

# Farmer Organizations to Access Markets for High-Value Products:

## Challenges and Innovations

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# 1. Small Farmer Options to Access High-Value Product Market

- The “food industry” is rapidly transforming in developing regions
  - ... rapid spread of supermarkets everywhere
  - ... fast food chains and other food service boom
  - ... processing industry modernizing
- BIG opportunities for
  - ... farmers (of whatever size) that are “capitalized” and “organized” thus **READY**

# BUT... what we observe...

- Food industry firms do NOT like to buy direct from individual small farmers

... hence small farmer options into  
high-value markets:

- (1) Via traditional brokers/wholesalers
- (2) Via contract farming schemes/companies  
(exporters, first-stage processors, etc.)
- (3) Via SFOs (small farmer organizations)  
/coops

- farmers would rather sell direct (less hassle, keep marketing margin)
- but if have to be in “bulking operation” tend to want to work with companies and/or coops, not traditional brokers
- ... they believe paid better
- ... believe will get credit and TA
- ... believe will influence price
- ... believe gives more options

## 2. SFOs can be:

- **Coordinator/monitor:** Coordinate and monitor farmer production practices/timing to meet standards, get certification
- **Investor:** Collective investments pre- and post harvest
- **Conduit:** Receive/funnel government, company, and NGO credit/assistance
- **Intermediary:** Collect, sort/select, bulk, deliver to client
- **Marketer:** Marketing such as joint labels

# 3. Challenges...

- Functions and objectives **sound great**, no?
- **SFOs are darlings** of donors and many governments, considered “the main solution for small farmers”  
... especially “new generation coops” to break from traditional catch-all coops that were seen as failure

# YET...

- When I talk to scores of **procurement officers** in supermarket chains, they say:

**UGGGGGGGGGGGGGGGGGHHHHHHHHHHHHHHHH**

... “I try to avoid SFO’s unless I have NO other option”!! (bigger farmers, companies)

- **WHY (I ask)?**

... “SFOs don’t deliver - they start/stop, start/stop”

... “SFOs don’t invest, or invest just once and don’t keep up with my needs”

... “SFOs are a major major hassle to work with”

# Track records of “new generation” SFO programs (since mid 1990s)

- Much of the optimism about SFOs based on:
  - ... hope & development philosophies
  - ... projects writing up their own success stories

# Yet...

- Little systematic study of
  - ... performance of assisted SFOs AFTER the project (that gave them implicit subsidy) ended?
  - ... performance of the non-assisted (majority) of SFOs

# A cold reality shower from Chile...

- Julio Berdegué studied 1500 SFOs in Chile set up in mid 1990s, STRONG START:
  - ... many in high-value product markets (escaping dead-end basic grains)
  - ... many started with strong assistance (investment, credit, TA)

... But a decade later...

... **“80% are failing”**

- failed because

- ... lack of follow-up investments

- ... coordination problems

- ... free rider problems

- ... poor management

- **The GOOD NEWS is that 20% are succeeding**

# Assisted (=subsidized) SFOs...

- Brazil
  - ... Proleite program (coops & cooling tanks)
  - ... but 60,000 farmers de-listed
  - ... major coordination problems/costs
- Mexico and South Africa
  - ... SFOs with NGOs, goat-dairy, produce

... and non-assisted (non-subsidized) SFOs

- The Sad Story of ASUMPAL (Guatemala)

... started STRONG

... 300+ members with drip-irrigated field

... Collection and grading facilities

... Working capital

... Advisors from national Exporters' Association

With its strong base, got access to  
high-value markets

- ... contract with La Fragua (supermarkets)
- ... exporting regionally
- ... contract with McDonalds

# ASUMPAL .. 5 years later

- ...had management problems
- ... fell behind on needed investments
- ... lacked coordination
- ... lost all the contracts and markets
- ... lost its working capital
- ... went from 300 to 6 members

## 4. Innovative solutions emerging

- Success = avoid factors driving failure!
  - ... investment PATH following EVOLVING client needs
  - ... coordination solutions
  - ... booting out or neutralization of free riders
  - ... improvement in management and information

- In short time, will focus on SFO innovations in organization and partnerships

... many also happening at same time in the US for same reasons...

# “Get SFO Organization right”

- Need to solve coordination cost problem
- Need to create farmer-specific accountability
- Need to monitor closely meeting standards
- Need to have believable, legal contract

# Companies inside Coops...

- Horticultural Cooperative in Bandung, Indonesia

... Umbrella coop of 250 farmers formed from 10 farm groups

... big coop had huge problems following through on contracts with supermarket chains

... Formed 3 small companies (selected farmers) to contract with supermarket chains and monitor

# Company within Coop

- Large pear association (1000 growers) in Zhejiang, China
  - ... big problems selling to supermarket chains in Hangzhou (inconsistent quality and volume, competing brands)
  - ... formed quality-pears company (selected 100 farmers), unified brand, contracts with two chains

# “Get SFO Partnerships Right”

- Need help with investment capital  
... but LINKED with understanding of  
EVOLVING needs of clients
  - Need SAVVY help with market access
- Emerging opportunity/trend: partner with  
the new specialized wholesalers dedicated  
to modern food industry

# The Wave of the Future: Multi-partner alliance with Makar Buah SFO, Indonesia

# The Deal's First Step

- Market opportunity starts...with RETAILER (developing the market...)  
... CARREFOUR in Indonesia goes to its dedicated specialized wholesaler, BIMANDIRI, and said  
... “we want mini-melons to our standards for Indonesia and our other Asia stores”

# Bimandiri...





# The Deal's Second step

- Bimandiri goes to SFO Makar Buah (100 farmers)
- Makar Buah sets up “company within coop” of 50 “capitalized” small farmers
- THEN Bimandiri and Makar Buah go to SYNGENTA to get seed credit and TA
- THEN Bimandiri, Makar Buah, and Syngenta go to the GOVERNMENT to get additional TA specific to the deal...

# Makar Buah melons in Bimandiri/Lembang... on their way to Carrefour/Indonesia & Singapore



# 5. Conclusions

- “Easy to get market access” (with right initial capital...)  
... “hard to keep it!” (Berdegue)
- Investments must be dynamic and follow requirements of market
- Get organization and partners right

# Berdegue's parting advice:

- Good management, good advice and generous donors cannot replace good systems of rules, to govern and to balance three sets of relationships:
  - ✓ Between the individual members (e.g., free riding)
  - ✓ Between the individual members as independent farmers (suppliers to the organization) and the organization as a business entity (e.g., allocation of costs and benefits between the organization and the members)
  - ✓ Between the organization as a representative of the common welfare of the members and the market (e.g., terms and conditions that may have differential impacts on different types of members)
- This cannot be imported into the organization... it is a learning process and it takes time!