



SWEDISH COOPERATIVE CENTRE

Farmers' Organization's Guide to the Marketing Environment
for Small Scale Farmers in Southern Africa

COLLECTING THE MONEY

H. G. Lutz



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Executive summary

The Guide to the Marketing Environment is the second in a series of two marketing guides, which to a large extent can be used independently. The guides were developed by SCC, the Swedish Cooperative Centre, in close collaboration with partner organizations. Both guides are based on information for a contextual description of the marketing situation for small scale farmers, collected in the field between September 2004 and April 2005.

The Guides have been developed for use on district farmers' organization level and above, as it is crucial that people working in farmers' organizations have basic knowledge of marketing is essential if small scale farmers shall have any possibility to fully utilize their potential. The Guides may nevertheless be of use for farmers with some prior knowledge of marketing.

The Guides are guides in the true meaning of the word –they are not manuals for simple machinery, for which there is one use and only one correct way in which to handle it. A guide is a description of the environment that enables the user to navigate with some accuracy, and avoid the worst traps. Marketing is a very big and complex issue, and there are no simple ways to deal with it. Quite naturally, many are those still looking for simple shortcuts to marketing, hoping to find

easy ways to make money. It should however be quite obvious that whenever such shortcuts have existed, they have never worked for small scale farmers in southern Africa.

The Guide to the Marketing Environment

presents types and examples of “approaches to handling marketing”. The “approaches” include systems that provide the necessary preconditions for successful marketing, as well as structures for selling, transporting and storing produce. The “approaches” are contemporary and typical for the area, and an effort has been made to generalize their applicability as far as possible, insofar that “examples” have been combined to describe general types of systems. In some cases, where unique approaches have been found, reference is nevertheless made to particular solutions. The systems are analyzed with respect to their success and their shortcomings, using the SWOT (strengths, weaknesses, opportunities and threats) approach. The SWOT analysis is followed by suggestions on the particular system is best used, and what can be done to facilitate its application.

The conclusion that has to be drawn from the assessment of systems handling marketing is as simple as discouraging. There is no patent solution to marketing for small scale farmers. Generally, a few things can be said though:

- There is a severe lack of market information, most notably profitability information and a severe lack of marketing knowledge, which leads to production of non-profitable goods

- The big schemes for production of cash crops (all crops that are sold for cash), most notably contract farming schemes in tobacco, cotton and paprika, are generally not very profitable for the small scale farmer. This is acknowledged in theory but ignored in practice.
- Selling schemes introduced to support small scale farmers are mostly concentrating on (for small scale farmers) totally unprofitable crops (i.e. maize), which makes them unprofitable enterprises. At least for the farmers.

The title of the Guide to the Marketing Environment –“Collecting the Money”- points to the essence of the Guides –money. Most marketing materials produced so far have focused on the selling part of marketing. This guide does just that, but in a broad, general fashion. It is, with a bit of knowledge of marketing, obvious that it is impossible to give advice on which marketing system to use in a particular situation without specific knowledge of said situation.

The first part in the series, “Finding the Money”, deals with the describing what marketing is, and why marketing is such an important subject for small scale farmers. It does this to enable those who work with marketing for small scale farmers to approach the subject in a fruitful way, maximizing wealth and income for the farmers they work with. Furthermore, it highlights the most important parts of marketing and puts them into context.

Introduction

About SCC

The Swedish Cooperative Centre (SCC) is a non-governmental and non-profit organization for the provision of support to self-help development initiatives – cooperatives, farmers' associations and informal groups – in developing countries.

Our Swedish name is Kooperation Utan Gränser (Cooperation without Boundaries). It originates from the first fund raising campaign in 1958 – an initiative of the Swedish cooperatives which led to the establishment of the SCC as a development aid organization.

The founders and present member organizations of the SCC are national federations representing all major cooperatives in Sweden and the sectors where cooperatives play a central role in Swedish society and economy. Since 1998, membership has been open also for other organizations and the SCC now has 60 member organizations; consumer cooperatives, housing cooperatives, agricultural cooperatives, a youth organization, the national organization for non-traditional cooperatives and so forth.

The SCC implements its work in collaboration with the member organizations, corresponding to their fields of activities, experiences and values.

The federations - as well as their individual members - also provide the basic financial resources through fund raising for the development programmes.

SCC's organizational structure comprises the head office in Stockholm and four regional offices. The head office is staffed by about 20 officers with broad experience from various types of development work, public relations, fund raising, human resource development and administration. The regional offices are located in Costa Rica for Latin America, in Kenya for East Africa, in Zimbabwe for Southern Africa and in Stockholm for Eastern Europe.

We cooperate with local organizations in 22 countries in these four regions and Asia. The annual turnover is around 12 million euro, and is based on the fund-raising which accounts for around 2 million Euro.

SCC and Marketing

The Swedish Cooperative Centre, SCC, has from its long experience in development work in the agricultural sector in southern Africa drawn the conclusion that one of the most important factors for small scale farmers in the area is marketing. In the process to come up with an approach to attack the marketing problem it was decided to put together a Guide to Marketing for Small Scale Farmers. As SCC works mainly through and with "partner organizations" the Guide was to aim at supporting farmers' organizations, focusing on commodity associations, in their work. The construction of the guide was to be based on the situation on the ground, with extensive research of the existing marketing systems, as well as utilization of knowledge already produced by others.

The Terms of Reference given for the production of this Guide stated that emphasis should be on Contract Farming arrangements and Bulk Marketing. However, already early in the information gathering process there were signs that this approach might not be sufficient. This notion was further verified as work continued. In fact, concentration on any specific marketing system turned out to be inappropriate, and even possibly counterproductive. Hence the Guide instead attempts to describe all the major types of marketing systems. Furthermore, the Guide accepts the fact that the most important problems for Agricultural Marketing are Marketing Knowledge, Market Information and Legal Environment. It should be stressed that marketing is not a straightforward, even less instrumental, subject. It is very much the opposite - one of those subjects for which the very definition is debated, and whereof the application is even more debated. The views presented herein are strongly influenced by the de facto situation that small scale farmers face in four of the five countries that is specifically covered: Zimbabwe, Mozambique, Zambia and Malawi.¹ The reason why the South African situation has not yet been given as much attention is that time constraints made it inappropriate to squeeze it into this first draft. Whatever information about the South African situation is included is of secondary nature, in that it has been contributed by SCC partners in South Africa and literature. Primary data will hopefully be included in later versions.

It should also be noted that the assessment of marketing structures that forms the basis of this guide focused on crops only, and excluded agri-products like livestock, chicken and dairy. Hence there are no examples of marketing systems

dealing with these products. However, many of the examples, as well as the conclusions and suggestions, should be applicable to any product, whether it be livestock, beans or shampoo.

Gender

The Swedish Cooperative Center gender policy is to streamline this immensely important issue into all SCC undertakings. In this paper this has been done not explicitly, but implicitly. One result of the author's having gender in mind is however clearly reflected in the text: third person singular will always be "she", never "he", unless reference is specifically made to a male. There are already too many "he" in too many texts.

SCC realizes that some implications of better access to markets may have both implicit and explicit effects on traditional gender structures, and we should try to predict these, so that they can be handled accordingly.

"In Sub Saharan Africa, 70% of the poor are located in rural areas. The rural women, especially the ones heading households, are more vulnerable than men in terms of food security, income, size of land cultivated and technology. In many countries women headed households account for almost half of the total households. It is a well-known fact that women throughout Africa take overall responsibility of the welfare of the home and children and also carry out most of the agricultural work. Despite this, women tend to comprise a lower proportion of the organised population and are rarely represented at levels of decision-making. Although several

countries since the early 1980s have reported greater women's participation in rural organizations and in the number of women-only informal organisations and cooperatives, females are still under-represented in African organisations. Moreover, many organizations emphasize the interests of male members, neglecting the needs and interests of females. Lack of gender equity is one of the most important obstacles to development in Africa. As structures of cooperatives and farmers' unions traditionally are male dominated, gender equity has been a key objective in the work of SCC and partners in the region. The cross cutting issue has been mainstreamed in all development efforts. Although mainstreaming has proved to be an efficient method to discover and find solution to gender imbalances, the experience is that it has led to a reduction of resources earlier allocated to women. As a consequence of this, SCC will apply a two track approach to gender equity, i.e. mainstreaming combined with focused activities organised to promote involvement of women and ensure their benefit of development efforts. In most capacity building efforts for members and the community at large, gender sensitisation workshops have been organised. At these occasions, issues of participation in decision-making, access to different kinds of benefits, land ownership and control, etc. have been addressed. The workshops have proved to be virtual eye-openers, especially to the hard-core traditional male members. Affirmative action at primary society level has been an effective means of enhancing women's influence in the decision making process. Moreover, byelaws have been revised and gender sensitised to create more space for women in local societies.

Strategy:

- Mainstream gender equity in all development efforts, complemented with focused activities addressing the specific needs of female members and leaders
- Facilitate increased gender awareness among women and men and promote women participation in the activities and decision making processes of partner organisations at all levels
- Incorporate affirmative action in development as a means to enhancing women's involvement in governance of primary societies and farmers' groups
- Support partner organisations in addressing gender bias in internal legal frameworks as well as in national policy development."²

HIV / AIDS, Malaria and other health issues

The HIV / AIDS pandemic is another issue which has serious impacts on the society, and each and every one in it. In the SCC Regional strategy for southern and eastern Africa 2004 – 2007 it is stated that:

"HIV/AIDS is emerging as a key crosscutting issue for SCC-supported projects in East and Southern Africa in view of three factors:

(a) The magnitude of the epidemic in the region. Eastern and Southern Africa is at the epicentre of the HIV epidemic, with the fastest-growing HIV infection rates in the world and with rural areas increasingly affected.

(b) The disproportionate impact of HIV/AIDS on the

agricultural sector relative to other sectors. The epidemic has caused the decimation of skilled and unskilled agricultural labour; a steep reduction in smallholder agricultural production; a decline in commercial agriculture; the loss of indigenous farming methods and inter-generational knowledge, specialized skills and practices; and capacity erosion and disruption in the service delivery of formal and informal rural institutions resulting from the scale of staff morbidity and mortality; and

(c) The close association of HIV/AIDS with poverty, poor nutrition and household food and livelihood insecurity, thus directly impinging upon SCC's mandate of economic empowerment of the rural poor.

SCC work is concentrated in rural areas where the epidemic has been of lesser proportions than in urban areas. However due to improved transportation and economic links between rural and urban areas the disease is fast spreading to rural areas and the levels of new infections in rural areas are not far behind those in urban areas. Further to this most Africans have a culture of returning to their rural homes for care once they get too ill to work in the cities and towns thus burdening the rural dwellers with the task of caring for the sick.

Rural households rely on labour for production and given the nature of their work good health is crucial. HIV/AIDS has resulted in loss in productivity through morbidity and mortality. Caregivers are also diverting their productive time towards caring for the sick and this has had a negative impact on sectors in which SCC currently operates. In the agriculture sector the need to nurse a sick

² KoopUG/SCC – Regional Strategy for Africa Page 26 of 38

household member may force a woman to choose between spending the day attending to the patient or to go and work in the field, and in most cases compassion wins and they stay at home. In rural financial services and housing sectors members are failing to save and to repay loans because most of their earnings are going towards purchase of drugs and hospital fees for the sick.”³

“The following are the operational strategies that will guide SCC activities in HIV/AIDS prevention and mitigation:

- HIV/AIDS information, education and communication (IEC) activities for HIV prevention and AIDS mitigation among SCC target groups; with special focus on breaking down the stigma associated with HIV/AIDS.
- Poverty alleviation and livelihood security programmes adapted to the conditions created by HIV/AIDS, including income-generating programmes, micro finance projects and adult literacy programmes;
- Food security and nutrition-related innovations or adaptation of existing practices, such as: the introduction of high-yielding, weed/pest resistant plant varieties that require little labour; the rehabilitation of certain staple food crops; improved agricultural practices to save labour and capital; and nutritional gardens;
- Socio-economic safety nets, with special emphasis on support to orphans and households fostering orphans. Some cases show that development measures, rather

than relief initiatives, can effectively strengthen socio-economic safety nets

- Institutional capacity building of SCC partner organisations and SCC regional offices to address HIV/AIDS concerns
- Integrated HIV/AIDS workplace programmes for SCC-supported projects, featuring: Information, education and communication (IEC) campaigns on HIV prevention, AIDS care and support; a review and adjustment of working conditions, human resource policies and administrative procedures; and capacity-building and training in the technical aspects of the impact of AIDS.
- Incorporation of HIV/AIDS in the SCC project cycle, going beyond problem analysis to the identification of concrete entry points and response measures. In project areas severely affected by HIV/AIDS, further conceptual and operational adjustments may be necessary.
- HIV/AIDS impact assessments at project level. An assessment of the impact of the epidemic on the project will be made at project design stage and activities to minimise this impact will be built into the project. This impact assessment will also include the possible impact of the project on the existing HIV/AIDS situation in the project area and the project design will be also be adapted to reinforce those aspects of the project that contribute to positive impact and minimise those that contribute to the negative impacts.

³ *KoopUG/SCC – Regional Strategy for Africa Page 29 of 38*

- At regional and country level, workshops can be held bringing together staff from SCC-supported projects to brainstorm on the impact of HIV/AIDS on their projects and to establish a networking mechanism among projects to ensure exchange of information and experience in addressing HIV/AIDS.
- Given the magnitude of the epidemic and its far-reaching cross-sector impacts, the strategy emphasizes the need for partnerships between SCC partner organisations, national bodies and networks, bilateral donors, United Nations agencies and NGOs in the area of co-financing, advocacy, operations, research and knowledge dissemination. Where necessary, SCC will go into partnership with organisations that have the expertise in dealing with HIV/AIDS in order to make sure that SCC supported projects come up with appropriate responses to the epidemic, e.g. as with RFSU in the Lake Victoria Programme.”⁴

However important HIV/AIDS is in the region, other threats to public health must not be neglected. Among these, Malaria is probably one of the most severe. There are at least 300 million acute cases of malaria each year globally, resulting in more than a million deaths. Around 90% of these deaths occur in Africa, mostly in young children. Malaria is Africa's leading cause of under-five mortality (20%) and constitutes 10% of the continent's overall disease burden. It accounts for 40% of public health expenditure, 30-50% of inpatient admissions, and up to 50% of outpatient visits in areas with high malaria transmission. The economic and social costs are almost impossible to calculate, although

⁴ *KoopUG/SCC – Regional Strategy for Africa pp 30-32*

efforts have been made. The cost of prevention and treatment consumes scarce household resources. In turn, the burden on the public health sector impacts on the allocation of government resources. Through its negative impact on child health, as well as school attendance, performance and cognitive development, malaria reduces the accumulation of human capital thereby reducing long-term growth potential in malaria affected countries. The poor tend to be affected most adversely as they usually have limited access to health services, information and protective measures, and have less power to avoid living or working within malaria-affected areas. As discouraging as this sounds, it should nevertheless be kept in mind that Malaria, as well as most other diseases affecting small scale farmers, is curable as well as preventable, and that organizations working with farmers (including farming and marketing) have a very important role to play in the process of ensuring that not only income and production is handled, but also costs, including the costs that health issues contribute.

Approaches to handling marketing

In this section we shall go through a number of approaches to handling marketing that are in place today. Only when the approach is novel or unique will it be handled separately –otherwise a number of separate schemes have been used to bake a typical marketing cake.

That we are dealing with “approaches to handling marketing” instead of “marketing systems” is because more than “marketing systems” are discussed. As should be obvious, conditions for successful marketing can be created, and any contribution to such conditions is a contribution to successful marketing. Hence systems that are capable of delivering information or knowledge concerning marketing are approaches to handling marketing, even though they might not be “marketing systems”.

Each approach described is combined with a “SWOT”, a “Strengths, Weaknesses, Opportunities and Threats” analysis, which is a simple way to make the benefits and downfalls of a system or project visible.

There is need for caution. It will become apparent that single

solutions are not universally applicable, and so we stress the fact again: marketing systems are not easy things. They typically involve a number of players with contradicting interests, and the efficiency of the system depends on these players' relative strength and ability to cooperate, or at least not clash. It is the view of the author that it is imperative for any market system that all players have at least fundamental knowledge of the whole system, which in this case means that small scale farmers need to have knowledge of markets and marketing themselves. It is not enough to provide them with a "channel". They need knowledge to understand the channel, and information to determine whether it is the best channel for their purposes, in the situation they are.

Schemes dealing with information

Information centers (IC)

The term “Information Centers” means different things in different places, but all have one thing in common: they form a structure to bring information of different kinds closer to the farmer. This is the general meaning that we shall give them here; an Information Centre is a highly decentralized physical node for collection and dissemination of information.

Information Centers in Malawi

In Malawi, the places called Information Centers are run by an NGO (IDEAA), not a farmers’ organization as such, and they are close to wholly concentrated on market information. The Malawian Information Centers are places where aggregate market information is collected and disseminated, but they also function as “virtual” marketplaces, in the sense that they collect information on actual supply and demand (real buyers, who want something today, and real sellers, who have something to offer). They connect buyers and sellers. This latter function they charge a fee for, and hence perform a broker function.

IDEAA has 9 centers, 3 of them are in the major cities of Lilongwe (Central region), Mzuzu (Northern Region) and

Blantyre (Southern Region). So each region has one city market in the above named cities and two rural markets. At the moment IDEAA only has staff in the major city information centers. They have two members of staff in each regional office. These people are the ones that collect information from the city markets as well as the rural markets.

The information they collect is displayed on boards only at the city centers only. This is because the rural markets are not manned, and when they at one time tried to put up information in one of the unmanned rural markets (Mitundu in the central region) they faced numerous problems.

IDEAA is currently planning that next year they should expand their collection points to more locations, but also that they should have at least one member of staff in the rural markets.

At the moment IDEAA is only providing information from the major cities because the so called rural markets are those in areas that surround the city and are easily accessible (e.g. Mitundu market, which is 35 Km from Lilongwe but has a tarmac road nearly all the way because its near one of the Colleges of the University).

The broker function performed will be described separately.

Information Centers in Zambia

The Zambian Information Centers differ from the Malawian Information Centers, insofar that the Zambian are a parts of the Farmers’ Union structure.

By the mid 1990s the Zambia National Farmers Union (ZNFU) realized that the liberalization policy had left a number of farmers, especially small scale farmers, in a state of confusion. Farmers had taken too long to adjust to the new culture of agricultural practice. This situation highlighted the importance of access to information for making informed management decisions as driving force behind the development of agriculture.

In a liberalized economy, priority must be given to policies that address the problem of information supply. Farmers need a wide range of information. The information needs should not only be confined to agricultural information. Farmers operate very complex systems of livelihoods. The livelihood systems are interrelated. For example, education and health, can contribute to the standard of living as much as agriculture can. Therefore, farmers need all types of information.

In an effort to handle this problem the ZNFU together with SCC came up with an idea they called "Information Centers".

The ICs were to be owned and managed by ZNFU member farmers. The villages surrounding each centre were to form agricultural development committees, made up of democratically elected leaders of the clubs from the surrounding villages.

The intended uses of the Information Centers were many: as conduits for information flow to and from the farmers; a basis for creating new structures at the grass root level to make the operations of the ZNFU relatively easy and efficient; make it

possible for small scale farmers to influence the direction of the local farmers associations in a coordinated way; rationalization of training approaches should be fostered by the development of information centers; distribution of study materials and Study Circle centers to improve the coverage of small scale farmers in training programmes. The information centers were also to be used for distribution of farm inputs arranged by the ZNFU district offices.

It took quite a long time for the ball to get rolling, but the last few years the development has been rapid. By January 2005 some 120 information centers had been established, whereof almost 90 in the southern provinces of Choma and Monze.

Information Centers have adapted to the environment they service, and the number of shapes an IC can take is yet to be discovered. They have in common a structure of some kind where information material is stored, but what is considered information material varies between ICs.

The membership of an Information Centre ranges from 50 to 300, with a mean of some 150. Each IC has is governed by an elected Information Centre Committee with chairman, vice chairman, secretary and treasurer. The committee in turn elects a contact farmer who is the executive power of the Information Centre. All work in an Information Centre is voluntary, but the contact farmer is provided with a bicycle to get around, as the areas covered can be quite big. The contact farmer is expected to be in constant touch with the ZNFU district coordinator for onward transmission of information to the leadership and for feedback from the top leadership. The

contact farmers are the first to be trained in all areas of competence in matters related to the operations of the Union, as well as trained in leadership and management skills to run information centers. Farmers shouldn't have to travel long distances to the district offices for answers to problems concerning Union matters, as the contact farmer is equipped to handle most day to day issues. In more detail, the responsibilities of the contact farmer are:

- To recruit members and collect subscription fees on behalf the Union
- To renew the farmers' Union membership
- To organize meetings for farmers living around the information centre.
- To keep membership cards
- To organize training for farmers in the area.
- To maintain regular contact between the Union district office and the information centre.
- To look after the training materials and equipment.
- To keep a register of Union members in the area.
- To act as a contact for farmers for any agricultural activity in the area.

The IC concept has been successfully paired with the Study Circle (SC) concept, and most Information Centers function as centers for study circle activities.

From this basic concept, some ICs have developed quite far.

Example:

The Magoye South Information Centre, outside of Choma in southern Zambia, with 300 members is one of the most prominent examples of this. The Information Centre has a very active SC group, where a large number of farmers have gone through Study Circles. They provide Leadership training for Contact Farmers and host Mobile training in Grading, Weighing and Market orientation for farmers in the area. But it doesn't end there. The people in the Information Centre made an application for money to build grades 1-9 school to a couple of donors, and managed not only to get the money, but also to build the school!

Furthermore they have managed to secure funds to build dip tank for kettle (to fix some disease), which now is in full use, allowing the IC to charge 500K for each dip! The dip tank further emphasized the community's water problem. They used to get water from a nearby stream using oxcarts, which was inefficient and time consuming. Thanks to the increased cooperation around the Information Centre the members managed to get a borehole financed by Water aid in convenient vicinity to the dip tank.

Now, one might think this more than enough, but obviously

the members of the Magoye South Information Centre don't think so. They now have dairy cows, which originally were donated from a development agency to groups of women within the Information Centre, but which belong to members who produce individually but sell their produce together. The practice of bulking up produce to facilitate transportation and marketing is widespread among Information Centers, and some, like Magoye South, have also become agents for important inputs like treadle pumps, seeds or fertilizer.

SWOT

Strengths

- Information centers are close to the user, and provide a direct, low cost link between farmers and organizations.
- The farmers' ownership is obvious and strong, resulting in an immediate civil society building quality inherent in the concept, which is evident in the cases where Information Centers have contributed to very much higher level of cooperation between farmers than was earlier the case, as described above.
- The Information Centers physical structures for collection and dispersion of information have proven to work reasonably or even very well, meaning that if the Information Centre is provided with information, the farmers get access to it, and the other way around.

- The introduction of study circles in Information Centers provides a large number of farmers with access to a popular and cost effective education system.
- Information Centers get farmers organized for joint actions and problem solving
- Information Centers can work as market links, or even brokers
- Local structure promotes self reliance

Weaknesses

- Their primary function as link between farmer and the organization the farmer belongs to (the union) makes them rely heavily on the quality of the link, the organization's local representation and organization politics. It is far from impossible that short sighted "profit maximization" turns the Information Centre into an organization to attract membership for the parent organization instead of an instrument to provide the farmer with information.
- The Information Centers rely heavily on voluntary work by mainly one person; the Contact Farmer. If the Contact Farmer for any reason does not do her "job" very well the Information Centre will not function well.
- An Information Centre does not have more than very

limited information gathering and processing capacity, and therefore relies totally on the access and quality of information from other sources, mainly the parent organization. If the parent organization does not provide the information, the Information Centre will not find it anywhere else.

There is a fourth weakness from the farmer's point of view, in that she must be a member to get access to the Information Centre services. Such is life.

Opportunities

- The apparent information needs for small scale farmers are immense, and Information Centers can obviously deliver a solution to the dissemination and collection problems.
- It also seems that this type of organization easily develops into larger and more commercial things, which is of importance for their sustainability as well as farmers' livelihood.

Threats

- Dependency on parent organization
- Reliance on few people albeit they have democratic structure
- Other information systems might deliver better services

- Resistance from "extension workers", who might see their positions threatened or something...

Market information services

In a number of countries there have been efforts to create national Market Information Services (MIS). FAO defines a Market Information Service as:

"A service, usually operated by the public sector, which involves the collection on a regular basis of information on prices and, in some cases, quantities of widely traded agricultural products from rural assembly markets, wholesale and retail markets, as appropriate, and dissemination of this information on a timely and regular basis through various media to farmers, traders, government officials, policymakers and others, including consumers."⁵

Market information systems have had limited success, and the reasons for this are debated. The above cited FAO bulletin claims that major obstacles to the success of MIS are that:

- MIS are frequently operated by government officials who lack a commercial approach
- MIS have proven to be unsustainable once donor support has been withdrawn.
- MIS planners have tended to "over-design" services, paying little attention to the capacity of the organization providing the service to continue to do so on a reliable basis

⁵ *Market information services – Theory and Practice, AGS Bulletin No. 125, Rome, 1997. p. 2*

The same paper states that “In designing a service, sustainability and commercial utility should be the prime considerations. This implies detailed research into the needs of those involved in the marketing system. It also implies tailoring the service to meet the resources available and only expanding operations when additional funds can be obtained on a long-term basis.”⁶

In “Market Information Services” the author concludes that “While there can be little dispute of the need for market information, the way in which MIS have been planned and operated in the past raises doubts about the standard approach to information provision and new approaches clearly need to be explored. In designing a service, sustainability and commercial utility should be the prime considerations. This implies detailed research into the needs of those involved in the marketing system. It also implies tailoring the service to meet the resources available and only expanding operations when additional funds can be obtained on a long-term basis.”⁷

Referring to the marketing system study that preceded this Guide, it seems clear that the conclusions in the FAO paper need to be emphasized further. Virtually all MIS studied have concentrated on very “up to date” information. Sometimes it seems that the people in charge of designing the systems have tried to imitate modern stock exchange systems, where seconds matter. This in an environment where most farmers do not have even the most rudimentary knowledge of marketing, or information sufficing to make the most elementary market decisions. Nor do

⁶ *Market information services – Theory and Practice*, AGS Bulletin No. 125, Rome, 1997. p. 1

⁷ *Andrew Shepherd, Food and Agriculture Organization of the United Nations, Rome, 1997, pp 1-2*

they have the capacity to adapt to rapid changes. It is quite possible that these MIS have been aimed at traders, as opposed to farmers, but it is also possible that it is just another overshoot by the designers.

In a more recent FAO paper, the draft to a “Guide to the Establishment of Market Information Services”⁸, the author highlights some of these issues. The therein published table 1, “Information Needs of Farmers”⁹ gives a rather clear picture of the issue at hand:

| Decision | Information Required |
|---------------------|--|
| What crop to plant? | Historical prices of different crops |
| What variety? | Prices of different varieties Production costs of different crops and varieties |
| When to plant? | Seasonal variations in prices |
| When to sell? | |
| Should I harvest? | Current prices in different markets |
| Where to sell? | Marketing costs for alternative markets |

In this table it is obvious that there is a priority order to take into consideration. Knowledge of what crop to plant is for natural reasons the first and most important, and from there

⁸ *Guide to the Establishment of Market Information Services*, Bridget Poon, October, 2001

⁹ *Guide to the Establishment of Market Information Services*, Bridget Poon, October, 2001, p. 3

the importance decreases. There is however one very big problem with the table above: it claims that the information required to make a decision on “what crop to plant?” is “historical prices of different crops”. This is obviously not enough to make a correct decision,¹⁰ and anybody should be able to see this right away. The important information is not prices, but the plausible profit a farmer can make. Expected profit should be the only factor the farmer uses to determine which crop to grow.

The same draft states that “While information on quantity demanded, cost of production, and marketing costs is extremely relevant to market participants and policy makers, it is very costly to collect this type of data. Provision of this information is beyond the scope of most market information services.

The main focus of a market information service should thus be: [my accentuation]

- Current prices of different crops and different varieties
- Prices in different markets
- Seasonal price trends
- Historical price series
- Quantities supplied¹¹

As you can see, there is a jump between what the author says is the most relevant market information, and what an MIS should concentrate on delivering. This is possibly one of the

¹⁰ It should be noted that the necessary information is correctly summarized elsewhere in the paper, and that it is a draft.

¹¹ Guide to the Establishment of Market Information Services, Bridget Poon, October, 2001, p. 7.

reasons why MIS have had the little success they have until now. It seems likely that most efforts have been made at constructing systems for delivery of information that is not fully appropriate. Sorting out the most important information because it is “very costly to collect this type of data” is just not acceptable. You cannot settle with only half of the minimum. It’s like quantum theory, or Ying and Yang, or a coin. Market information cannot have only one side. Market information is information about supply and demand, about not only inflow of money but also outflow. Market information is information about profit. In the cases where data is available on only part of the market, this is exactly that; data. It is not information. It becomes information when it is combined with other pieces of data and thereby becomes useful.

It is almost ridiculous to suggest that farmers are in desperate need of the data that is easy to come by, implying that even this “cheap” data is unobtainable for them, but that the data that is harder to find, and hence “more expensive” though equally important, is something that they will have to do without. It is like providing them with only one side of a coin.

Combining the “information needs of farmers” above with the following “characteristics of good information” gives us the basis for what a market information service should be: “

1. The information should be relevant to the needs of users, i.e. the information must be what is required by the users.
2. The information should be meaningful, i.e. the information must be precisely specified. There should be

no ambiguity in terms of the market and specific commodity and variety for which information is provided. The unit of measure must be clearly specified as must the point in the marketing chain to which the unit refers, e.g. assembly, wholesale or retail.

3. The information should be understandable, i.e. it must be in a form which can be interpreted quickly and easily.
4. The information should be reliable and impartial, i.e. it must be accurately and regularly collected and disseminated, and there must be no question of bias involved in the collection or reporting of the data.
5. The information should be promptly available and timely, i.e. once collected it must be quickly disseminated.
6. The information should be easily accessible to the users in terms of the convenience in obtaining it, and the information should be free or relatively inexpensive.”¹²

It also gives us a hint to what the Smallest Information Unit must contain; in order to decide what to grow, the farmer needs access to Historical prices of different crops, Prices of different varieties and Production costs of different crops and varieties, and this information should have the characteristics of good information! Unless the farmer has this information, other pieces of information will by necessity be of little, if any, value.

In the end, the first hand information I have managed to

¹² *Guide to the Establishment of Market Information Services, Bridget Poon, October, 2001, p. 7.*

gather has given me a view of MISs that very much resembles the findings presented by the people who recently have constructed a Micro MIS system in Uganda. The following piece is an excerpt from their final report:

“Background to the new Ugandan localised MIS model CTA’s [Technical Centre for Agricultural and Rural Cooperation] studies revealed certain recurring themes concerning the nature and need for MIS.

1) Changing circumstances.

In Africa today the liberalisation and deregulation of agricultural markets and the dismantling of marketing boards has necessitated the provision of accurate and timely market information for all players in the marketing chain. Failure to make such provision has curtailed the evolution of competitive markets.

2) Ignorance of free markets.

There is widespread ignorance of the way competitive markets are supposed to function, especially among farmers. Many still believe that market prices are still controlled by government. Traders, especially retailers, in some countries, refuse to compete with fellow traders often because of cultural requirements to cooperate rather than to compete. This means that 100 retailers in a particular market may all sell the same commodity at the same price. From an efficiency perspective the situation described above would suggest that 99 of the retailers should leave their goods at the market and focus on other activity leaving the last person to operate a cash till at the market exit point. In many

African markets strong processes of competition and division of labour does is yet to be fulfilled.

3) Dissemination obstacles

Dissemination of information to ordinary farmers is made especially difficult due to high levels of illiteracy and the large number of languages spoken in many countries. A comparatively wide ownership of radios, however, offered an effective form of information dissemination.

4) Asymmetry of information

Modern communication systems have made it comparatively simple for large-scale traders, processors and exporters to receive all the available information on the international markets in which they operate. They are also the best informed players in regional and local markets. Availability of information is reduced down the market chain with farmers being the least well informed. This asymmetry of information offers traders the opportunity to take advantage of farmers' ignorance of market conditions and even to collude with other traders to pay low prices to farmers. The high cost of telephone communication and the lack of telephone networks also contributes to the farmers' difficulty in accessing useful information.

5) Market risk

Lack of information in the market system substantially increases traders' risks. The time taken by traders to purchase goods from farmers at the farm gate or village market and sell those goods at larger market-places means that it is often impossible for them to be sure of the price they will receive.

This causes them to allow an extra margin for themselves to cover the risk of a falling market price. This increases transaction costs and decreases the efficiency of the market.

6) Type of market information needed.

All players in the market chain express a need for information on the latest market price for commodities. Price information, however, was not considered sufficient to allow these players to make the best decisions concerning the disposal or acquisition of these commodities. Information was also required on the place at which deals could best be transacted, what grade, quality and quantity of a particular commodity was in demand or available for sale, any information on the transport of such goods and any other relevant information.

It is in the nature of commodity markets that prices move up and down over time according to changes in supply and demand. The markets of some agricultural commodities are less volatile than others. Demand for maize, for instance, remains fairly stable but if prices rise too much consumers will switch their diet and consume cassava. The markets of goods grown mainly for export, are more volatile as wealthier, foreign buyers can afford to pay high prices for them in periods of short supply. The markets of perishable goods, such as tomatoes, also tend to be more volatile as weather and transport conditions can limit supply drastically in countries without storage facilities. Farmers with maize to sell may only need to know about market prices and conditions once every few days whereas tomato growers may need to know how the market price is changing on a daily basis.

7) *Waste*

There was also evidence that farmers would not make, what is sometimes, a considerable investment in bringing their surplus goods to market if they did not have at least an approximate idea of the price they would receive. This results in considerable waste. Also farmers tend to think that eventually prices will increase, and based on this premise hoard commodity that is then lost to post-harvest pests and disease.

8) *Political environment.*

Any effort to improve the efficiency of agricultural markets, including market information services, must be encouraged by both local and central government. Tolerance of market collusion, manipulation, corruption or other malpractice will render MIS ineffective.

The CTA study also found that, where government-operated MIS had existed, the information on offer had little relevance to the farmers' needs. It was often out-of-date, inaccurate or applied to much larger quantities of goods than they had to offer. Those who had designed these services had not sufficiently understood the farmers' and traders' day-to-day marketing problems. It was also concluded that those players most in need of market information (not only for their own needs but in order to make the greatest improvement of the entire market chain), were ordinary farmers. These findings led CTA to conclude that a new model for MIS was urgently required. The report of the study stated – 'This model implies a rejection of a centralised system remote from individual stakeholders,

and to benefit the poor farmers, the authors favour the establishment of localised, demand-driven systems serving a particular community or agricultural sector, linked to and supported by local and central government, and run by those groups which the system is designed to benefit.' The report also suggested that radio represented the most obvious way to disseminate information."

Sadly, even this recent and from many points of view excellent analysis still misses that crucial point: profitability. Under bullet #6, Type of market information needed, it is said that there is a need not only for market price information but also for where this price can be obtained. But there is no mentioning of profitability, of costs, of the reverse side of the coin!

SWOT the Regional MIS

Strengths

- The regional MIS is a system which allows for easy access to market information from a number of countries, which is essential for international trade. The strength of a regional MIS is depending on its distribution. Large traders etc will have access to market information with or without an MIS, but such information is important for many other market players, Farmers' Organizations not least.
- In terms of competition it is quite difficult to see any alternative to a regional MIS, as long as it has the capacity to deliver the information needed.

Weaknesses

- There is a sustainability problem for regional MIS, in the cases where the users are not financially very strong, or there is a problem making them pay for the information. To collect data from several countries, process it and disseminate it is a giant undertaking.
- There is an inherent difficulty concerning which data to collect, and on which level. A regional MIS cannot meaningfully collect local data, as the region aggregation level is far too high and the bulk would be too large to handle.
- In order to deliver relevant information the regional MIS must adapt to user demand, but user demand is likely to be extremely heterogeneous between a number of countries, or even contradicting. This means that the regional MIS probably will have to depend on national structures to obtain data, and hence cannot work without these.
- Lastly, finance is always a problem when it comes to public goods (goods which can be consumed by anybody without limiting the supply for others). Goods like this must be paid for by everybody who uses them, but no one really has the incentive to pay, as long as others do.

Opportunities

- There is a huge need for market information!
- In our part of the world, trade is still very limited between countries regionally, despite the (I think?) consensus that trade, theoretically, is good for everybody. But international trade is just as dependent on market information as any other type of trade, which renders it likely that the general lack of market information is a problem not only on local agri-markets.
- One should also bear in mind that no real regional bodies have been around until recently, and that whatever regional market information that has been available therefore has been produced by national bodies at best. The construction of international bodies in the agriculture sector, notably SACAU, will make it far easier to produce regional market information efficiently and effectively. Furthermore there is some political consensus in the region on the importance of regional trade, which is definitely not an obstacle...

Threats

- A system that is not very well underpinned in the involved nations will not be able to deliver, and hence will not survive. It will not only lose funding, but also sooner or later be replaced by another player with better access to data and distribution structures.

- The biggest threat to the regional MIS is that the national MIS it depends on fail, and therefore we must look at the SWOTs for national MIS to get a deeper understanding of the problem.

SWOT the National Centralized MIS run by state, ministry or government

Strengths

- A state-owned system is connected to a very big structure, in our case mostly the Ministry of Agriculture or something like that.
- The size and nature of government usually means that it has actual nation-wide coverage and representation, fairly good channels to the majority of users as well as easy access to many power-structures and data collected elsewhere.
- Access to finance also tends to be quite good, as long as government prioritizes the area. Lastly, one can expect a certain degree of impartiality from the government, or at least the state, and hence would not expect to find heavily biased information from such an entity.
- The obvious and huge demand for national market information is a strength for anyone capable of satisfying that need.

Weaknesses

- The owner's incentives risk twisting the information the state/government run MIS produces. (Governments need taxation data and statistics, generally, and this is quite naturally what state owned MIS will concentrate on. This is however not what most business people, farmers included, are interested in.)
- The informers, the people and companies that contribute data to the MIS, are fairly often very suspicious about providing anyone connected even remotely to tax authorities or any other supervising entity with commercial data, which may lead to collection of corrupt data.
- The size of a state owned MIS is not only a strength, it is at the same time a weakness, as pretty much all big structures are slow, and do not have the capacity to adapt to the very rapid changes that are common in the business world.
- The phenomenon that fairly few people in government etc have a business focus tends to increase the difficulties to determine what the focus should be, what information to focus on, and so forth.
- The centralized national solution will depend on a network of decentralized offices with specialized knowledge.
- The government is responsible to the whole society and must not support one part of society at the expense of

another. The ministry of agriculture does not exist to support farmers, but to make sure that the agricultural sector benefits the whole economy. The impartiality mentioned under strengths therefore is also a weakness. Farmers will want any information that is beneficial to them, and this without a doubt includes information that is bad for others as well as some degree of secrecy.

- There is probably not entirely little information that farmers do not want others, such as buyers of agri-products, to have access to. That the state is financially strong does not mean that it will consider the same expenses important as do interest groups such as farmers, which is a big obstacle.
- An economic, business, system like an MIS should not be dependent on political decisions.
- Finance is always a problem when it comes to public goods (goods which can be consumed by anybody without limiting the supply for others). Goods like this must be paid for by everybody who uses them, but no one really has the incentive to pay, as long as others do.

Opportunities

- In many “more advanced” economies the market information is usually specialized for different parts of the economy, delivered by interest organizations or commercial agents.

- Governments mostly supply statistical data, which definitely often is useful as market information, but does not satisfy all needs.

Threats

- That the built in weaknesses will destroy the system from within. Each and every weakness described under weaknesses above constitutes lethal threat to the system in itself.

SWOT: the National Centralized MIS run by a user-owned organization (e.g. farmers' union)

Strengths

- Connected to a very big structure, in our case mostly the Farmers Union or something like that. The size and nature of such organizations usually means that they have actual nation-wide coverage and representation, fairly good channels to the majority of users as well as easy access to many power-structures and data collected elsewhere.
- The obvious and huge demand for national market information is a strength for anyone capable of satisfying that need. As we are discussing a farming MIS, a user-owned structure is likely to have insights and knowledge that makes it comparatively strong.
- The ownership also largely eliminates the incentive

problem, as the system is intended to be used by the owners only.

- The ownership enables the owners to discriminate the accessibility to the data, preventing competitors or the like from utilizing it.
- A national system is, as opposed to a local system, likely to be able to have overview and a holistic perspective, which makes it unavoidable for traders on a bigger than local scene.
- A system run on the national level is likely to have better access to “national” data, and easier access to large commercial players, than a smaller, local system.

Weaknesses

- The size of a national MIS is not only a strength, it is at the same time a weakness, as pretty much all big structures are slow, and do not have the capacity to adapt to the very rapid changes that are common in the business world. As with regional MIS and other centralized systems the user-owned national solution depends on a network of decentralized offices with specialized knowledge to encompass all the different situations in the sector.
- As mentioned above, it is not unthinkable that a national system introduces quite big differences in interest

between sub-groups. One should not forget that “farmers” are not homogenous, as they range from subsistence to giant commercial, and that some farmers’ organizations also allow agri-businesses as members, introducing sometimes contradicting interests.

- The farmers’ unions are sadly very often not too strong, and to some extent depend on support from other agencies. Hence, they are dependent on these agencies’ agreeing on the importance of marketing.
- Again, finance is always a problem when it comes to public goods (goods which can be consumed by anybody without limiting the supply for others). Goods like this must be paid for by everybody who uses them, but no one really has the incentive to pay, as long as others do.

Opportunities

- There is a huge need for market information!
- The union run MIS has not been tested to a large extent, but most unions supply their members with some market information, and probably do their very best to strengthen this capacity.
- A farmer-owned national market information dissemination system has very good chances at becoming a strong and appreciated part of the farmers’ marketing.

Threats

- Dependency on local level market information collection. Without a large number of collection points, “staffed” with personnel who know what to collect to satisfy the needs of not only the local producers but also the national body, the national body will not function. The existence of a local level structure is crucial, as is ensuring that the information gathered is the most important, which means that 1) the need must be thoroughly analyzed and 2) the collectors need education.

SWOT Local MIS (MicroMis)*Strengths*

- The local MIS is local;). It is small, and hence adaptive.
- The local MIS has local knowledge, and knows where to access information as well as insight into which information that is demanded locally.
- The scope is not too big, and the amount of data that must be handled is not immense.
- The local MIS is close enough to the user to reduce the need for costly and inefficient distribution systems.
- The local MIS should be possible to run at a fairly low cost.

Weaknesses

- The local MIS will find it very difficult to get a total sector overview. They have limited access to data, as they can cover with ease only what there is information available on locally. The local MIS will not have very good possibilities to supply farmers with information from other parts of the country, information that might be crucial to anything from the production decision and onwards, which means that the local MIS will find it very difficult to satisfy user needs on its own.
- The local focus may also be too narrow to really enable information collectors to find out which information is needed, even locally. What you don’t know, you don’t know, which makes it just a bit tricky to analyze demand only by asking people with extremely limited access to information which information they need.
- The local MIS is dependent on input from a bigger context to be able to deliver information that the users do not know exist.
- Small scale farmers are not rich, and hence are not able to spend a lot of money on market information. At least they will not be willing to invest a lot in market information until they are absolutely sure that the payoff is very good.
- Again, finance is always a problem when it comes to public goods (goods which can be consumed by anybody

without limiting the supply for others). Goods like this must be paid for by everybody who uses them, but no one really has the incentive to pay, as long as others do.

Opportunities

- There is a huge need for market information!
- Even without a formal link to the “bigger context” mentioned above, the local MIS is the most direct approach to market information for small scale farmers. Usually these farmers have so little information that any information has the potential to bring big changes.
- Even limited information enables the farmer to get an idea on which additional information she wants, and thereby creates a need that the local MIS can satisfy with greater ease than any other market information dissemination entity.

Threats

- Lack of marketing understanding among those who could initiate and run such a scheme.

Study circles

The Study Circle is a self-learning highly participatory methodology. It is an efficient, cost effective and much

widely reaching tool, which we put extra emphasis on here as SCC and partners use it in their capacity building programmes. The following is how SCC’s study circle experts describe the approach:

“Aim of the Study Circle

Taking part in a Study Circle is a participatory and dynamic process based on the experience of the participants, the skills of the study circle leader and the quality of the study material. As opposed to conventional education that is based on a hierarchical model, in which the teacher disseminates knowledge from the top - down, a study circle involves interaction in which all participants contribute.

A Study Circle is:

Free and voluntary studies whose subject coverage is based on the group's choice, which may include humanity, society, working life, nature and culture. The end result is to understand the strength, power and pleasure in creating something together. Together with others, to be able to acquire new knowledge and to scrutinize conditions with a view of developing their own society.

In the study circle, work is built around the participants’ search for knowledge according to their own needs and interests. Work is characterized by democratic values where the individual’s exchange of experience and analysis are the guiding factors. The studies depend on active contribution from the participants in the planning and implementation of the work.

A study circle is a small group of people (normally between

seven and twelve participants) who during a certain timeframe repeatedly meet and carry out planned studies under the leadership of an accepted leader. The main factors are

- The participants' experiences and skills.
- A study plan or specially produced study material.
- A well informed and trained leader who is mainly for the study circle work.

Basic principles

One can say that the work in a Study Circle is a vivid, active process that relates knowledge to action and social change, to development and creativity. The method can be described by some basic principles:

Equality and democracy

The work of the study circle is based on the concept of equality among the participants. Democracy and democratic principles are essential for the work of the Study Circle. It should always be a spirit of informality in a study circle. The Study Circle leader's work is to inspire dialogue –an exchange of views and information in a relaxed manner.

Experiences and cooperation

The work in a Study Circle must start from the participants' experiences and knowledge. Beginning with their everyday experiences, with identified problems, they will bring new knowledge into the study circle. The work and progress of a Study Circle are characterized by cooperation and companionship, of working together towards mutually

shared and resolved objectives. The participants assist each other instead of competing. They share the progress and setbacks of their joint work. Such study situation provides security for all and contributes to openness.

The freedom of the Study Circle and its right to set its objectives

The objective of a Study Circle is to be determined by the participants and shall rest on their needs and wishes. A Study Circle formed within an organization has to work within the frame set by the objectives of that organization. Freedom walks hand in hand with responsibility. It is the participants of the Study Circle who will be responsible for how they work and how the studies are carried out, this can never be delegated to others without interfering seriously with the freedom of the Study Circle.

Continuity, planning and active participation

Continuity means that studies have to be organized and planned. The objectives set or considered and approved by the participants, imply that studies must follow some kind of plan. The participants of the Study Circle must be actively involved. The participants' active contribution is the base which the Study Circle is built upon. People learn best when they are active. They cannot share responsibilities as participants without acting, without personally having an opinion.

Study material

All study circles should be equipped with some kind of study materials, which taken together should cover the intended number of meetings of the Study Circle, contain facts, highlight points for discussions and guidelines for the work

in the Study Circles. The participants themselves in the Study Circle can also produce the study material. SCC has produced a number of study circle materials of their own as well as collected such materials from other sources. A comprehensive list can be found in the appendices.

'Change and action.

The Study Circle would not flourish if the participants were only concerned with learning for its own sake. But Study Circles also strive for change and action, the learning will not only be more "profitable" but also more meaningful. For individuals, this can result in personal enrichment and improvement of their environment.

Composition of groups

As participants in a Study Circle must be actively involved in all the work of the Study Circle, it is important that they are small groups, about 7-12 participants, including the Study Circle leader. It is necessary to have such small groups, as the intention with a Study Circle is otherwise lost. The smaller the group, the better are the chances of active participation by all group members. Otherwise there will be no cooperation, no joint responsibility, less conversation and therefore no Study Circle. We learn best when we are active. On the other hand the group should not be smaller than five participants. Experience has shown that a broad conversation is difficult to maintain in too small groups and large groups provide limited opportunities for all to participate.

When you start a Study Circle it is important to try to gather people who have, by and large, common values and possess

different experiences. The important thing in a Study Circle is to investigate and research together. If you have common interests, about the same education-level and live in the same community it will help a lot. In the group you should feel free, have a comfortable and relaxed relation and fun together! Humor also helps a lot in solving problems.

Gender and youth aspect

The study circle is a good methodology for men and women to increase and develop their self-esteem together. In a meeting there are often some people who make their voices heard and some people who are shy and quiet. The Study Circle methodology helps to overcome such tendencies and improves self-confidence among all the participants.

Groups with both men and women also show that you can do much better if you cooperate than if you are working separately. It is a good way to show that gender is not for women only, it concerns both men and women.

It is important to involve the youth in the Study Circle activities because it will help them to use and share their knowledge with others and teach them how to work together in a group. They will also understand that they will be stronger, both as individuals and as a group, when they cooperate.

Financing

The Study Circle is developed as a concept with no or little expenses. The participation in the Study Circle rests on voluntary work from both the Study Circle leader and participants.

Sometimes it is nevertheless unavoidable to get some expenses, for instance you might need study materials or want to use an external facilitator. You may have to purchase one or several books or you may also have to develop or reproduce some materials. All these costs that have to be shared among the Study Circle participants.”

SWOT

Strengths

- The Study Circle is highly participatory, and the Study Circle is wholly owned by the participants.
- The Study Circle uses the participants’ knowledge as one of the most important assets for the students.
- The Study Circle uses very little external input (not necessarily any at all), so it is very low cost.
- It seems that the Study Circle has been appreciated where it has been introduced, which is a precondition for success.
- Study Circles have been used to form linkages with outside world
- Study Circles induce regular meetings among farmers, which has proven to contribute to all sorts of development.
- Promotes cooperation between men, women and youth

- Makes introduction of new technologies easier and faster

Weaknesses

- The high demands on participants can be a problem with less motivated or less able students. Not only do the participants decide on what to study, they also have to make their own study plan.
- The lack of formal structure and hierarchy is very attractive in theory, but not all find it easy to deal with, and it should not be assumed that those with such problems have less need for education than others.
- The Study Circle concept is still relying on a reading culture, which is not always present.
- Difficult to access education material in vernacular languages.
- The Study Circle has still had fairly little success in most parts of the region, which raises questions as to why this is the case.
- May run into gender related problems
- Not always clear link between what is studied and what the benefits of studies are. This is likely to happen when the issue studied was imposed by external party.

Opportunities

- Assuming that the large scale breakthrough for the Study Circle in the region has not come due to some fault in the Study Circle itself, it is safe to say that the opportunities are immense.
- The low cost and, it seems, high impact, makes it very cost efficient, which is a precondition for large scale success in poor rural areas.
- With appropriate marketing one could aim for a rather big “market share”.
- Quite naturally this most likely would be achieved at a higher speed if there were an opportunity for profit to be made in the process.

Threats

As in so many other cases we have to separate the “commercial” or “competition” threat from threats to what we are trying to achieve; education for farmers.

- There are innumerable education systems that could more or less out-compete the Study Circle. As long as this happens as a result of some kind of superiority from that or those other system or systems, it probably benefits the farmers.
- There is of course also the possibility that some market

player (the government, an NGO or a commercial entity) manages to push its inferior product so efficiently that it kills off the competition.

Schemes dealing with Bulk Marketing, Storing and Transportation

(Transaction Minimization, Intertemporal Arbitrage Potential and Spatial Arbitrage Potential)

As we have discussed above, bulk marketing is a process of minimizing transaction costs. In practice this very often results in big quantities of a good being collected in a warehouse somewhere. Once the goods are collected (already the bulking takes time) the bulking agent sometimes has the choice to wait for a better price (storing). Once she decides to sell, she might also have the choice to sell in different places (transportation). Other combinations of the three are just as common, as you can imagine. It is therefore often very difficult to separate these approaches from each other, which is the reason we handle them together. Hopefully it becomes apparent which schemes are concentrating on which of the three money-making potentials.

“Simple” bulk marketing schemes (informal cooperation)

In many cases you will find that farmers in an area get together to market their produce. Sometimes it is a single farmer who has connections with a buyer or a transporter, and manages to negotiate a deal which involves more than she can produce or sell herself, sometimes it is a group of farmers who have some other kind of connection who bulk their produce to save money on transports, by being able to rent proper transportation, sometimes it is something else. The number of possibilities for such informal cooperation is immense. It is an approach that, quite naturally, is more often used to handle bulk or spatial (transport) issues than intertemporal (storage) issues. Profiting from intertemporal arbitrage involves long term engagement, and long term engagements are very difficult to handle without some type of formality, especially when it comes to economic cooperation.

SWOT

Strengths:

- Very adaptive. A “cooperation” can form wherever there is an opportunity, and dissolve as quickly
- No regulations, ownership or membership to consider, which adds to the adaptability, and reduces entry costs
- No sunk costs, the cooperation does not have staff or facilities, it is a strictly ad hoc construction. This makes it possible to utilize rapidly arising opportunities.

Weaknesses:

- Lack of predictability is a severe limitation to the usefulness of the informal cooperation. It is virtually impossible to plan production that relies on informal structures, as you can never be sure that they are there.
- The lack of structure can make internal communication difficult, increasing the transaction costs for those engaged in cooperation.
- Lack of trust has prevented and terminated many informal schemes. Division of profit, trusting someone with pooled funds etc is often very difficult.
- No formal commitment, which makes it impossible to make credible deals in advance. Producers might withdraw from cooperation at any time, and there is no one with mandate to strike a deal on others behalf.
- Difficulty to collect trustworthy market information.
- Problems with trust and fraud. No regulations means that there is no formalized demand on the single producer, and very difficult to solve disputes to everybody’s satisfaction.
- Informal structures do not give much negotiating power. Hence it might be difficult to get really good deals.

Opportunities:

- Informal cooperatives could gain a lot from “semi-structure”, or a number of different “formats”, possibly with contracts etc, which would allow for more credibility, better planning and so forth, and in fact erase some of the difference between the informal and the formal cooperative, without erasing the ad hoc nature and adaptability that is the strengths of the informal cooperative. This could be supported by farmers’ organizations and/or NGOs.
- Better utilization of informal cooperatives could put pressure on briefcase traders, as they are in many cases performing the same service. And competition is exactly what the village traders need.

Threats:

- Abuse of power, embezzlement by those trusted with responsibility and funds.
- The major threat would be the large scale application of other marketing systems, such as contract farming, formalized bulk trading systems or cooperatives. Assuming that this be done on commercially sound terms it is a threat to the system of informal cooperatives, but not to the majority of the users of the informal cooperative, as these were to have chosen a preferred alternative.

- There is always a risk that one system is replaced by another for other reasons than strictly commercial. There are numerous examples of where this has happened as the result of inference by NGOs or governments, with the best of intentions and big wallets, but without real insight into the environment they are dealing with, or even political or ideological rather than economical reasons for involvement.
- Another possible threat could be offensive actions by players whose business enterprises compete with the informal cooperative, such as traders or transporters. It is very difficult to foresee such action or the forms it could take, but the most common is predatory pricing.

Small scale (village) traders

Most agricultural products are traded by small scale traders. These are usually to be found either:

- in small marketplaces, where farmers deliver their produce

or

- in villages and at farmgates, buying directly from the small scale farmer

In both cases small scale traders are known to pay badly and cheat sellers on a regular basis. On the other hand small scale traders are the most adaptive players around, and they are everywhere. In general, small scale traders also seem to have the ability to accept very low margins, which is

probably the reason why they are the type of commercial buyer that can be found virtually everywhere.

When small scale traders do not sell directly to consumers, they sell to larger traders or processors like mills or breweries. Quite often they have some kind of “long term” relationship with the commercial buyer.

Where they function as bulking agents they trade in non-perishables like maize, and seldom manage to bulk more than a few tons. Mostly they have access to a small lorry (3-5 tons), either their own or through another arrangement (informal contracting, so to speak). Most of the small scale traders operate in one region, and know their competition and the producers in that region quite well. On the other hand they have very little access to market information in general, and as is the case with the small scale farmers the small scale traders are very adaptive at the same time as they are extremely conservative. For example, they do not seem to compete among themselves.

Example:

Small scale maize trader, Mr. M.

Monze, southern Zambia, about 200 km from Lusaka

Mr. M has been in the business seven years, and he trades in a market where there are some 15-16 traders. He usually conducts business by talking to the farmer coming with maize, and then he arranges a deal. The measurement is a bucket (tin) that should contain 16.4 kg, so that three tins

make a 50 kg bag, but the traders in the market use a bigger tin. According to Mr. M., everybody knows that this is done, and how it is done, but adds that the farmers “are veery easy to convince”, i.e. cheat, and that the traders have used quite an elaborate scheme to fool the farmers. On the other hand he says that some farmers are “difficult”, and refuse selling using the “fake” bucket, and he signals that this is becoming more and more common, especially when they go out in the remote areas to buy.

The maize traders, as mentioned, also go out into the field to buy, in which case the price they offer is reduced by 20-25%. They go to Mtapu and Mbilamchila (fairly remote villages with bad road networks), where more maize is produced.

Mr. M. however argues that it would be better to use a scale for buying maize. Using a scale would speed up the acquisition, and therefore boost business. Today, it takes three weeks to collect 30 tons of maize, but a few years ago there was a scheme where the traders in the market worked as buyers for “a white man” who not only stipulated that they use a scale, but also the price that they should offer, which seems to have been slightly higher than the going rate, which allowed them to buy the same amount in only one week.

Mr. M. and his colleagues at the market sell their maize to millers in Lusaka. They go to Lusaka to talk to the managers at mills and investigate the prices offered. He says that it is imperative to know what you are talking about, or you will be cheated by the millers. The traders then can calculate the

price that they can offer the farmer, using transport costs etc. Mr. M admits not to have all market information, and says that bigger bulk gives a better price. Mr. M. usually ships anything from 5 to 35 tons at a time.

The maize traders in the market used to transport together, but got into trouble because they didn't use scales, why there were disagreements when the profit was to be shared.

The traders in the market would probably also be willing to pay more for bulk, as it would speed up their business.

The millers in Lusaka mostly pay cash on delivery, or rather the day after.

SWOT

Strengths

- The small scale traders' size and low-cost ad hoc structure with very small sunk costs makes them highly adaptive and probably also cost efficient, especially as the whole business is largely scalable.
- The small scale traders mostly have good local knowledge (supply market information), and manage to be in the right place at the right time.
- Close to producer

Weaknesses

- Small scale traders suffer from very bad access to finance, which makes purchases of large amounts impossible, and also contributes to making them fierce and cheating negotiators.
- The cheating eradicates any trust that sellers might have for the trader, making it impossible (also for the potentially non-cheating traders) to get credit, which would have enabled them to trade larger volumes and cut costs, hence paying the seller better. Another vicious circle, it seems.

Opportunities

The small scale traders' strengths are so prominent that if there were just a way around their weaknesses they could probably contribute a lot to the farming society as well as make a whole lot more money for themselves.

- Access to proper market information (for farmers) could eliminate a lot of the room for cheating
- The opportunities for small scale traders lie in the possibilities to get access to capital, which can be achieved through some kind of "bank" credit scheme, or by getting credit from the sellers, i.e. farmers. In order to achieve the second, the farmers must have good reasons to trust the buyer, the achievement of which is a hard nut

to crack. It would most likely involve:

1. an agreed upon and enforceable grading and weighing system,
2. cooperation between traders to put “cheaters” out of business,
3. establishment of long term relationships between buyers and sellers, and
4. cooperation between sellers to further rationalize trading and reduce transaction costs (through very small scale bulking, for example).

Threats

- The possibility that farmers organize their own bulking and transporting systems which are more cost efficient than the small scale trader’s
- The possibility that farmers stop growing crops that small scale traders have capacity to trade
- The entrance of new traders with lower costs, better access to capital or better market access, enabling them to make significantly higher profits in the same trade.

Medium scale traders

Medium scale traders share many of the small scale traders’ trademarks, in that they buy largely from small scale farmers, and that they are fairly adaptive. The way they trade is however much more formalized, and they very seldom sell directly to consumers. Instead they almost solely sell to commercial buyers, and are quite likely to be contracted by one or a few of these buyers, with a guaranteed market.

The medium scale trader is however likely to buy a substantial proportion of her total purchases from small scale traders, and to have fairly to very good access to transportation.

Example:

Mr. S., maize trader in Choma, southern Zambia, about 300 km from Lusaka

This trader has a contract with the big mill in the area, which is his biggest customer, buying approximately 15 thousand tons of maize per year. The “contracted” price is very low, and the margin on these sales is only a few percent, as compared to a gross margin of about 40% if he takes it to Lusaka. The reason he still does business with the local mill is that he has a commission arrangement with them. The mill finances the purchase of maize, which makes a much larger turnover possible than would otherwise be the case.

The lesser part of his trade is with mills in Lusaka. Mr. S. has

two trucks himself, one 5-ton and one 15-ton, which are used for purchases in rural areas as well as transports to Lusaka, but most of the transports to Lusaka are done with hired 30- to 40-ton trucks. Mr. S. estimates that he sells 5 to 10 thousand tons to Lusaka a year.

His company now has “depots” in rural areas, from where he collects the maize. These “depots” are really just buying points at the local marketplace (compare with the small scale trader above)). The farmers bring their produce in bags, and he buys everything, without any proper grading. They do however “probe” for bad or dirty maize, and refuse bags that are in too bad shape. If really bad products are found, the farmers have to clean it before they can sell it.

Mr. S. starts buying in the rural areas already by April. The message that they are in the market buying is spread “mouth to mouth”, by people coming to the markets. When they are buying in remote areas, prices are reduced by “transport costs”. An example; in rural areas 150 km away the offered price is reduced by just over 20%.

In addition to buying maize, he also sells seeds, but only in town, the reason being that “maize selling time” is not “seed buying time”, so that he cannot easily combine the two activities, but also that roads tend to be in bad shape during seed buying season, and he does not want to risk to get the trucks stuck out in the mud. On the other hand he says that if a group of farmers came together and collected money for a one off bulk purchase of seeds, he would arrange the transport.

Mr. S. final remark is that traders like him have two major problems; access to capital and transport costs. It is however noteworthy that transport costs for most trader depend very much on if they are situated along a major trade route, where transporters can run full loads in both directions, or if they conduct business in an “exporting” area, where trucks have to go empty one way. The transport prices per km in that case are doubled.

SWOT

Strengths

- Fairly large turnover makes cheating and hustling less interesting, which sometimes is reflected by utilization of things like proper scales.
- The medium scale traders mostly have formalized or semi-formalized purchasing procedures that allow for more transparency than the small scale traders do.
- The larger volumes also give better prices from large scale buyers.
- Usually quite good access to transport
- Close to producer, good market knowledge

Weaknesses

- The medium scale traders are fairly well organized, and hence do not have an “ad hoc” structure but considerable sunk costs, though still do not have access to neither the really big markets nor the really good prices.
- Their bargaining power seems not too good in spite of their size, and sometimes you get the feeling that they are more of small scale traders that have grown out of their league.
- Medium scale traders in general seem to have very limited access to capital, limiting their trading capacity and sometimes preventing them from making potentially profitable investments.
- Often limited access to storage facilities

Opportunities

With a bit of further development and organization it's quite possible for medium scale traders to go two ways:

- Medium scale traders could try to compete with the small scale traders in purchases from farmers, using their structure, market access and size to offer better prices and possibly manage to get credit from the farmers.
- Medium scale traders could try to strengthen their situation versus the buyers and transporters, negotiating

better prices for their products and lower prices on transports.

A combination of these is also quite possible.

Threats

- Better organized small scale traders could cut off medium scale traders from the really low cost inputs directly from farmers
- Farmer run trading schemes such as cooperatives may divert significant parts of their business, bypassing the trader.
- A decrease in production of non-perishables would be disastrous for most traders.

Large scale traders and brokers

The basic difference between traders and brokers is that a trader buys products in order to resell them at a profit, whereas a broker essentially uses only her superior access to information and/or market channels to connect buyers and sellers, and charges a fee for the service. This service is nevertheless often combined with a combination of other trading services. Commodity brokers are not always very large scale, but they usually trade in a “large scale” way. Many brokers have access to, or own, transportation companies and storage facilities, which enables them to make money from any trading service. Large scale traders very seldom, if ever, have direct contact with small scale farmers, but trade either with medium scale traders or large scale producers. Pure brokers quite naturally also trade with large scale traders, as these have access to big bulks.

Of the brokers interviewed during the assessment stage of the preparation of this Guide, not one single broker would be interested in perishable or even “semi-perishable” goods like root crops.

Some few brokers had been involved with small scale farmers earlier, and expressed concerns about the ways that had worked out. Mr. L., CEO of one of the few brokers still in business in Harare, Zimbabwe, said that “small scale farmer schemes were difficult to coordinate and synchronize”, which was the main reason for them to withdraw from such activities. On the other hand he expressed that they would reconsider that decision if they

could get “good leadership to work directly with, central accessible delivery point or delivery to point of purchase”.

Strangely, most brokers expressed that they suffer from lack of market information (in their case only selling prices are relevant)! This is probably not as common in South Africa, but definitely in Zambia and Zimbabwe. In the latter country the agriculture exchange did provide market information until it was “closed” by a political decision which made it impossible for it to work.

Brokers are otherwise probably the most direct link there is to the large export markets, which, the way things are going, will most certainly be important even for small scale farmers in the not very distant future.

The auctioning system is really only a special kind of brokering system, as there is an agency, the auctioneer, who functions as a link between the seller and the buyer without ever taking over ownership of the commodity. Nevertheless, the auctioning system is of such great importance for the tobacco industry that we shall give it some more space here, especially as many of the auctioning systems in place are not “clean”, in the sense that the auctioneers are not only mediators. When analyzing the tobacco auctioning systems, one immediately realizes that the auction floors are major players in the industry, often functioning as contractors, supplying producers with credit for production, transport and extension services, where after the producers are (by contract or even legislation) forced to sell their produce on the auctioning floor to a few large scale buyers. This setup

has a lot of implications for the industry, which we can simplify by looking at it from the target group's point of view. This will not only make the issue easier, but also more relevant, as it is only the situation that the small scale farmer is facing that matters in our context. Looking at the problem this way makes it obvious that it does not really matter whether there is an auctioneer or not. If the auctioneer does not provide inputs, the situation is the same as if the producer would be trading directly with a large trader. If the auctioneer does provide input, the producer is in a contract farming situation, and the same reasoning applies.

SWOT

Strengths

- Large volumes allow for profitable business with very small markups per unit.
- Large traders and brokers tend to have access to good or even very good market information.
- Pure brokers can in theory operate with very small sunk costs, hence securing them from big losses on investments.
- Large scale traders tend to have good access to capital, as they often can borrow from "dollar banks" at "dollar interest rates", or have investors abroad.

Weaknesses

- Big amounts are often traded on the international market, or at least subject to the same terms, which can be very volatile.
- Large traders are dependent on availability of large volumes to be profitable, and hence can be severely threatened by droughts etc.
- Large traders are also usually more vulnerable to trade policy interventions or other legal/tax/subsidy interventions than smaller traders.
- Large traders are often dependent on smaller traders, bulking agents etc, and may be vulnerable to demands from these, should they organize.
- For the producers, large enough traders can be very dangerous as they might monopolize the market.

Opportunities

- International trade is growing, and even though this is not really the case for African countries, it probably will happen.
- The pressure on developed countries to cut their subsidies to the agri-sector is high, and any change will probably result in rather big increases in agri-exports.

- Agri-products are still among the most prominent export products in the region, and the potential for productivity and production increase is big.

Threats

- Our part of the world has been suffering from political instability, economic instability and weak governments, and though some countries seem to have stabilized lately, others have not.
- This makes it very difficult for players on the big arena to plan their business. In fact, sometimes impossible.
- Big and rapid changes in the government's objectives may be good for the population, but they are seldom good for business dependent on stability.
- Weak governments are easy targets for heavyweight lobbyists from influential special interest groups, groups which may have interests opposite those of large scale traders.

Formal trading cooperatives and producer-owned companies

The big difference between the traders dealt with above and the cooperatives is that the profits made on trade belong to the sellers of the commodities. Of course the owners of the cooperative or the company (the difference between these two is not big) also decide on any action taken by said

enterprise, but as long as this action is taken on strictly commercial grounds there will be no difference between the way a farmer owned company (or cooperative) or any other company behaves on the market. It is on the other hand quite possible to distribute this profit by paying a higher price to the sellers (in the case when only the owners of the company/cooperative are allowed to trade through the system). This is a very straightforward way of making sure that the profit distribution is connected to volumes sold, but either allows the cooperative to exclude non-members from trading through the cooperative or makes a price differentiation necessary if the profit is not to be "diluted".

From the point of view of the cooperative as a competitor on a market, the fact that the cooperative is user owned is not directly an advantage, but indirectly it might be anyway. While most companies have to compete in a way that leaves with a sizeable profit, a cooperative does not really have that to live up to. The cooperative can, operationally, theoretically, run at a loss for a very long time without necessarily having to fear that the owners will withdraw any of their support for the "enterprise". The owner structure ensures that only the total profitability is relevant.

SWOT

Strengths

- Very good relationship with suppliers
- Enables producers to reap the profits from retailing

- Bargaining power resulting from large aggregate volumes
- Should contribute to application of strict business ethics
- Formal structure allows for planning

Weaknesses

- Can be difficult to keep business focus. Suppliers are owners, and may think that the cooperative should be able to operate at zero profit or loss, without realizing that this requires owner support.
- Possible lack of business expertise. Not all cooperatives are initiated or run by commercially minded people.
- Usually weak financial position, without ability to make any major investments

Opportunities

- A huge opportunity for bulk marketing schemes in general, as the number of producers is so big.

Threats

- Commercial traders will probably not sit still and wait to be out-competed by cooperatives. Competition with

price dumping and other tricks is likely to occur.

- Lack of business skills in the cooperative has proven a major threat.
- Access to capital is often limited also for cooperatives, which may cut productivity.

“Not for profit” brokers

In Malawi, there is a brokering-system incorporated in the Information Centre-structure run by the NGO IDEAA.

The principle is that buyers and sellers can list their supply and demand with the Information Centre officers, who then post the information anonymously in a “billboard”, as well as actively try to find buyers or sellers to satisfy the resulting micro-market. When buyers and sellers can be matched, they are brought together at the Information Centre, in the presence of Information Centre personnel, and a price is negotiated. This is essentially a broker service, and accordingly the Information Centre charges a service fee, which is used to keep the system running.

SWOT

Strengths

- Very good relationship with suppliers as well as buyers
- Enables producers to bypass middlemen

- Provides the operator with necessary income
- Low cost solution with very high efficiency (profitability) potential

Weaknesses

- Can be difficult to keep business focus, depending on ownership structure. Compare with cooperatives above.
- Possibility of abuse of access to information. The officers at the IC are the only ones with knowledge of buyers and sellers, as well as prices they are willing to offer. Effective monitoring is necessary.
- Possible lack of business expertise. It may prove difficult to hire people with sufficient commercial capacity.
- In the cases where the same entity is responsible for collection and (free) distribution of market information and brokerage, there are incentives to withhold profitable information.

Opportunities

- The prevalent lack of market information provides for an excellent profit potential for anyone with good enough market knowledge.

- The broker function does not, as opposed to the trader, require access to capital.
- A farmer (organization) owned broker provides a novel and potentially very efficient source of increased profitability for the farmers.

Threats

- Potential problem of getting and keeping employees with the necessary capacity.
- Corruption. Employees with “Not for profit” brokers may have personal objectives that do not coincide with the employers, and may also have the opportunity to misuse their positions.
- Inability to compete with efficient commercial (profit making) traders and brokers, should such players exist.

Farmer organization/Private sector joint ventures

In some cases attempts have been made to combine private sector profit making and efficiency capabilities with farmer organization “ownership” to create market players that combine the best of both worlds. The idea seems to be that traders get a share of the total profits in the marketing chain that does not stand in proportion to their input, implying that it would be possible to redistribute income from traders to farmers, and still allow the trader to make an acceptable profit.

In this type of scheme, the role of the farmers' organization is the market link, enabling more efficient buying, closer contact with the producers and larger bulks that would otherwise be possible. The trading is done purely commercial, but higher prices should be paid for purchased goods.

Example:

ZAMAC is a trading company introduced by the Zambia National Farmers Union (ZNFU). It is in short an effort by ZNFU to provide farmers with a better paying maize marketing channel, at the same time as it is supposed to give ZNFU some much needed cash inflow to increase sustainability of the union, and lessen their donor dependency. ZNFU has a 60% share in ZAMAC, but the company is run by the minority owner CHC, a Lusaka based commodity broker.

The idea is to bypass pretty much all the ordinary middlemen and take the produce directly from the farmer to the really large scale market, including the international market.

2004 was the first operating season for ZAMAC, and the results so far have not been promising. The introduction of ZAMAC was preceded by what must be considered massive information by local as well as central Union representatives,

where it was claimed that ZAMAC would pay much better

than the small and medium scale traders, and in fact even better than the FRA, who paid close to 50% more than the open market traders. This did not happen. In fact, ZAMAC in a number of cases paid less than local traders!

The scheme had a number of problems, including rental of warehouses locally in the areas where purchases were made, which proved to be far too costly, but also more intricate problems concerning the large scale market structure in Zambia. There are signs that ZAMAC is making an effort to correct these problems before the coming season, but how they are going to do it remains to be seen. The big local warehouses will probably disappear, in favor of central storage in one or a few places in the country, and most likely there will be an attempt to use the marketing channel as a two way ditto, enabling sales of inputs to the farmers in addition to purchase of produce.

The really big problem with maize marketing for small scale farmers in Zambia they will however not be able to get around. According to ZNFU's own calculations, growing maize with the production costs that prevail is not a profitable venture, not even taken government subsidies into account.

In short, the farmers who had put their hopes to ZAMAC were deeply disappointed, and they blame ZNFU for not living up to its promises.

SWOT

Strengths

- The joint venture can be controlled by a farmer owned organization. This gives a lot of goodwill and a very efficient advertising channel to the farmers.
- The joint venture can utilize trading expertise and business-mindedness acquired by commercial traders

Weaknesses

- The fact that most of the large traders concentrate on one the crops with close to no margins for small scale farmers today makes it very difficult to see that they could realize a profit on their operations, or at least not a level that is acceptable for the farmer.
- The idea to compete with existing traders' prices have proven unrealistic, and though some price advantages have been possible in some cases, the differences have been small.
- The competition from small scale traders, who are willing to work with very small margins, and also often provide transport, is fierce.
- There is a possible contradiction between the interests of the operator and the majority owners. The risk that the operators might sell the traded goods to themselves or

otherwise hide profits is immediate.

- There is a possible contradiction between the interests of the farmers' organization members and the secretariat, and the fact that the profit from the joint venture is a money raiser for the organization makes it possible that the secretariat supports a scheme that is less than ideal for the farmers.

Opportunities

- The farmer controlled trading companies could be used as two-way channels to the farmers, supplying a lot of the inputs farmers need. This could be done on a barter trade basis, hence eliminating the need for costly cash transactions.
- Nothing really prevents the operators from switching to trading crops that are more profitable for the producer, provided that they could get big enough volumes.

Threats

- A possible miscalculation on the prices that the Joint Venture will be able to offer the farmers
- Fraud and insider trading may reduce profits
- The difficulties that joint ventures have been facing so far

also point to the possibility that the difficulties involved with monitoring a private sector partner with interests that are not identical to the owner's have been underestimated.

Warehouse Receipt System (WRS)

WRS's have been tried in many parts of Africa as well as the rest of the world, with varying success. The idea is that farmers should be able to deposit their produce, pretty much like money in a bank, from point of harvest to point of highest market price, thereby making profit on cyclical price increases, but with the possibility to use the deposited goods as collateral for a loan in the meantime. It should be obvious that this puts a lot of stress on the "bank", as this "holder" of the goods must keep it safe for a prolonged period of time. In the past, such systems have proven very successful in some cases, but rather difficult and inefficient when it comes to small scale farmers.

Example:

Presently the WRS concept is being introduced in Zambia, where ZNFU is also involved. The Zambian WRS scheme is run by a company called ZACA, and their explanation of the system below pretty much tells what the reasons for a WRS are, and how it is constructed:

"Overview

Under the ZACA-regulated Warehouse Receipt System (WRS), certified private warehouse operators issue

transferable warehouse receipts that represent commodities of stated quantity and quality, deposited by a named depositor. The depositors may be farmers of various sizes, traders and processors, and who are able to deposit a minimum of a truckload (about 30 tons) of the specified commodity. Once the receipt is issued, the bona fide holder can transfer it to a buyer, who can take delivery of the underlying commodity, or pledge it to a bank as collateral for a loan.

The warehouse operator has no legal title to the stored commodities, and is required to deliver the goods represented by the receipt upon its presentation, being liable for any loss in the quality and quantity of the goods during storage. The warehouse operators charge storage fees for the period during which the commodity is stored. ZACA regulations allow certified warehouse operators to set fees, but they are required to post the set fees in a conspicuous place in the certified warehouse and also apply the fees without discrimination to the depositor.

How Does The System Work?

The Depositor delivers grain to the certified warehouse, making sure the quality conforms to ZACA commodity standards. The Certified Warehouse Operator gets the grains weighed using a weighbridge acceptable to ZACA; takes a sample of the grain and gets it graded - receiving it for storage if it conforms to ZACA standards. A Goods Received Note, specifying the quantity and quality of the commodity delivered, is issued to the transporter. A ZACA Warehouse

Receipt (WR) is issued by the Certified Warehouse Operator with the following details:

- Name and address of depositor
- Commodity delivered
- Weight and quality of the stock
- Date of delivery
- Date of issue of the warehouse receipt
- Signature of the warehouse operator
- Signature of the depositor

The original receipt is issued to the depositor and a copy sent to ZACA for monitoring purposes. Where finance is needed, the Depositor negotiates with a bank or non-bank financial institution, agreeing financing terms and transfers the WR to the lender. The lender may seek confirmation of the WR from ZACA and/or the Certified Warehouse Operator. Lender approves credit, which may be between 50% and 80% of the market value of the crop at the time of the application. The advance rate depends on the time of the season (tends to be higher during the immediate post-harvest period) and the level to which lenders expect domestic prices of the commodity to rise.

The Lender holds the WR, transferring it back to the depositor only when loan is repaid. Loan covenants will often allow the lender to take delivery of the commodity pledged and subsequently sell it in the event of default. This process will be easier if the WR is seen as a document of title - ZACA stakeholders and Government are working on getting legislation to recognise the ZACA-backed WRs as such. Loan repayment may also be by means of the buyer paying directly into the depositor's bank account. When repayment is made, the WR is transferred to the buyer. The buyer, if he/she is a user of the commodity, presents the WR to the Certified Warehouse Operator and takes immediate delivery of the underlying commodity.

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Under the ZACA-regulated system:

- The integrity of the system depends on a robust certification and oversight regime, making it possible for relatively smaller local warehousing companies to be certified to issue warehouse receipts against stored commodities.
- The certified warehouse operator can receive and store commodities of different lot sizes, the minimum currently being one truckload or about 30 tonnes. This makes it possible for depositors of different sizes, especially smallholder groups, to use the system.
- The receipts issued are not tied to particular lenders and

can, therefore, be transferred to buyers. Borrowers are also able to shop around different lenders for the best possible terms.

- Allowing multiple depositors makes it possible to charge competitive storage and oversight fees.
- Certified warehouses and stocks held in them are insured with reputable local insurance companies, thereby avoiding regulatory difficulties with making claims under contracts underwritten by international insurance companies only.
- Uniform commodity standards are applied in all certified warehouses, making it easier to trade without repeat sampling and quality certification.

What are the benefits of the ZACA-regulated warehouse receipt system?

The warehouse receipt system is designed to benefit all players in the agricultural sector as follows:

- Storage of commodities will occur in well-run warehouses or silos, thereby reducing post-harvest losses
- Farmers will have the option of immediate or deferred sale, particularly where they can arrange for inventory credit (using the stored commodity as the security for a loan) to satisfy their immediate consumption and working capital needs

- In the medium-to-long term, seasonal price variability will be reduced; meaning farmers who sell during the harvest will earn more while consumers will pay less for grains during the lean season
- The pricing process will become more transparent, because:
 - (a) Commodities will be graded according to the same standards, allowing quality, rather than type of producer, to determine price. This will reduce cheating on weights and quality - currently smallholders tend to get less for their crop than commercial farmers.
 - (b) Prevailing prices paid at the warehouses and the applicable locational discount will be known.
- Small farmers can bulk up their crop and sell further down the market chain for a better price.
- The system will accelerate the development of marketing networks for non-traditional crops like sunflower, paprika and groundnuts as well as the emergence of a viable commodity exchange and sophisticated financial instruments."¹³

Whether ZACA is going to be the success that the founders anticipate is yet unknown, but it should be kept in mind that WRS have not been very successful in providing small scale farmers with profitable services in the past, and not much indicates that ZACA is very different from other WRS that

¹³ <http://www.zaca.com.zm>

¹⁴ *Zambia Trade and Investment Enhancement Project.*

have failed in this respect. In vol. 8 of “the Zambian Farmer” Dr. Ron Black of ZAMTIE¹⁴ says: “Early in 2004, USAID in conjunction with ZAMTIE put together a proposal that would encourage commercial banks to lend to [small scale] farmers. The proposal was subsequently approved by the Development Credit Authority (DCA in Washington and formally launched in Zambia in early July 2004.” [...] “Any loans that the [commercial] banks grant [small scale farmers] under the [USAID/ZAMTIE] scheme are partly guaranteed by DCA, which enhances the ability of farmers who might not have collateral other than the crop to obtain finance”

According to ZACA, more than 2000 small scale farmers managed to deposit a total of 950 Metric tons of maize in the 2004/2005 season, but that the low figure depended quite a lot on the late introduction of the DAC scheme.

Warehouses charge 1.5 and 2 USD per ton per month (around 15% per year), the interest rate charged by the banks was around 30%, and inflation last year was in the range of 18%. Finally the prices of maize increased by between 40% and 50% over the 6-7 months the produce was stored, depending on when farmers chose to sell.

That WRS work fairly well for commercial farmers is old news. WRS have been tested in very many countries in Africa, and without a doubt benefited both farmers and the economy, but it is difficult to find even one that has

successfully incorporated small scale farmers, If you, dear reader, know of such a system, please get in touch with SCC, and let us learn about it.

SWOT

Strengths

- A WRS allows depositors to use their produce to get finance (use their stock as collateral for credit) without losing the possibility to make money from price fluctuations.
- Contributes to evening of the market prices over time
- Contributes to supplying farmers with market information

Weaknesses

- Usually fairly expensive, as the creditors often demand a very high degree of security, often in the form of insurances or third-party inspectors.
- Puts very high demands on monitoring and administrative systems
- High demands on technical equipment (scales etc)
- The high costs connected to each transaction makes biases the system towards large transactions

Opportunities

- As with other systems emanating from badly functioning markets, the biggest opportunity for the WRS is that the efficiency of those underlying markets worsens even more.

Threats

- The possibility that prices of capital (interest rates) go down.
- Other more efficient and/or cheaper systems to profit from intertemporal price fluctuations (such as the “commercial warehouse solution” below)
- The possibility that receipts issued by the operators will not be accepted by lending institutions.

Commercial “warehouse” solution

One of the most interesting possibilities for small scale farmers to exploit the intertemporal arbitrage potential can be found in the purely commercial sector. Though only one such scheme is known to the author by August 2005, it would be surprising if not more of them exist. Nevertheless the system description here by necessity is based on the one example (here called the Mill) in Choma, Zambia, only.

Example:

The Mill is a small to medium size mill, processing mainly maize but also some other crops. The Mill buy their maize from small scale farmers, because of the commercial farmers’ higher prices. Grading of purchased maize is not very thorough, and the prices paid are on level with ordinary small scale market prices. Most sellers bring 1-2 tons, but some bring over 20 tons. The farmers usually get paid on delivery, and they sell when they need cash, or when the government changes policy or delivers something. The Mill does not buy less than a ton at a time, and maybe next season they will increase the minimum quantity to two tons. The manager says all millers have a problem with the government’s market policies for the prices of maize, as they have no way of foreseeing the actual market prices at any future time. Sometimes the government decides that “breakfast”, or maize, should be handed out for free, some times they decide on something else. This forces the millers to push their input prices as low as possible, to minimize possible loss. On the other hand, one of the biggest problems the millers face is to secure access to inputs, as there is no guarantee that maize will at all be available at all times. As cash is an expensive commodity, most medium scale businesses use cash inflow to buy inputs, which means they do not usually buy all their inputs when market prices are low. Furthermore, lending money is an insecure business, and there are reasons to limit dependence on any single creditor.

In short, the business is, at the face of it, a perfectly normal milling business, but with a twist.

To handle the problem of market volatility and creditor dependence the Mill buys maize on credit. Some farmers deliver early in the year (when market prices are low) and get paid late in the year (when market prices are high), in which case they get a significantly better price.

This is done as follows. On delivery, the farmer gets a contract, called an IOU, stipulating the minimum sum that will be paid, and the date it will be paid on, but also that would the market price be higher than the price stipulated in the IOU on the given date, the market price will be paid. Please find a copy of last years contract appended.

The Mill has hitherto not charged the farmer anything for the storage of maize! This has been done to attract suppliers, and will be changed in the coming season, though the charge will be kept very low (less than five USD per ton and year). They Mill has good enough storage facilities to be able to ensure that the stock is safe, and obviously consider the cost of insecurity, capital and possible shortages to be higher than the higher market prices. This is even more obvious as the manager expresses satisfaction with having overestimated the price increase last season, having bought 1800 tons of maize on credit at a guaranteed price that showed to be almost 3% higher than the going market price! Again, the guaranteed prices will be subject to adjustment, so that the expected market price is with some certainty higher than the guaranteed price.

Conclusion

The reason why this system is called a “warehouse” system in this context is that it pretty much makes the same things possible as does the real WRS. On the other hand it is not a WRS at all. The produce is sold at the time of delivery, but the transaction is done on credit, allowing the buyer to pay at a later time. This is not a new phenomenon, but the success so far has been limited, due to the need for cash on the spot as well as lack of trust (quite a few farmers have been defrauded by traders buying on credit).

Nevertheless, the possibility to ride on the back of the efforts made by the promoters of the WRS combined with the fact that the sale transfers the risk to the buyer, hence to a large extent eliminating the need for insurance and extensive security, makes it possibly more suitable for small scale farmers.

SWOT

Strengths

- The system is totally decentralized and commercially based, which ensures the stability of the system as a whole, as long as it is profitable for all parties.
- The system gives small scale farmers the opportunity to profit from the market fluctuations with a relatively high degree of security, as they are guaranteed a minimum selling price.

- The system secures access to inputs for the processor, also at a decent cost. It secures the farmer from the risk (and, in this case, cost) associated with storing produce.

Weaknesses

- There is no formalized system to sell (or some other way get cash from) IOUs from the commercial banks or other financial institutions today.
- The system is accessible only to those farmers who can afford to delay the cash inflow. It is also only open to those farmers who can manage to deliver at least one (possibly two by now) tons of maize in bulk.
- There is some risk associated with an IOU from any company, as there is always a corporate risk as well as the risk of fraud. This should however not be higher than in any other third party storage arrangement, and possibly lower, as most processors are established companies with relatively reliable, and to some extent verifiable, sources of income.

Opportunities

- The IOUs are legally binding documents that should not really be difficult to sell or otherwise “capitalize”. Banks regularly lend money to medium size companies, and though their perceived risk probably motivates a fairly

high “interest rate”, it probably should not exceed the expected rise in maize price (not uncommonly in excess of 100% over a season).

- There is an opportunity to approach banks nationwide to negotiate a system not entirely different from the above described WRS.
- The system is easily multiplied, and does not require any extra investments in either property or central management, nor does it imply much higher operating costs for the contracting parties.

Threats

- A possible change in the underlying cause for a business to engage in such a system: the cost of capital, interest rate, and availability of capital. There is no rationale for a business to pay an interest rate on purchased goods that is as high as the increase in price, if there are not severe limitations to their access to capital.
- Even worse, it could be argued that companies with a strong and verifiable financial situation should be able to borrow the needed money from any commercial lender, buy the needed inputs when market prices are low, and pay back the loan when market prices are high, paying a lower interest rate than the one implicitly paid in the scheme described here.

- There is a threat to the system that we must view as a strength or an opportunity, as it concerns the possibility that more efficient handling of trade and marketing of goods which today experience very large price fluctuations over time, and hence offer large intertemporal arbitrage potential, may reduce the fluctuations and accordingly reduce the arbitrage potential. This is a threat to the system, and those that in the short run make a profit from said fluctuations, but a very favorable development for the farming community as a whole.

Governmental, or parastatal, schemes

In many countries there are government initiatives involved in trading major agricultural commodities. These are very often operating under very strict regulations, with very strict objectives. The objectives mostly involve some notion that the markets do not function well without interference, and also that markets cannot be trusted to value risk the way society does. The last is implicating that, for example, what “the market” considers possible and acceptable loss (a couple of dollars) one year might not be acceptable risk for society (mass starvation, serious threats to national finances etc).

It is also not acceptable to most societies that prices go up many times during droughts or severe shortages in supply.

Schemes such as the Grain Marketing Board (GMB) in Zimbabwe and the Food Reserve Agency (FRA) in Zambia are marketing agents, but agents whose “profit” is food

security, price stability and increased income for farmers. At least on paper.

In some countries the interventions have been taken so far as to monopolize trade in certain commodities, excluding all but one or a few approved (state owned or parastatal) traders.

Schemes like these are however not always popular with farmers, who claim that they are often mismanaged, and not as efficient as they should be.

SWOT

Strengths

- State ownership guarantees operations (access to market) as long as the scheme is politically defensible.
- State schemes also allow for a possibility to directly support a special sector of the economy, which is an efficient way of subsidizing production of a special crop.
- It may also be argued that the possibility to provide a kind of price leveling service is a strength.
- Tend to reach farmers also in very distant areas, who otherwise have little market access.

Weaknesses

- The lack of market orientation in most state owned

companies is an apparent weakness. This is obvious when considering that they often deal in non-profitable goods. However, these big schemes usually do not operate only to make money but also to secure that there are big enough food reserves in case of drought etc.

- In the cases where the operations are motivated by a perceived market efficiency problem (where farmers are unfairly treated) the schemes have seldom proven to work very well though. For example, the GMB in Zimbabwe is not very popular among the farmers it is supposedly protecting.
- Makes farmers dependent on government
- Bureaucratic procedures often makes these systems inefficient
- Corruption
- May skew operations of whole sectors of the economy

Opportunities

- The still very severe impacts of droughts make it apparent that the open markets do not work perfectly, which in turn proves that there is room for politically controlled trading and storing of food security crops.
- Increased regional coordination may also allow for

further rather large efficiency gains.

- Lastly, the way NGOs are behaving at the moment when it comes to emergency relief makes it a potentially good business for any really large scale operator to trade otherwise unprofitable goods.

Threats

- More efficient commercial markets would render state owned schemes unnecessary, both from commercial and food security points of view.
- Less international support (from donor agencies in particular) for schemes like these would also pose a direct threat, both as this would make it more difficult to pursue them, and harder to avoid losses in the process.

Schemes dealing with Inputs

Contract farming schemes

Contract farming is an approach to handle marketing that can be motivated by a number of different factors, including access to capital, technology, market and any other problem that small scale farmers face. Which of these reasons is (are) the most important differs from case to case. One could say that contract farming in its most extremely simplified form is only a contract between a producer and a buyer stipulating that the producer shall sell to the buyer and that the buyer shall buy from the producer, and that in its most elaborate form is more a special form of employment than a contract between two commercial players.

The reason why contract farming is treated as an “input scheme” in this paper should become apparent from the text, but just in case it doesn’t the rationales are explained under “conclusions”.

Below we will try to go through both the “theory” behind contract farming of different kinds, and the general shapes that the solutions have usually taken so far.

“Contract farming can be defined as an agreement between farmers and processing and/or marketing firms for the production and supply of agricultural products under forward agreements, frequently at predetermined prices. The arrangement also invariably involves the purchaser in providing a degree of production support through, for example, the supply of inputs and the provision of technical advice. The basis of such arrangements is a commitment on the part of the farmer to provide a specific commodity in quantities and at quality standards determined by the purchaser and a commitment on the part of the company to support the farmer’s production and to purchase the commodity.

The intensity of the contractual arrangement varies according to the depth and complexity of the provisions in each of the following three areas:

- Market provision: The grower and buyer agree to terms and conditions for the future sale and purchase of a crop or livestock product;
- Resource provision: In conjunction with the marketing arrangements the buyer 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.

With effective management, contract farming can be a means to develop markets and to bring about the transfer of technical skills in a way that is profitable for both the

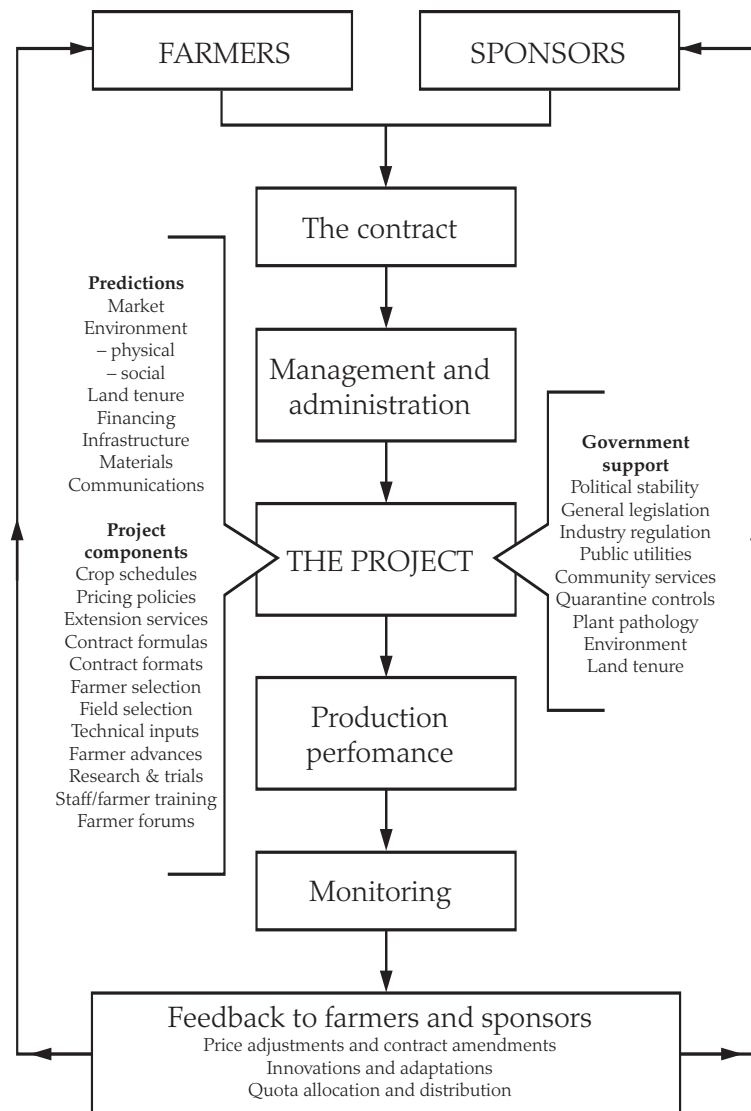
sponsors and farmers. The approach is widely used, not only for tree and other cash crops but, increasingly, for fruits and vegetables, poultry, pigs, dairy produce and even prawns and fish. Indeed, contract farming is characterized by its “enormous diversity” not only with regard to the products contracted but also in relation to the many different ways in which it can be carried out.

The contract farming system should be seen as a partnership between agribusiness and farmers. To be successful it requires a long-term commitment from both parties. Exploitative arrangements by managers are likely to have only a limited duration and can jeopardize agribusiness investments. Similarly, farmers need to consider that honouring contractual arrangements is likely to be to their long-term benefit.

Contract farming is becoming an increasingly important aspect of agribusiness, whether the products are purchased by multinationals, smaller companies, government agencies, farmer cooperatives or individual entrepreneurs. As noted above, the approach would appear to have considerable potential in countries where small-scale agriculture continues to be widespread, as in many cases small-scale farmers can no longer be competitive without access to the services provided by contract farming companies. It must be stressed, however, that the decision to use the contract farming modality must be a commercial one. It is not a development model to be tried by aid donors, governments or non-governmental organizations (NGOs) because other rural development approaches have failed. Projects that are primarily motivated by political and social concerns rather than economic and technical realities will inevitably fail.”¹⁵

¹⁵ *Contract farming: Partnerships for growth*, by Charles Eaton and Andrew W. Shepherd, FAO AGRICULTURAL SERVICES BULLETIN 145, pp 14-15.

Figure 1: A contract farming framework



Source: based on Eaton, C.S., 1998b:274

The following section on advantages and disadvantages from contract farming arrangements for farmers is largely copied from FAO agricultural services bulletin 145, with some minor additions and changes. It is an excellent summary of the most important factors concerning contract farming.

Advantages for farmers

The prime advantage of a contractual agreement for farmers is that the sponsor will normally undertake to purchase all produce grown, within specified quality and quantity parameters. Contracts can also provide farmers with access to a wide range of managerial, technical and extension services that otherwise may be unobtainable. Farmers can use the contract agreement as collateral to arrange credit with a commercial bank in order to fund inputs. Thus, the main potential advantages for farmers are:

- provision of inputs and production services;
- access to credit;
- introduction of appropriate technology;
- skill transfer;
- guaranteed and fixed pricing structures; and
- access to reliable markets.

Provision of inputs and production services

Many contractual arrangements involve considerable production support in addition to the supply of basic inputs

such as seed and fertilizer. Sponsors may also provide land preparation, field cultivation and harvesting as well as free training and extension. This is primarily to ensure that proper crop husbandry practices are followed in order to achieve projected yields and required qualities. There is, however, a danger that such arrangements may lead to the farmer being little more than a labourer on his or her own land. It is often difficult for small-scale farmers outside the contract-farming context to gain access to inputs. In Africa, in particular, fertilizer distribution arrangements have been disrupted by structural adjustment measures, with the private sector having yet to fill adequately the void created by the closure of parastatal agencies. In many countries a vicious circle has developed whereby the low demand for inputs provides no incentive for the development of commercial distribution networks and this, in turn, further adversely affects input availability and use. Contract farming can help to overcome many of these problems through bulk ordering by management.

Access to credit

The majority of smallholder producers experience difficulties in obtaining credit for production inputs. With the collapse or restructuring of many agricultural development banks and the closure of many export crop marketing boards (particularly in Africa), which in the past supplied farmers with inputs on credit, difficulties have increased rather than decreased. Contract farming usually allows farmers access to some form of credit to finance production inputs. In most cases it is the sponsors who advance credit through their managers. However, arrangements can be made with

commercial banks or government agencies through crop liens that are guaranteed by the sponsor, i.e. the contract serves as collateral. When substantial investments are required of farmers, such as packing or grading sheds, tobacco barns or heavy machinery, banks will not normally advance credit without guarantees from the sponsor. The tendency of certain farmers to abuse credit arrangements by selling crops to buyers other than the sponsor (extra-contractual marketing), or by diverting inputs supplied by management to other purposes, has caused some sponsors to reconsider supplying most inputs, opting instead to provide only seeds and essential agrochemicals. The policies and conditions that control advances are normally described in attachments to contracts (Annex I).

Introduction of appropriate technology

New techniques are often required to upgrade agricultural commodities for markets that demand high quality standards. New production techniques are often necessary to increase productivity as well as to ensure that the commodity meets market demands. However, small-scale farmers are frequently reluctant to adopt new technologies because of the possible risks and costs involved. They are more likely to accept new practices when they can rely on external resources for material and technological inputs. Nevertheless, the introduction of new technology will not be successful unless it is initiated within a well managed and structured farming operation. Private agribusiness will usually offer technology more diligently than government agricultural extension services because it has a direct economic interest in improving farmers' production.⁶ Most

of the larger sponsors prefer to provide their own extension rather than rely on government services.

Skill transfer

The skills the farmer learns through contract farming may include record keeping, the efficient use of farm resources, improved methods of applying chemicals and fertilizers, a knowledge of the importance of quality and the characteristics and demands of export markets. Farmers can gain experience in carrying out field activities following a strict timetable imposed by the extension service. In addition, spillover effects from contract farming activities could lead to investment in market infrastructure and human capital, thus improving the productivity of other farm activities. Farmers often apply techniques introduced by management (ridging, fertilizing, transplanting, pest control, etc.) to other cash and subsistence crops.

Guaranteed and fixed pricing structures

The returns farmers receive for their crops on the open market depend on the prevailing market prices as well as on their ability to negotiate with buyers. This can create considerable uncertainty which, to a certain extent, contract farming can overcome. Frequently, sponsors indicate in advance the price(s) to be paid and these are specified in the agreement. On the other hand, some contracts are not based on fixed prices but are related to the market prices at [---]

Access to reliable markets

Small-scale farmers are often constrained in what they can produce by limited marketing opportunities, which often

makes diversification into new crops very difficult. Farmers will not cultivate unless they know they can sell their crop, and traders or processors will not invest in ventures unless they are assured that the required commodities can be consistently produced. Contract farming offers a potential solution to this situation by providing market guarantees to the farmers and assuring supply to the purchasers. Even where there are existing outlets for the same crops, contract farming can offer significant advantages to farmers. They do not have to search for and negotiate with local and international buyers, and project sponsors usually organize transport for their crops, normally from the farmgate.

Problems faced by farmers

For farmers, the potential problems associated with contract farming include:

- increased risk;
- unsuitable technology and crop incompatibility;
- manipulation of quotas and quality specifications;
- corruption;
- domination by monopolies; and
- indebtedness and overreliance on advances.

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¹⁶ *Contract farming: Partnerships for growth*, by Charles Eaton and Andrew W. Shepherd, FAO AGRICULTURAL SERVICES BULLETIN 145, pp 10-18.

Increased risk

Farmers entering new contract farming ventures should be prepared to balance the prospect of higher returns with the possibility of greater risk. Such risk is more likely when the agribusiness venture is introducing a new crop to the area. There may be production risks, particularly where prior field tests are inadequate, resulting in lower-than-expected yields for the farmers. Market risks may occur when the company's forecasts of market size or price levels are not accurate. Considerable problems can result if farmers perceive that the company is unwilling to share any of the risk, even if partly responsible for the losses. In Thailand, for example, a company that contracted farmers to rear chickens charged a levy on farmers' incomes in order to offset the possibility of a high chicken mortality rate. This was much resented by the farmers, as they believed that the poor quality of the day-old chicks supplied by the company was one reason for the problem.

Unsuitable technology and crop incompatibility

The introduction of a new crop to be grown under conditions rigorously controlled by the sponsor can cause disruption to the existing farming system. For example, the managers may identify land traditionally reserved for food crops as the most suitable for the contracted crop. Harvesting of the contracted crop may fall at the same time as the harvesting of food crops, thus causing competition for scarce labour resources. Particular problems may be experienced when contract farming is related to resettlement programmes. In Papua New Guinea, for example, people from the Highlands were resettled in coastal areas to grow oil palm and rubber. This required the farmers, who were traditionally sweet potato

eaters, to learn cultivation techniques for new food crops and to adapt their dietary practices accordingly. Two factors should be considered before innovations are introduced to any agricultural environment. The first is the possible adverse effect on the social life of the community. When tobacco growers in Fiji were encouraged to cure tobacco themselves rather than sell it in the fresh green form, it was found that they were unable to handle the highly technical curing operation with any degree of continuity. This was attributed to intermittent social commitments and customary obligations that overrode contractual responsibilities and eventually resulted in the cancellation of their contracts. The second factor is the practicality of introducing innovations or adaptations. The introduction of sophisticated machines (e.g. for transplanting) may result in a loss of local employment and overcapitalization of the contracted farmer. Furthermore, in field activities such as transplanting and weed control, mechanical methods often produce less effective results than do traditional cultivation methods. Field extension services must always ensure that the contracted crop fits in with the farmer's total cropping regime, particularly in the areas of pest control and field rotation practices.

Manipulation of quotas and quality specifications

Inefficient management can lead to production exceeding original targets. For example, failures of field staff to measure fields following transplanting can result in gross overplanting. Sponsors may have unrealistic expectations of the market for their product or the market may collapse unexpectedly owing to transport problems, civil unrest, change in government policy or the arrival of a competitor.

Such occurrences can lead managers to reduce farmers' quotas. Few contracts specify penalties in such circumstances. In some situations management may be tempted to manipulate quality standards in order to reduce purchases while appearing to honour the contract. Such practices will cause sponsor-farmer confrontation, especially if farmers have no method to dispute grading irregularities. All contract farming ventures should have forums where farmers can raise concerns and grievances relating to such issues.

Corruption

Problems occur when staff responsible for issuing contracts and buying crops exploit their position. Such practices result in a collapse of trust and communication between the contracted parties and soon undermine any contract. Management needs to ensure that corruption in any form does not occur. On a larger scale, the sponsors can themselves be dishonest or corrupt. Governments have sometimes fallen victim to dubious or "fly-by-night" companies who have seen the opportunity for a quick profit. Techniques could include charging excessive fees to manage a government-owned venture or persuading the government and other investors to set up a new contract farming company and then sell that company overpriced and poor quality processing equipment. In such cases farmers who make investments in production and primary processing facilities run the risk of losing everything.

Domination by monopolies

The monopoly of a single crop by a sponsor can have a negative effect. Allowing only one purchaser encourages monopolistic tendencies, particularly where farmers are

locked into a fairly sizeable investment, such as with tree crops, and cannot easily change to other crops. On the other hand, large-scale investments, such as for nucleus estates, often require a monopoly in order to be viable. In order to protect farmers when there is only a single buyer for one commodity, the government should have some role in determining the prices paid.

[---]

The greatest abuses do tend to occur when there are public monopolies, where buying prices are set by the government, or where farmers have made long-term investments in perennial crops. In 1999 the Kenya Tea Development Authority experienced serious unrest amongst its growers, reportedly because of the Authority's inefficient extension services and alleged "manipulation" of farmers. There was also discontent in Kenya among sugar farmers because the price set by the government did not change between 1997 and 1999.

Indebtedness and overreliance on advances

One of the major attractions of contract farming for farmers is the availability of credit provided either directly by the company or through a third party. However, farmers can face considerable indebtedness if they are confronted with production problems, if the company provides poor technical advice, if there are significant changes in market conditions, or if the company fails to honour the contract. This is of particular concern with long-term investments, either for tree crops or for on-farm processing facilities. If advances are uncontrolled, the indebtedness of farmers can increase to uneconomic

levels. In one venture “compassionate” advances for school fees, weddings and even alimony resulted in many farmers receiving no payments at the end of the season. Dropout rates for farmers in that particular project were high, as they thought contract farming did not pay.”¹⁶

Credit access constraints and production selection bias

There is also another and possibly more severe implication of the fact that contract farming is one of the very few ways for small scale farmers to get access to credit. The contractor obviously makes the judgment that the market risk they face when lending “money” to small scale farmers is acceptable in relation to the margins they are facing on the final product. Commercial banks obviously do not consider the production potential to be acceptable collateral for credit, but the contractors do. The margins contractors are facing are directly reflecting the costs they incur, including credit risk. It seems likely that the pay contracted farmers get is probably far lower than necessary.

It also follows that contractors are in a position where their superior access to capital puts them in a very good position. If farmers cannot get capital to produce any crop they like they will most likely produce what they can get capital (credit) to produce. But what farmers can get capital to produce is dependent on the margins faced by the creditor, which means that it is highly unlikely that the farmer will get credit to produce what she makes a lot of money from, but very likely that she will get credit to produce what the buyer makes a lot of money from. And the buyer (contractor) is likely to sell her product (the contract) using heavy advertising and very convincing arguments.

Conclusions

As stated above, contract farming for small scale farmers is in this paper treated as a solution to the input problem. When we take a look at what is included in a contract farming scheme, almost all of it is some kind of input delivery.

Contractors are not really interested in anything but providing markets. They are traders, who to get anything to trade must provide a lot of other things, i.e. inputs of different kinds. The reason contractors have to provide these inputs is that the contracted farmers cannot get access to these inputs elsewhere. The implication of the fact that farmers lack access to inputs though they quite obviously have access to market (contractors very seldom refuse to buy from non-contracted farmers) is that contract farming is by and large an effect of inefficient capital markets.

The point of this whole reasoning is that it is quite possible that a situation where a trader provides the necessary capital will put the farmer in a position where she produces a good that pays far less she could make on another good, provided she would have the means to choose production line.

The reason why this is such an important point to make is that the small scale farmers’ access to capital is so incredibly low that it is possible to make them grow anything just by dangling the capital carrot. Hence, the production decision is not based on the relative profitability of different products (assuming the same cost of capital for all products), but on the access to capital, which depends only

on the possible profitability for the buyer. The implications of this may be severe, resulting in very low profitability for the farmer.

Contracts

Contracts will need to specify some or all of the following aspects of the relation between the contractor and the farmer:

- contract duration;
- quality standards;
- production quotas;
- cultivation practices;
- crop delivery arrangements;
- pricing arrangements;
- payment procedures; and
- insurance arrangements.

In addition contracts will normally specify technical support and inputs to be provided by the sponsor. In this paper we shall not elaborate further on the exact contents of the contracts, because it usually is not the content of the contract that is the big problem for the farmers, but instead their possibility to influence and reinforce it. The issue of contracts, and the fact that contracts are (sometimes) possible to negotiate, will be dealt with in a forthcoming SCC Guide.

SWOT: Contractor provides capital, knowledge and market access (A)

Strengths

- Provision of inputs and production services;
- Access to credit;
- Introduction of appropriate technology;
- Skill transfer;
- Guaranteed and fixed pricing structures; and
- Access to reliable markets.

Weaknesses

- Manipulation of quotas and quality specifications;
- Corruption
- Domination by monopolies; and
- Indebtedness and overreliance on advances.
- Production biased by selective access to capital

Opportunities

- There should be no doubt that contract farming schemes have a bright future in sight as long as capital markets in developing countries are as inefficient as today, which is of course both good and bad.
- From the farmers' point of view, the opportunity that seems closest at hand is increased bargaining power, to push contractors as far as they can go.

Threats

- Better access to capital, market information and other inputs for small scale farmers would almost certainly strike a blow to contract farming the way we know it.
- Any of these factors may in fact eliminate the need for contractor inputs, and divert production from the commonly contracted crops.

SWOT: Contractor provides part of services but buys part from farmer owned entity (B)*Strengths*

Compared to the first (A) alternative, and depending on which services are provided by whom, this alternative gives farmers a wide variety of different advantages. Assuming that the contracting party still provides capital and market,

and is responsible for technology transfer, the advantages may be:

- Increased transparency
- Increased income, as all services provided by the farmer owned entity (e.g. Commodity Association) generate income for the farmers.
- Stronger negotiation position, both as a result of the increased transparency and the necessary increase in farmer cooperation.
- Increased skills transfer, resulting from the transfer of knowledge from the contractor to the organization responsible for technology implementation.
- Better direct communication with the implementing body allows for less problems with timeliness of inputs, selling and so forth.

Weaknesses

- Delay in technology transfer, due to the time it takes to educate instructors and so forth in the implementing organization?
- Less attractive for contractor?
- Need for very efficient and strong farmers organization.

- Possible incentives for fraud if big money is dealt with in farmers organizations.
- Compared to the third alternative below (C), this solution still allows for heavily biased "market opportunities", as the contractor's superior access to capital allows her to steer the production capacity of the farmers to an area where profit distribution is most profitable for her.

Opportunities

- Contractors express concern that dealings with farmers are costly.
- Loan recovery responsibility is transferred to farmer owned entities, which has proven to considerably decrease the loan recovery problems that contractors experience today.

Threats

- The better negotiating position for the farmers and increased transparency may reduce the margin for the contractor to an unprofitable level.
- Increased market information may divert farmers to other crops.
- Heavy reliance on local personnel, and risk for brain drain.

SWOT: Contractor provides only market link

Strengths

- In relation to alternative (B); less likely that contractor will influence choice of crop by providing the very important asset capital.

Weaknesses

- If there is no other organization (cooperative or farmers organization) that can fill the input gap left by the contractor, there will be no other inputs and benefits.

Opportunities

- In those cases where alternative financing is available this is a possibility to stay with potentially profitable contracts when other efforts for some reason have failed.

Threats

- Lack of access to capital.
- Large proportion of risk on producer

Small and Medium scale input suppliers

Some agricultural inputs are supplied by small and medium

scale input suppliers. These are usually to be found in small marketplaces, where farmers deliver their produce, and rural towns.

Such input suppliers are known to charge high prices for their goods, but also to supply small amounts, and retailing is always expensive. Worse perhaps than the high prices is the fact that these traders, at least the smaller ones, have a habit of cheating, for example by selling fake seed, which can be really devastating for a farmer.

On the other hand small and medium scale traders are the most adaptive players around, and they are everywhere. In general, small scale traders also seem to have the ability to accept very low margins, which is probably the reason why they are the type of commercial buyer that can be found virtually everywhere.

Mostly they have access to transport, it might be small lorries (3-5 tons), either their own or through another arrangement (informal contracting, so to speak). Some of the medium scale traders would also own or have access to bigger trucks.

Most of the small and medium scale traders operate in one region, and know their competition and the buyers in that region quite well. On the other hand they have very little access to market information in general, and as is the case with the small scale farmers, the small scale traders are very adaptive at the same time as they are extremely conservative. For example, they do not seem to compete among themselves.

Example: Mr. S., maize trader in Choma, southern Zambia, about 300 km from Lusaka

Mr. S. has been used as example already, but he has more than one business.

In addition to buying maize, Mr. S also sells seeds, but only in town, the reason being that “maize selling time” is not “seed buying time”, so that he cannot easily combine the two activities, but also that roads tend to be in bad shape during seed buying season, and he does not want to risk to get the trucks stuck out in the mud. On the other hand he says that if a group of farmers came together and collected money for a one off bulk purchase of seeds, he would arrange the transport.

Mr. S. final remark is that traders like him have two major problems; access to capital and transport costs. It is however noteworthy that transport costs for most trader depend very much on if they are situated along a major trade route, where transporters can run full loads in both directions, or if they conduct business in an “exporting” area, where trucks have to go empty one way. The transport prices per km in that case are doubled.

SWOT

Strengths

- Fairly large turnover for some medium scale traders allows for acceptable price levels and decent profit margins.

- The small scale traders' size and low-cost ad hoc structure with very small sunk costs makes them highly adaptive and probably also cost efficient, especially as the whole business is largely scalable.
- The small scale traders mostly have good local knowledge (market demand information), and manage to be in the right place at the right time.

Weaknesses

- The medium scale traders are fairly well organized, and hence do not have an "ad hoc" structure but considerable sunk costs, though still do not have access to neither the really big markets nor the really good prices.
- Low bargaining power vis-à-vis large suppliers.
- Small and medium scale traders in general seem to have very limited access to capital, limiting their trading capacity and sometimes preventing them from making potentially profitable investments.
- The cheating eradicates any trust that buyers might have for the trader, making it impossible (also for the potentially non-cheating traders) to get function as buying agents, which would have enabled them to trade larger volumes and cut costs, hence selling at lower prices. Another vicious circle, it seems.

Opportunities

- Bigger traded volumes, see "better access to capital"
- Less competition, through cooperation and elimination of dishonest players
- Better access to capital, for example by getting credit from the buyers, i.e. farmers, so that the trader becomes a paid for trading agent, working on commission. In order to achieve the second, the farmers must have good reasons to trust the trader, the achievement of which is a hard nut to crack. It would most likely involve:
 1. cooperation between traders to put "cheaters" out of business
 2. establishment of long term relationships between buyers and sellers, and
 3. cooperation between traders to further rationalize trading and reduce transaction costs (through very small scale bulking, for example)
 4. introduction of enforceable contract system and contact with, and honest engagement of, entities like the police.

Threats

- Better organized small scale traders could cut off medium scale traders from the direct link to farmers

- Farmers organizing their own bulking and transporting systems such as cooperatives may divert significant parts of their business, bypassing the conventional trader.
- The possibility that farmers start using production technologies that do not make use of the same volumes or types of tradable inputs.
- The entrance of new traders with lower costs, better access to capital or better market access, enabling them to make significantly higher profits in the same trade.

“Simple” bulk buying schemes (informal cooperation)

In some cases you will find that farmers in an area get together to purchase inputs. Sometimes it is a single farmer who has connections with a supplier or a transporter, and manages to negotiate a deal which involves more than she has use for, or can afford, herself. Sometimes it is a group of farmers who have some other kind of connection who bulk their produce to save money on transports, by being able to rent proper transportation. The number of possibilities for such informal cooperation is immense. It is an approach that, quite naturally, is more often used to handle bulk or spatial (transport) issues than intertemporal (storage) issues. Profiting from intertemporal arbitrage involves long term engagement, and long term engagements are very difficult to handle without some type of formality, especially when it comes to economic cooperation.

SWOT

Strengths:

- Very adaptive. A “cooperation” can form wherever there is an opportunity, and dissolve as quickly
- No regulations, ownership or membership to consider, which adds to the adaptability, and reduces entry costs
- No sunk costs, the cooperation does not have staff or facilities, it is a strictly ad hoc construction. This makes it possible to utilize rapidly arising opportunities.
- Bargaining power on larger volumes

Weaknesses:

- Lack of predictability is a severe limitation to the usefulness of the informal cooperation. It is virtually impossible to plan production that relies on informal structures, as you can never be sure that they are there.
- The lack of structure can make internal communication difficult, increasing the transaction costs for those engaged in cooperation.
- No formal commitment, which makes it impossible to make credible deals in advance. Buyers (cooperators) might withdraw from cooperation at any time, and there is no one with mandate to strike deals on others behalf.

- Difficulty to collect trustworthy market information.
- Problems with trust and fraud. No regulations means that there is no formalized demand on the single producer, and very difficult to solve disputes to everybody's satisfaction. Division of profit, trusting someone with pooled funds etc is often very difficult.
- Informal structures do not give much negotiating power. Hence it might be difficult to get really good deals.

Opportunities:

- Informal cooperatives could gain a lot from "semi-structure", or a number of different "formats", possibly with contracts etc, which would allow for more credibility, better planning and so forth, and in fact erase some of the difference between the informal and the formal cooperative, without erasing the ad hoc nature and adaptability that is the strengths of the informal cooperative. This could be supported by farmers' organizations and/or NGOs.
- Better utilization of informal cooperatives could put pressure on small scale suppliers, at the same time as it might improve the supplier's profitability.
- Possible do evolve into formalized cooperation

Threats:

- Abuse of power, embezzlement by those trusted with responsibility and funds.
- The major threat would be the large scale application of other marketing systems, such as contract farming, formalized bulk trading systems or cooperatives. Assuming that this be done on commercially sound terms it is a threat to the system of informal cooperatives, but not to the majority of the users of the informal cooperative, as these were to have chosen a preferred alternative.
- There is always a risk that one system is replaced by another for other reasons than strictly commercial. There are numerous examples of where this has happened as the result of inference by NGOs or governments, with the best of intentions and big wallets, but without real insight into the environment they are dealing with, or even political or ideological rather than economical reasons for involvement.
- Another possible threat could be offensive actions by players whose business enterprises compete with the informal cooperative, such as traders or transporters. It is very difficult to foresee such action or the forms it could take, but the most common is predatory pricing.

Formal trading cooperatives and producer-owned companies

The big difference between the traders dealt with above and the cooperatives is that the profits made on trade belong to the sellers of the inputs. Of course the owners of the cooperative or the company (the difference between these two is not big) also decide on any action taken by said enterprise, but as long as this action is taken on strictly commercial grounds there will be no difference between the way a farmer owned company (or cooperative) or any other company behaves on the market. It is on the other hand quite possible to distribute this profit by selling at a lower price to the buyers (in the case when only the owners of the company/cooperative are allowed to trade through the system). This is a very straightforward way of making sure that the profit distribution is connected to volumes sold, but either allows the cooperative to exclude non-members from trading through the cooperative or makes a price differentiation necessary if the profit is not to be “diluted”.

From the point of view of the cooperative as a competitor on a market, the fact that the cooperative is user owned is not directly an advantage, but indirectly it might be anyway. While most companies have to compete in a way that leaves with a sizeable profit, a cooperative does not really have that to live up to. The cooperative can, operationally, theoretically, run at a loss for a very long time without necessarily having to fear that the owners will withdraw any of their support for the “enterprise”. The owner structure ensures that only the total profitability is relevant.

Input trading cooperatives do have one very big advantage in comparison with output trading coops. As we know, marketing and business skills are often big problems for this kind of user-run business. In the case of input trading this is of much less importance. There is a few suppliers with whom to negotiate, and the buyers are the members in the cooperative, who should be fairly well known. All this type of trader has to do is collect money for purchases, negotiate a fair price with a supplier, and arrange transport. The only real problem that should occur is to make sure the guy with the money doesn't run, which surely is a problem, but should not be a very big one.

SWOT

Strengths

- Very good relationship with buyers
- Simple market structure
- Enables producers to reap the profits from trading inputs
- Competitive bargaining on large volumes
- Formalized structure allows for businesslike (enforceable) distribution of responsibilities
- Formalized structure allows for planning of business

Weaknesses

- Still can be difficult to keep business focus. Suppliers are owners, and may think that the cooperative should be able to operate at zero profit or loss, without realizing that this requires owner support.
- Trust and possibility for corruption or fraud

Opportunities

- A huge opportunity for bulk marketing schemes in general, as the producers are very small and very many.

Threats

- Commercial traders will probably not sit still and wait to be out-competed by cooperatives. Competition with price dumping and other tricks is likely to occur, (which is good for the farmers outside the coop).
- Access to capital is often limited also for cooperatives, which may cut productivity.

Collective borrowing

One way of securing access to capital is to get together and pool responsibility for loans.

Commercial banks still want collateral, but there are other

lenders one can turn to. It is a known fact that social links in local societies can be very strong, and this fact can under some circumstances be utilized to secure credit (see Grameen banks below).

Microcredit

Microcredit is the extension of small loans to entrepreneurs too poor to qualify for traditional bank loans. In developing countries especially, microcredit enables very poor people to engage in self-employment projects that generate income. Microcredit is the most important part of the microfinance field, which can comprise all other financial products such as micro-insurance, savings or other.

Definitions differ, of course, from country to country. Some of the defining criteria used include-

- Size - loans are micro, or very small in size
- Target group – small entrepreneurs and low-income households
- Utilization - the use of funds - for income generation, and enterprise development, but also for community use (health/education) etc.
- Terms and conditions - most terms and conditions for microcredit loans are flexible and easy to understand, and suited to the local conditions of the community.

Different types of Microcredit

- Traditional informal microcredit (such as, moneylender's

credit, pawn shops, loans from friends and relatives, consumer credit in informal market, etc.)

- Microcredit based on traditional informal groups (such as, tontin, su su, ROSCA, etc.)
- Activity-based microcredit through conventional or specialized banks (such as, agricultural credit, livestock credit, fisheries credit, handloom credit, etc.)
- Rural credit through specialized banks.
- Cooperative microcredit (cooperative credit, credit union, savings and loan associations, savings banks, etc.)
- Consumer microcredit.
- Bank-NGO partnership based microcredit.
- Grameen type microcredit
- Other types of NGO microcredit.
- Other types of non-NGO non-collateralized microcredit.

Two of these we give some explanation here, the NGO-finance we handle separately.

Credit Unions

A credit union is a cooperative financial institution, owned and controlled by the members who use its services. Credit

unions serve groups that share a common bond, such as where they work, live or go to church. Credit unions are also non-profit (which does not mean that they never make profit) and exist to provide a safe, convenient place for members to save money and to get loans and other financial services at reasonable rates.

In credit unions, the members are the owners. Benefits of ownership include better rates on deposits and loans and better service. Regardless of their size or field of membership, credit unions are different than for-profit financial institutions. Credit unions exist to serve their members. Banks and other financial institutions exist to make money for their stockholders.

Credit unions are member-owned, cooperative financial institutions that provide many of the same financial services that banks do; savings and checking accounts, youth and senior accounts, loans for a variety of purposes, insurance, convenient services to access and send funds and more. In essence they are mutual organizations operated entirely by and for their members.

While profit making institutions must make profits for their shareholders, in a credit union any earnings in excess of operational costs are returned to the members in the form of increased interest on savings, decreased rates on loans or other new and improved services. On the other hand, accounts in credit unions serving rural farmers in southern Africa are usually small, but the cost of handling an account is pretty much the same whether it is big or small, which

means that credit unions although they are non-profit often cannot offer the same rates of interest as commercial banks.

Grameen Banks

A Grameen bank works without any other collateral than trust. This is how it's done:

A bank branch is set up with a branch manager and a number of center managers and covers an area of about 15 to 22 villages. The manager and the workers start by visiting villages to familiarize themselves with the local environment in which they will be operating and identify the prospective clientele, as well as explain the purpose, the functions, and the mode of operation of the bank to the local population. Groups of five prospective borrowers are formed; in the first stage, only two of them are eligible for, and receive, a loan. The group is observed for a month to see if the members are conforming to the rules of the bank. Only if the first two borrowers begin to repay the principal plus interest over a period of six weeks, do the other members of the group become eligible themselves for a loan. Because of these restrictions, there is substantial group pressure to keep individual records clear. In this sense, the collective responsibility of the group serves as the collateral on the loan.

Loans are small, but sufficient to finance the micro-enterprises undertaken by borrowers: rice-husking, machine repairing, purchase of rickshaws, buying of milk cows, goats, cloth, pottery etc. The interest rate on all loans is 16 percent. The repayment rate on loans is currently - 95 per cent - due to group pressure and self-interest, as well as the motivation of borrowers.

Although mobilization of savings is also being pursued alongside the lending activities of the Grameen Bank, most

of the latter's loanable funds are increasingly obtained on commercial terms from the central bank, other financial institutions, the money market, and from bilateral and multilateral aid organizations.

Grameen Bank has also developed other systems of alternate credit that serve the poor. In addition to microcredit, it offers housing loans and well as financing for fisheries and irrigation projects, venture capital, textiles, and other activities, along with other banking services such as savings.

Example

SCC has been involved in supporting Microcredit schemes in southern Africa, and some country and region-specific lessons have been learnt.

Zimbabwe:

Credit unions or "Village banks" function in the following manner; they are essentially legally incorporated, member-owned, controlled and managed, operating according to international cooperative principals. Members capitalize them through purchase of shares and credit unions provide savings and loan services to marginalized population. They essentially mobilize voluntary savings from the community (interest is paid) and then use these funds for lending at competitive rates.

Zimbabwe, like many rural African credit unions, suffers from:

- a lack of human resources capacity
- poor technology and communication

- inadequate infrastructure
- high inflation and interest rates
- lack of capital
- low economic growth
- a skewed distribution of wealth
- closed access to formal financial sector
- weak macro-economic fundamentals
- a climate prone to drought

However credit unions can make an important contribution to the development of financial markets and influence development strategies on a national scale. Credit unions are financial intermediaries, linking savers and borrowers, thus enabling people to pool individual resources however scant, for investments. Members can self finance their investments by accumulating savings in individual accounts or they can self finance more substantial investments by drawing out loans from accumulated savings of other members. Economic resources are better allocated in the community this way, as savers and borrowers make investment decisions on the basis of their needs.

From the experience of the credit union village bank model,

the following lessons were learnt:

- Need for larger asset base: most of the credit unions were undercapitalized hence taking longer than expected to break even. The solutions were identified together with participants (village bank members) in this regard. Firstly to increase membership using various strategies and secondly to restructure the balance sheets by way of increasing the share capital base.
- Need for enhanced training and monitoring: In several situations, management committee members have taken advantage of the system to obtain large loans either for themselves or friends and relatives and consequently became difficult to repay. It also became difficult to enforce repayment from the general membership when management had loan arrears. Fraud cases among staff and management occurred through taking advantage of poor book keeping systems. The supervisory committees, which act as internal audit, are not adequately skilled to play their role as expected. Therefore, training and monitoring will help to provide skills to ensure that roles are effectively played.
- Liquidity management: lack of proper liquidity management undermined the profitability of credit unions. In some cases depositors would fail to make withdrawals as a result of lack of cash at the credit union because management would have over lent and failing to observe the standard ratios. Training and monitoring can effectively lead to sound management and ensure compliance with the standards.

- High loan delinquencies: several of the ten credit unions experienced high delinquency rates due to inexperience in applying the loan policies and procedures. There is need to adequately train loan committees and staff to ensure they minimize the problems from on set when considering applications as well as to identify delinquent loans well on time. Some credit unions have engaged legal practitioners to undertake debt collection.
- Perception: some members perceive the credit unions as a place to borrow and hence put little in terms of shares and savings for the sake of qualifying to borrow. Intensive member education programs are required to educate general membership so that they perceive themselves as investors looking forward to a good return on their investments.

SWOT

Strengths

- Provides an alternative source of credit for some of those who do not have access to bank credits.
- In the “savings and loans” case borrowers and lenders are the same people, and hence share whatever profit is made on lending.
- Some other schemes like the Grameen bank allow the borrower to get access to credit using non-traditional collateral.

- Often brings not only capital but also an education component

Weaknesses

- Some lending programs charge excessive interest rates, sometimes due to high production costs.
- There is concern that funding for microcredit programs will be diverted from other needed programs such as health, water projects and education
- Turning a profit on the loan
- Inability to reach the poorest of the poor
- Microcredit dependency
- Durability of poverty reduction

Opportunities

- The immense need for capital among small scale farmers should secure a big market for any scheme able to provide such capital.

Threats

- The low volumes and relatively high costs of small scale banking makes it difficult to get acceptable profitability
- High default rates threatens sustainability further
- Other competing sources of credit such as NGO-financing or contract farming may be easier accessed, cheaper and less risky.

Non-“commercial” finance

NGO-finance

In developing countries it is very common that NGOs, foreign as well as resident, support agriculture in different ways. Anything from direct input support over technical support to education can be subject to interest from NGOs. When all works well this is a good thing. The inherent problem is that many of these NGOs have money! Access to finance makes it possible for NGOs to “sell” whatever system they happen to fancy (commonly what they are experts at), for whatever reason they have to fancy it. As stated, when all is well, all is well, but when the NGO (in the money-case often called “donor”) for any reason promotes a system that is not the best, or even contradicts efforts at creating a good system, the financial strength is a danger to its environment. People without capital can very seldom resist influx of capital, whether the use it is put to is the most efficient or not. Sadly, this creates a situation where big, and capital consuming, systems can be built around non-profitable cores. And

contrary to one might think these systems are not easily deconstructed, as they serve as powerstructures for a number of people, who will defend them fiercely, even from their own scrutiny. Furthermore, deconstruction of such unprofitable structures must be done carefully as the often supply some of society’s weakest groups in society with some kind of stability, whether it be food or education or something else. Hence, inefficient systems must be replaced before they are destroyed.

To determine whether a project is justifiable is too important a task to be left to the people who are in charge of implementing the project –they are, no matter how dedicated and wise, not impartial. The decision must somehow be made by the people who will be affected by the support. And to be able to make that decision these people need access to knowledge on how to determine if the assets are put to good (efficient) use, so that the effects are positive, and they need enough (market) information to make the calculations!

An investment done to make money from any type of commercial undertaking should be made only for commercial reasons. It is obvious that NGO-supported “companies” (cooperatives or any other form) very often are induced and/or run by NGO people, with non-, or not only, commercial objectives, and only limited business skills.

Lastly, NGO support is always limited, if not to amounts so at least in time. Mostly, such support is fairly short term, and will not allow for engagement in long term projects. Secondly, it can be quite volatile. NGOs do not usually engage in profit making, and hence will not remain involved

in a project for that reason. They do on the other hand have to motivate their financiers to keep financing, which means they either have to show that what they do has some kind of impact, or that it is absolutely impossible to prove that impact, but that it is likely to exist, or that there is some other reason to invest in a particular project (this last reason often involves pictures of crying children or people dying of starvation, and is mostly purely emotional).

SWOT

Strengths

- Provides small scale farmers with much needed credit where such is not otherwise available (or too expensive)
- Can engage in projects that are not directly commercially profitable, but nevertheless are equally important.

Weaknesses

- Very seldom have proper business focus.
- NGOs seldom have access to business skilled personnel.
- Donors tend to demand particular results and feedback that it may be difficult for small scale farmers to produce
- Often short term
- Strength can be weakness: engaging in commercial

projects that are not commercially profitable is commercial suicide, and has huge direct costs as well as opportunity costs.

Opportunities

- The immense need for capital among small scale farmers should secure a big market for any scheme able to provide such capital.

Threats

- Other competing sources of credit such as contract farming may be easier accessed, better advertised or considered less distorting.

Subsidies

Subsidies are government support for some special part of the economy. They resemble in many ways NGO-support, and the problems that occur to a large extent have the same origin: the members of the subsidizing party are not identical to the subsidized party, and hence may, or may not, have the same reasons for favoring support. Even if they do have the same reasons, the possibility is that small miscalculations result in effects that are contrary to those expected. It is furthermore quite possible that subsidies lobbied for by one subgroup adversely affect another subgroup of the same society, leading to an overall

worsening of the situation. Let us exemplify; assume that one group of players (could be millers) in the agricultural arena lobby for a restriction in exports of a commodity, (could be maize), arguing that such action is necessary to secure national supplies. This is a relevant argument only if producers would want to export their produce in the absence of restrictions, which means that they would make more money exporting, which means that they lose money thanks to the restriction. The buyers who get access to the commodity at a lower price than without the restriction,

On the other hand, subsidies are a very important tool for a society (through its government) to correct what is considered errors in distribution of assets or possibilities, be it on a national or international level.

One apparently political subsidy that is clearly inefficient is the Zambian support for small scale maize production –a production that is clearly not profitable, even with subsidy! (There are many more examples of this, and Zambia should by no means be singled out as a bad case)

SWOT

Strengths

- Can correct market malfunctions in some cases.
- Allow society (in democracies, otherwise the government) to support segments of the economy that they consider deserve it.

Weaknesses

- It is a hugely difficult task to determine if, and which, market deficiencies there are. Hence subsidies often do not manage to correct one market failure without creating another one (sometimes on an extra-national scale). Even if the subsidy is not intended to correct a malfunctioning market it is common that it creates imperfections that outweigh any other benefits.
- Often supports non profitable production
- Does not handle over perceived ownership of production

Opportunities

- As was stated early in this paper most economies in southern Africa suffer from very large market imperfections. These are in some cases the results of subsidies, but can in other cases possibly be at least partially corrected by such subsidies.

Threats

- As subsidies skew competition they are subject to criticism by those not benefiting from the subsidy. Any change in relative strength between power centers, be it political or economical, is likely to result in a change in subsidies.

- International treaties tend to include subsidies in the kinds of actions (often trade promoting) that are banned.

Improved Farming Systems (Technology)

Crop diversification

Of all approaches to marketing, this is probably the most important. It may not be altogether a “technological” issue, but it involves technology to such an extent as to make it inseparable from a technological approach.

The marketing system assessment very clearly showed that there are almost unfathomable differences in profitability between crops, that these differences are not common knowledge, and that a number of crops that are not usually viewed as cash crops are far more profitable than tobacco, cotton, coffee, sugar and so on, i.e. those crops traditionally seen as grown for cash income.

A business is a business because it produces something that is wanted, and delivers it. A business should always try to make as much profit as possible, which usually involves avoiding competition, and looking for market imperfections.

Assessing profitability of different possible production lines is necessary to make the first and most important

marketing decision: the production decision. This decision should guarantee that the marketer ends up with a sellable product.

SWOT

Strengths

- Enables farmers to maximize profit.

Weaknesses

- Big need for information and knowledge

Opportunities

- Immense.

Threats

- Intentional limitation of information flows by players with vested interests in any particular line of production.
- Differential access to capital, or other inputs, not based on farmers' expected profit, but other factors (such as someone else's expected profit).

Conservation farming and other “sustainable agriculture” technologies

One of the more and more utilized technological approaches is conservation farming. This involves techniques to recycle byproducts from agriculture, utilizing plants and processes that improve soil quality and so on, all of which are aimed at minimizing need for commercial inputs in production.

It seems that these practices have very big potential for small scale farmers, for several reasons:

They are relatively labor intensive, and labor intensity is one of the small scale farmer’s comparative advantages, but actually seem to reduce labor intensity in the small scale sector at the same time.

They reduce, or even eliminate, capital need, which is one of the major bottlenecks for small scale farmer production.

They reintroduce organic matter to exhausted soils, which is a common problem in many parts of the region.

They are easily combined with organic farming standards, which are handled separately below.

The low productivity in the small scale agricultural sector is a severe problem caused by a combination of factors. However, these factors are interrelated, and conservation farming seems to be a technology that attacks this very effectively. Whether it is the lack of capital that make the “traditionally” used production technology inappropriate, or in fact the reversed situation, is unimportant. The important thing is that conservation farming increases small scale farmer productivity by saving costs, saving labor and increasing yields.

Of course, if all small scale farmers adopt these technologies without any other changes, their competitive situations do not change, but the total income should anyway. And it seems that facts back this up.

SWOT

Strengths

- Cost saving
- Capital requirement reducing
- Yield increasing
- Risk decreasing

Weaknesses

- Need for new practices and new knowledge (education)
- More labor intensive (which can be a strength for small scale farmers)

Opportunities

- Any productivity increasing approach to small scale farming has a future in the small scale farming business.
- Especially important is the possibility to decrease capital requirements.

Threats

- Slow adoption, due to need for rethinking and education. Technology changes take time.
- Other new technologies, such as genetically modified crops.
- Dramatic drop of input prices.

Organic production

Exactly what “organic production” is seems a bit difficult to determine, as there are many standards. “Organic” classifications have in common that they do not allow use of a number of chemicals, fertilizers and so on. For the farmer the importance of organic production is definitely increasing, as it has implications for market access as well as prices. More and more agri-buyers are looking for “organic” products, and as a matter of fact it may be quite impossible to enter into a number of markets with non-“organic” products. This is a bit surprising as it is not altogether uncommon to find that these products are not labeled “organic” later in the marketing chain. Possible explanations may be that buyers avoid agri-toxins, that they have made policy decisions based on “beliefs”, that they are preparing for marketing changes not yet in place, that they believe that “organic” production is a sign of quality, or something entirely different.

It is noteworthy that “organic” products not always get a price

premium. “Organic” is in these cases an inclusive/exclusive factor only.

Adoption of organic production technologies also has impact on cost- and production structures. One of the important factors to take into account is that the controlling entities charge producers quite large sums for “licensing”. This can be handled in a number of ways, whereof one of the most common is that individual small scale farmers are not treated as producers per se, but that they are subcontractors to a licensed “middleman”. In this case, the whole responsibility lies on the middleman, which has to be able to ascertain the licensing body that all its subcontractors live up to the standards.

As an example of the potential of “sustainable” and “organic” farming technologies, the manager of a 47 Ha commercial organic production farm in Zambia managed to get maize yields of over 15 tons/Ha in the 2004 season on a small (0.8 hectare) high-input plot, and estimates to harvest close to 9 tons/Ha in 2005, in spite of very little rainfall.

SWOT*Strengths*

- Increased market access
- Possible price premium
- Less chemicals, although environmental impact is not entirely clear.

Weaknesses

- New technology (education and information need)
- Possibly lower productivity
- Costly licensing

Opportunities

- It seems that the market for organically produced agri-products will continue to increase in size for the foreseeable future, creating higher demand, higher prices and profit (at least in the short to medium term).
- New and improved licensing systems may decrease the licensing cost.

Threats

- Although nothing indicates that this would be the case, it is still possible that the market for organic products is a fashion thing. Should this be the case, any investments made in such production and benefits from it could disappear quite rapidly.
- Disappointment from farmers expecting a price premium but not getting it.

Processing

There are many examples of farmers having used different kinds of processing as marketing strategies. These initiatives have of course differed not only in approach and technology, but also in how successful they have been. The very same approach and technology may well be very successful in one place, but a total failure in another, depending on any number of factors.

In order to minimize the risk of failing and maximizing the expected profit, it is as in any business venture necessary to investigate market opportunities (costs, competition, buyers, prices and all of those determining factors) before getting in too deep.

There is need for caution. Processing sometimes involves quite big investments, and doing the wrong thing is never without cost. Growing sunflowers to make sunflower oil with a beautiful and expensive machine bought by a donor is a good idea only if the oil can be sold. If it cannot, the farmer still wasted her time and knowledge and sweat.

A SWOT of "processing"

To analyze the strengths, weaknesses, opportunities and threats of "processing" is not a possible task. All modern economies are based on processing, and this is true not only for high-tech sectors of the economy, but also for agriculture. The value added by processing raw material is typically many times bigger than the value of the raw material itself. Although much of the final value of a product is generated by pure trading activities, a lot of that trade is generated by

processing, and hence could also be attributed to those processing activities. The conclusion is simple: processing Strength is its immense value creating potential, the Weakness is that it requires more inputs of all possible kinds. The Opportunities are unfathomable and the Threats are too.



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