

From the Editors: The first two articles in this issue of EDN share different perspectives on small-scale farmers' access to markets. In the first article, Dick Tinsley argues that small-scale farmers often prefer private service providers to co-operatives. In the second article, David Headley shares his positive experience with co-operatives, including characteristics of a strong co-op and an explanation of some benefits that farmers have experienced as members of a co-op.

Private Service Providers: Preferred by Smallholders

by RL Tinsley, Professor Emeritus, Colorado State University

Introduction

Like all farmers, smallholder farmers require support services to provide production inputs, to market surplus production and to contribute other services like contract mechanization (for land preparation, post-harvest processing, initial value added), credit, etc. Within smallholder agriculture communities private service providers (PSPs) normally provide these essential support services that, if forced to be undertaken individually, would distract from the primary economic activity of crop and animal husbandry. These PSPs are part of the well-recognized and promoted Small & Medium Enterprise (SME) system. Frequently, they may be more accurately referred to as the Family Enterprise System (FES). Such PSPs are usually indigenous to the communities they serve, and often represent former farmers who have drifted out of farming to become supporting service providers to their neighbors. These businesses are frequently owned and operated by women (Fig. 1), and often have such a limited market volume they operate near the poverty levelⁱⁱⁱ.

This article takes a closer look at the PSP as represented by the FES. How effective are they in providing the bulk of the business services needed by smallholder producers? Are they a competitive alternative to the highly promoted farmer co-operative model?

The FES represents a highly fragmented business model, with each enterprise having a limited market volume. The best example is the massive government managed Talad Thai fresh produce wholesale market outside Bangkok. It covers 54 ha (133 acres) and includes several huge "warehouses". However, on close examination, it is all divided into small family enterprise units of perhaps 10 x 20 m of marked-off floor space. Each family handles one or two pickup loads



Figure 1: Woman owner of a small agro-dealership in Malawi that sells fertilizer, seed, etc. It also buys grain from farmers (mostly women) who market small quantities for immediate cash.

of produce per day. Usually the women hold the money and spouses oversee the handling of the produce, also supervising any porters or other casual laborers.

Within the context of developing countries, small family enterprises often manage the bulk of the economy, particularly the smallholder agriculture sector. They are the main link between smallholder farmers and the large agro industries that process and deliver food to the end consumer or exporters, and distribute inputs both of domestic and foreign origin. However, small family enterprises are often viewed by the host government and development community (anxious to promote the farmer co-operative model) as predators on smallholder farmers. Such condemnation is often put forth as fact without any

supporting analysis or documentation. This includes project "Request for Proposals" as the primary justification for mandating the use of the farmer co-operative business model^{iv}.

In reality, given the underlying suppressed economic environment, the relationship between farmers and FES is likely more symbiotic than predator/prey. The FES was spontaneously developed in partnership with the service recipients as a convenient means of providing needed services. They were developed to be both financially competitive and convenient, particularly where immediate cash services are important as part of an overall financial management strategy for smallholder farmers. With this strategy, farmers retain goods, both crop and animal, in-kind

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- 1 Private Service Providers: Preferred by Smallholders
- 4 Farmer Co-operatives
- 5 Echoes from our Network: Conservation Agriculture in Areas with High Rainfall
- 6 Books, Web Sites and Other Resources
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Private Service Providers (PSPs) are non-government businesses operating within a country. They range from the small family enterprises mentioned below to large international corporations.

Small & Medium Enterprise (SME) is a term used by the development community to designate private enterprises working to assist smallholder farmers. They would include both the FES mentioned below as well as larger enterprises that would have several employees, including mid-level supervisors.

The Family Enterprise System (FES) represents a sub-division of the Small and Medium Enterprise designation (SME), but is owned and operated by a single family. This FES designation may comprise most of the SME in the financially suppressed economy of developing countries; for some reason most private enterprises have difficulty expanding beyond what one family can manage. This may be because in an impoverished society with wages on the margin of survival, the temptation for pilferage and other means of getting a small advantage are so great that all activities have to be closely monitored by someone with a direct financial interest in the organization, such as a family member.

as long as possible, then sell only what is needed to meet immediate cash needs^v.

When the FES are in direct competition for the same commodity, such as coffee or pineapples, with development facilitated farmer co-operatives, the FES will be the beneficiaries of any side selling and as such often corner a substantial majority of the market share, including that of project members circumventing their by-law obligation to market exclusively through the farmer co-operative. This could be as much as 90% of the market volume, as is the case in Thailand and for fair trade coffee in Ethiopia^w. Under such open competition, the heavily promoted and facilitated farmer co-operative model market share may represent little more than loan repayments, severely restricting a co-operative's potential impact on poverty alleviation.

Finally, FES are the default providers when development efforts prove unsustainable once facilitation funding ends (as happens too often). In my opinion, the farmer

co-operative model is highly promoted for its social desirability, and reports are aimed more at appeasing funding donors rather than objectively evaluating the limited interest and participation from the smallholder beneficiaries. Reports often fail to include many of the basic business parameters that would demonstrate the farmers' willingness to participate but more importantly the degree of reliance on the project for the service offered, vs. diverting the bulk of their business to the FES as the preferred providers^{vi,v}.

Financially Suppressed Economic Environment^{vii}

Perhaps the most common feature of countries that host development projects is a financially suppressed economic environment serving an impoverished public. In this environment, consumer food prices of most locally produced foods (particularly vegetables, fish and price-controlled staple grains) are 1/3rd to 1/5th those in developed countries such as the USA or the EU (Table 1)^{viii}, but wages are only about 1/12th. This forces people to spend more than 80% of their income to meet basic food requirements. It severely restricts the buying power of the public, which then limits what the FES can charge consumers, and in turn limits the amount they can pay to the smallholder producers. As a result, the underlying business model for food production and delivery has to be highly efficient, especially when fuel prices for transportation are at a premium. In some remote areas, the off-tarmac transport cost can be triple that of highway transport^{ix}—a cost borne by the remote farmers. This restricts profit margins for family enterprise systems; the primary way they generate profit is by reducing the cost of doing business, rather than raising consumer prices. The economic realities also make it

very difficult for alternative business models such as farmer co-operatives to compete, unless they, too, are very cost conscious (e.g. avoiding additional support services such as extension advice or health clinics that have to be financed from the overhead charges^x). The financially suppressed economic environment also limits the tax base upon which the government relies for revenue that is used to provide civil services including agriculture support, education and health care^{xi}.

Private Market Channel (Value Chain)

In the effort to promote alternative business models for assisting smallholder communities, it is difficult to find detailed market channel analysis of either PSPs or farmer co-operatives. However, the example found in Table 2, for marketing tomatoes in Nepal, is typical of an FES operation^{xii}. In Nepal, most such systems involve two related families: an accumulating family at the farm community level, buying from the farmers, and a distributing family in Kathmandu, selling to the retailers. Wholesale dealers might market around 20 crates of tomatoes per market day—so trucks making the trip to Kathmandu with some 228 crates of tomatoes will represent the consolidated market volume of up to 10 pairs of wholesalers.

The consumer price in Kathmandu can be triple the nominal price received by the farmer, but still only 1/6th the USA consumer price (Table 1). However, the marketing channel is fairly efficient, with a total marketing cost of approximately US\$4.00/100 kg (18.86 – 15.06 = 3.80). This tends to remain reasonably constant throughout the tomato season, with much of the variation in consumer costs actually going to the farmer. After adjusting for the

Table 1. Consumer Price Comparison

Host Country	Comodity											
	Rice (kg)	Maize (kg)	Sugar (kg)	Veg. Oil (L)	Eggs (ea.)	Chicken (kg)	Fish (kg)	Tomatoes (kg)	Onions (kg)	Eggplant (kg)	Cabbage (kg)	Diesel (L)
Thailand	0.88		1.18	1.35	0.09	2.37	2.94	0.56	0.76	0.53	0.56	0.76
Nepal	0.36		0.71	1.29	0.07	2.14	1.86	0.43	0.43	0.50	0.21	0.81
Tanzania	0.66	0.23	0.78	1.32		3.12	1.95	0.78	1.17	1.17	1.17	1.00
Ethiopia	0.82	0.41	3.03	3.33	0.16	6.89	14.03	0.55	0.27		0.38	1.09
Kenya	1.22	1.22	1.50	2.31	0.11	4.42	2.72	0.54	0.82	0.82	0.54	1.02
Bolivia	1.07		0.53	1.73	0.07	1.87	1.07	1.07	0.34		0.11	0.53
Ave. Host	0.84	0.62	1.29	1.89	0.10	3.47	4.10	0.66	0.63	0.76	0.50	0.87
Ave. USA	1.32	2.84	1.22	1.33	0.25	2.89	11.90	7.76	1.65	3.50	1.30	0.73
Ratio	0.63	0.22	1.05	1.43	0.41	1.20	0.34	0.08	0.38	0.22	0.38	1.19

Source: <http://smallholderagriculture.agsci.colostate.edu/consumer-price-comparisons-usa-vs-host-country/>

Table 2. Marketing Cost Analysis for Delivering 100 Kilograms of Tomatoes to the Consumer in Kathmandu

Item	Weight Needed (kg)	Unit Cost (US\$) ^a	No. Units ^b	Cost/ 100 kg Delivered (US\$)
Purchase Price	126	12.54/ 100 kg	1.26	15.06
7% weight adjustment for damages at local market	117			
Shipping container (crate)	117	0.035/crate	4.18	0.146
Packing Material	117	0.016/crate	4.18	0.068
Packing labor	117	0.032/crate	4.18	0.135
Loading charge	117	0.032/crate	4.18	0.135
Marketing Tax	117	0.0485/crate	4.18	0.203
Transportation Cost	117	0.436/crate	4.18	1.823
Unloading in Katmandu	117	0.0485/crate	4.18	0.203
Market tax in Katmandu	117	0.0485/crate	4.18	0.203
Misc. charges for road taxes, overload fines, etc.	117	0.032/crate	4.18	0.135
Weight adjustment for respiration (4.8%) and damages (6%)	105			
Porter fees to retail stall	105	0.009/kg	105	0.945
Weight adjustment for losses at stall	100			
Total cost				18.86

^aBased on Dec/Jan average prices. All dollar values were converted from Nepal Rupees at US\$ = 55.0 Rupees

^bAssumes a plastic crate will hold 28 kg.

26 kg losses during the marketing process, the farmers receive from US\$41 to \$12 per 100 kg of marketed tomatoes (64% of the consumer price in the early season, when there are limited tomatoes available, down to 32% of the consumer price in mid-season when a glut of tomatoes is available). Meanwhile, the wholesaler traders receive from US\$6 to \$10 per 100 kgs of marketed tomatoes (15 to 30% of the consumer price). This is mostly well below the 35% overhead costs associated with marketing through farmer owned co-operatives (according to the Central Growers Association of Zambia, which concentrates on tobacco where they have monopoly control of the auction floor; most members side sell their other produce to the PSP)^{xiii}.

The much-maligned FES middle men make modest monthly incomes of US\$232 to US\$580, divided between the two related families (US\$131 to US\$290 per family), and depending on the number of crates marketed. It is not an excessive income, considering the financial risk involved. Limited income for smallholder farmers should be mostly attributed to the overall suppressed economy that limits the consumers' buying power, rather than to excessive profits by private traders. The latter provide a service at reasonable cost with high transport costs (such as fuel and vehicle spare parts).

Summary

Before looking at alternative business models (such as farmer co-ops) to support smallholder producers, I suggest that a detailed analysis of the indigenous FES model be compared to a detailed analysis of the proposed model. While often maligned as predatory to smallholders, the FES may actually offer a highly competitive service. Most of the substantial mark-ups can be attributed to legitimate business expenses, while the overall suppressed economy severely limits the consumer price and thus the profit margins. The resulting modest incomes of the middlemen will be difficult to compete with.

Unfortunately, very few detailed comparisons exist between PSPs and highly promoted farmer co-operatives. A competitive advantage is usually assumed for the latter, but the envisioned competitive advantage could easily disappear through the higher overhead costs, some of which can be easily predicted and accounted for^{xiv}. When part of donor-assisted poverty alleviation projects, the farmer co-operative model requires continuous and extensive external facilitation, then usually falters once the facilitation effort ends.

Business comparisons should be mandated by donors. If the FES proves more competitive and advantageous to smallholder

farmers, projects ought to shift their focus, to assist the FES to better serve smallholder communities and to enhance the poverty alleviation effort. Unfortunately, the farmer co-operative model is too often mandated in project documents with no opportunity to consider alternatives. As a result, implementers need to spin the reporting to appease donors, further entrenching models that the beneficiaries largely avoid, and preventing future projects from evolving to better assist smallholder beneficiaries^{xv}.

Footnote Links

ⁱ<http://smallholderagriculture.agisci.colostate.edu/1st-value-added-clean-bag-of-grain/>

ⁱⁱ<http://smallholderagriculture.agisci.colostate.edu/lusaka-tomato-vendor/>

ⁱⁱⁱ<http://smallholderagriculture.agisci.colostate.edu/banana-trader-uganda/>

^{iv}<http://smallholderagriculture.agisci.colostate.edu/perpetuating-cooperatives-deceptivedis-honest-spin-reporting/>

^v<http://smallholderagriculture.agisci.colostate.edu/financial-management-strategy-retain-assets-in-kind/>

^{vi}<http://smallholderagriculture.agisci.colostate.edu/request-for-information-basic-business-parameters/>

^{vii}<http://smallholderagriculture.agisci.colostate.edu/financially-suppressed-economy/>

^{viii}<http://smallholderagriculture.agisci.colostate.edu/consumer-price-comparisons-usa-vs-host-country/>

^{ix}<http://webdoc.agisci.colostate.edu/smallholder-agriculture/Off-TarmacTransportCosts.pdf>

^xIn the context of this article "overhead costs" are the sustainable overhead costs representing the cost to sustain the project once external facilitation and subsidies end. It would be completely unfair to include the external facilitation costs in this accounting.

^{xi}<http://smallholderagriculture.agisci.colostate.edu/financially-stalled-governments/>

^{xii}<http://webdoc.agisci.colostate.edu/smallholder-agriculture/CH4-MarketingTomatoesNepal.pdf>

^{xiii}<http://webdoc.agisci.colostate.edu/smallholder-agriculture/SMC-RLT-Report.pdf>

^{xiv}<http://smallholderagriculture.agisci.colostate.edu/loss-of-competitive-advantage-areas-of-concern/>

^{xv}<http://smallholderagriculture.agisci.colostate.edu/project-development-process-who-represents-the-smallholders/>