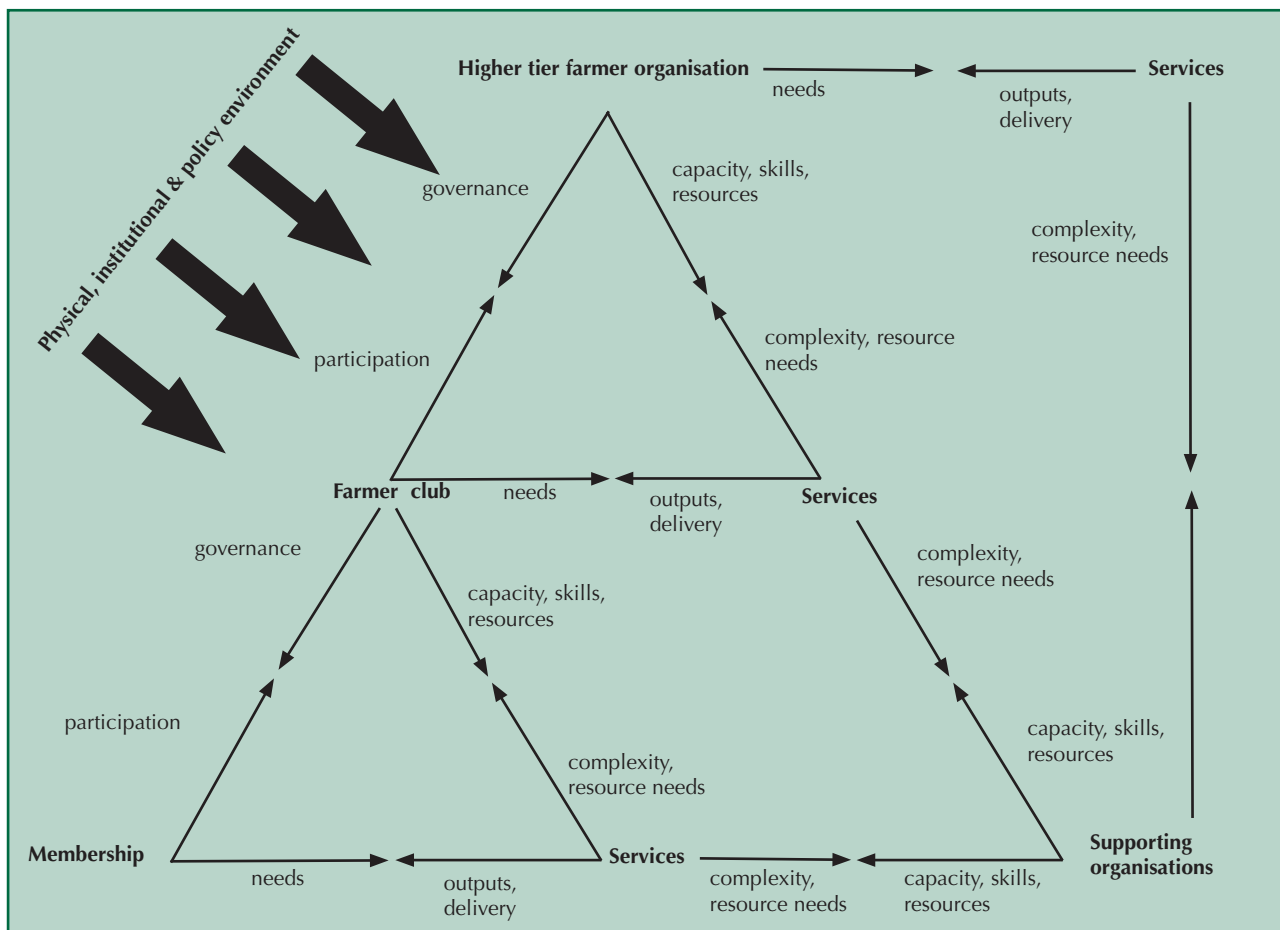
Organisational and contextual challenges limit the scale, scope and spread of FOs and their activities, and thus their development impact. They also limit the extent to which FOs can directly serve poorer people. Poor households are under-represented in FOs in Malawi. Poorer people's more limited resources may lead to their being (a) less able to gain from FO services and membership; (b) less able to afford the time and cash costs of membership, and (c) less welcome to existing FO members who may see them as posing difficulties in FO management. But FOs also tend to be established in less poor areas with lower land pressure and better cropping opportunities (Kachule and Dorward, 2005).

## Principles for Policy and Practice

### Ensuring Farmer Organisations 'Fit'

Previous discussion suggests that a complex set of conditions are necessary for FOs' effective promotion of members' access to markets. Developing and applying concepts from Korten (1980), and building on the distinction between grassroots 'farmer clubs' and higher tier associations and apex farmer organisations of which farmer clubs are 'members', figure 1 sets out the need for the wider environment and FO members' service demands to determine FO governance and roles in service delivery, at both club and higher levels. This analysis does not suggest a 'blueprint' model but a focus on ensuring that FOs' tasks and services, their establishment and governance, and external support and policy are designed and evolve to 'fit' each other and the changing capacities and constraints affecting FOs, their members, and other stakeholders with whom they interact. Thus services provided must fit members' needs, and the complexity and resource demands of service provision must be met by FO or supporting organisations' capacity, skills and resources. This makes demands on FOs' governance structures which must also fit members' abilities and requirements for participation

Figure 1: Farmer Organisation



(themselves related to members' service delivery needs).

### *Principles for FOs' tasks and services*

Fundamentally, FOs must provide services that deliver to their members clear, continuing and valued benefits. These services should not be accessible to members from other sources on similar terms, nor should the FO offer them to non-members on the same terms as to members. As Figure 1 shows, the managerial (complexity) and resources demands of the services provided should also be within the capacity and competence of FOs: FOs should not try to provide too many services, nor services that are very demanding of technical, managerial or financial resources - otherwise they may become over-extended and unable to sustain effective and timely services at an attractive price.

Since their members generally need complementary market, technical and capacity development services (Bingen et al., 2003), FOs need to play a facilitatory role in bringing service providers and members together rather than delivering services themselves. Where critical services do not exist, FOs should exercise caution in taking on these activities themselves: if private companies cannot provide these services at a profit then FOs will generally be unable to do so (Box 3 describes how NASFAM has addressed this by the creation of an independent commercial service subsidiary). Conversely if returns or benefits from any FO or member investments are directly or indirectly dependent upon services delivered by other organisations then FOs must clearly establish the reliability and costs of these services prior to members' or FOs' investments.

Strategic partnerships between FOs and private sector service providers may be important. Instead of competing, FOs should try to work with private companies to improve the quality, competitiveness and scope of their services to members. This may involve collective action in negotiations

#### **Box 2 Farmer Organisations in Smallholder Tea Production in Malawi**

The Smallholder Tea Authority (STA) was formed shortly after Malawi's Independence. By 1990 2,400 ha had been planted by 4900 smallholders, who were required to register and work with the STA, a parastatal. The STA effectively supported smallholders with free seedlings for plantation establishment, free extension, tea and maize inputs on credit, and regular on-farm collection of harvested tea with first payment within 10 days. However the pressures to continue expansion meant that the STA was never financially strong. During the 1990s increased political interference in the board, diversion of transport to politicians' use, increasingly late payments, farmer demands for higher prices, declining STA staff and collapse of the input credit system led to severe financial difficulties for the STA, a collapse in field and factory operations, and alienation of farmers who responded by selling to local estates. These welcomed high quality smallholder tea and better utilization of factory capacity and began to offer interlocked input credit and extension advice, some also offering health, education and social services.

After 2002 the STA was dissolved and the Smallholder Tea Growers Trust (STGT) formed with 3 growers, 2 chiefs, and a lawyer and an accountant appointed by their professional bodies. Management and debt were slimmed down and restructured with new appointments, with a strong mandate to minimize operational costs, produce quality tea, pay farmers on time, and operate within the cash flow of the company. Since the reform a large number of farmers have returned to STECO and are receiving much better services, though some blocks have formed their own association and continue to sell to estates and indeed have started operating their own tea factory.

The case illustrates the difficulties in establishing FOs, the resilience and determination of smallholders in the face of a long decline in services to tea production, difficulties from political interference and the importance of lean but effective management and services.

on price, quality, etc (Best et al., 2005). There may be particular opportunities where private produce buyers have processing plant or fixed sales contracts which means that they are looking for secure sources of produce and may be willing to invest in longer term relationships with FOs (see Box 2).

Services offered can of course increase over time, to reflect changing demands from members, changing capacity of the FO, and changing services offered by other organizations, but any expansion must be carefully phased, and should match existing capacity. Advocacy, which often does not provide benefits very specific to members over non-members, will often be a later and higher tier activity.

An important conclusion from this discussion is that there are certain tasks, geographical areas, products and indeed types of farmer that 'market access' types of FO should not attempt to work with. Particular difficulties are also generated by products whose buyers impose very stringent quality demands and by products which lack a concentrated market chain, so that credit recovery cannot be enforced by deductions from produce sales (see Poulton et al 2005). Support to food crops intensification is particularly difficult unless it can be bundled with a cash crop marketed through a concentrated supply chain or (in micro-finance groups) linked to regular repayments made from other sources of regular income. FOs will be driven by the need to take up improved services for their members, but need also to be conscious that the above represent real constraints.

### *Principles for FO establishment and governance*

The establishment and governance of FOs at both club and higher levels faces a number of dilemmas. FOs need to adapt to local and changing opportunities and constraints, but they also need clear, stable rules, procedures and structures. FOs also need to access skilled professional resources (in marketing, technical, financial and business management skills) and to transport and communication services, but they must be 'mean and lean' – effective but not burdened by high overhead staff or transport costs. The integrity and professionalism of strong non-executive trustees can play a critical role here (see Boxes 2 and 3). Similarly, good FO leaders and managers need to be attracted by worthwhile incentives and advancement opportunities, but these must be aligned with the ability of FOs to serve their members' interests. These dilemmas demand a fine balancing act, often in very difficult circumstances.

Other key lessons and principles in addressing these challenges emerge from FOs studied in Malawi, particularly from the experience of NASFAM (Box 3).

- Clear rules should establish norms of behaviour by officials and members, with systems for monitoring and applying sanctions. Financial audit systems are particularly important.
- Governance structures determining the relationship between voting rights or control, equity investment and use of FO services need to evolve to match the critical market and resource opportunities and constraints facing FOs. Alternative models include, for example, traditional cooperatives, 'new generation cooperatives' (with, for example, modifications to voting rights and share transfer mechanisms) and FO or co-ownership of private companies providing services (see for example Knight et al, 2003; Escobal et al., 2000; Box 3)
- Most grassroots farmer clubs need support from higher tier membership, governmental, non-governmental or commercial organizations, but this support needs to be carefully targeted at clubs' needs and opportunities, recognizing that capacity building is a long term process.
- Farmer clubs and higher tier organizations are susceptible to political interference. Clear rules must be agreed and enforced to prevent subversion through political influence

### Box 3 NASFAM (National Smallholder Farmers Association of Malawi)

NASFAM is a national farmer membership organisation that supports the formation and operation of farm clubs to improve members' access to profitable farming opportunities. Formed in 1997 by 14 Farmer Associations that emerged from the USAID supported Smallholder Agribusiness Development Programme, by 2004 it had established 20 more new associations to include over 100,000 members in more than 5,000 clubs, representing nearly 5% of farming households in Malawi. Local clubs with 10 to 20 members are organised into associations under the national umbrella of NASFAM. NASFAM owns subsidiaries which provide commercial and development support services to associations, clubs and members. NASFAM has a growing national advocacy role and influence.

Critical elements of NASFAM's success include focussing on motivated farmers and good business opportunities; adequate market and client research when starting new activities; concentrating on developing linkages with a range of service providers rather than trying to provide too many services itself; and a core focus in its own services on developing market linkages, technical support, capacity building (literacy and management training) and governance (with standard membership rules and structures and financial management and auditing services). Club, associations and NASFAM constitutions are carefully crafted to provide overall membership control but also considerable independence to professional managers and commercially experienced leaders. The provision of some services through subsidiaries also provides some protection from the bureaucratic interference that cooperatives are potentially prone to.

Critical elements in NASFAM's success lie in the ways it addresses the organizational and contextual challenges outlined below, although it does not work directly with food crops nor does it directly serve the interests of the poorest and most marginal sections of the rural population.

Challenges to FOs	NASFAM strategy
Divergent equity, client, & leader interests	Strong business service focus & motivation for members & FOs Strong donor & professional emphasis on business culture Strong structures to separate FOs from business service operations
Collective action	Promotion of strong business culture Focus on business services to individual members
Need for strong leadership to be effective but not overbearing	Strong leadership from professional staff, trustees & donor FO leadership encouraged within clear rules Strong capacity building in business & governance skills & culture Strong accountability of leaders to members for effective services
Poor business environment Lack of business services Poor infrastructure Rapid change	Careful selection of areas & crops/ businesses with good potential Close relations with range of service partners Direct provision of limited but properly supported critical services by separately managed commercial service (later NASCOMEX) Donor subsidy to FO & professional capacity development & to supporting services separate from FOs Flexible & imaginative management & structures (eg NASCOMEX) Staged approach to expand scale & range of services
Political interference Government interference	Clear & enforced rules separating politics from FO leadership Management strongly independent from government but close field level cooperation with government services

NASFAM has benefited from long term, committed donor support involving financial, technical and policy assistance. This is steadily being phased out, with remaining financial support being concentrated on NASFAM's development rather than commercial services.

Challenges to NASFAM include the difficult conditions for farming and business in Malawi, the need for further diversification, and pressure both to reduce its reliance on financial support from donors and to expand the scale and scope of its commercial and development activities. Another challenge relates to difficulties in supporting members' access to financial services outside the concentrated marketing system in the tobacco sector, and the range of political, institutional and economic difficulties faced by that sector.

Source: <http://www.nasfam.org/>; NASFAM annual reports; interviews

in trustee and leadership appointments and activities (see Boxes 2 and 3).

- Higher tier organizations have particular responsibilities to provide technical, managerial and organizational support to clubs and to facilitate capacity development (see Bingen 2003). This may be in establishing membership and leadership structures and rules, in external auditing, and in establishing new clubs or dividing clubs which have grown large and unwieldy.
- A fine balance is needed between democratic participation by members and hierarchical control by strong professional managers.
- Farmer clubs and higher tier FOs must avoid being too ambitious and expanding the scope or scale of activities too fast. Organizations need to adopt a 'learning process' approach that develops through three stages – learning to be effective, learning to be efficient, and learning to expand (Korten, 1980).

#### Principles for external support and policy

The challenges facing FOs and the principles for FO tasks,

services, establishment and governance have a number of implications for external support and policy. The greater the contextual challenges facing FOs, the greater the need for external support, but the greater the likelihood of that support subverting and undermining the ability and willingness of FOs to genuinely serve their members' interests. Nevertheless some form of long term subsidy is probably needed if FOs are to become effective instruments for poverty reduction (although they may not be effective in the most difficult areas). The challenge then is to deliver such support or subsidy in a way that is least distorting to member-focused FO development.

A useful approach is to consider where government and donor agencies' policies and programmes 'fit' in Figure 1: how can they best support governance and capacity, skills and resource development at different levels among FOs, their members and supporting organisations?

First, FOs should not be expected to take on conflicting or impossible roles. Second, donors and policy makers need to pay attention to improving the conditions (or context) necessary for FOs to be able to operate effectively. Third, external support to FOs must be committed over the long term.

It should also not rush FOs' expansion but should patiently allow FOs to learn to be effective and efficient before they begin to expand, which may involve errors and a slow road to FO financial independence (NASFAM has trodden a careful path here).

External support should both encourage accountability to FO members and meet their needs. This requires subsidies which (like objectives) are SMART (Specific, Measurable, Achievable/ absorbable, Realistic/ relevant and Time-bound) and as far as possible do not distort FO objectives and governance or dilute members' control. This may involve support to capacity building, auditing and other governance-enhancing services, with partial, time limited establishment or expansion of subsidies to other organizations working with FOs to enable them to deliver services at reasonable if not full cost to FO members.

In addition to their more general role in providing infrastructure and certain services, governments have a specific role to play in establishing and enforcing an appropriate legislative environment to assist FOs and their members, staff and leaders in proper FO development and activities. Without these FOs are prone to ad hoc official interference which may inhibit their development but often have insufficient protection from dishonest or incompetent managers, leaders or business partners. A critical role for government may be in support for an independent, transparent, and clearly defined system for auditing FOs.

The role of governments in directly supporting the establishment of FOs is contentious but the difficulties that most African FOs have in accessing seasonal finance and providing member services outside of the restricted crops and regulatory systems where contract farming and other interlocking systems work suggests that some degree of government involvement in supply chain coordination for FOs is important.

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