



# Farmer Organisations for Market Access: Principles for Policy and Practice <sup>1</sup>

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## 1 Introduction

This paper reports on outcomes and findings from a research project on farmer organisations (FOs) in Malawi, focussing on FOs with specific objectives or functions relating to improving members' access to markets. The study involved reviews of international and Malawian experience with FOs, a sample survey of FO members and non-members, a study comparing different FO apex or support organisations, a follow up of a 1995 study of FOs, and a study of FOs in the smallholder tea industry in Malawi. The study also held two stakeholder workshops to encourage networking and coordination in the FO sector and to guide and review research activities, and prepared directories of FO services providers and training resources in Malawi and on the internet. This paper synthesises the main project findings. Fuller reports can be found at <http://www.imperial.ac.uk/agriculturalsciences/research/sections/aebm/projects/farmerorg.htm>.

## 2 Background

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

FOs, however, have a very mixed record. While there are striking examples of successful FOs which have made considerable advances in improving their members' incomes through better access to market and other services, many FOs have failed. Policy makers and practitioners therefore need to beware that they do not rely too much on FOs and expect them to deliver too much. This paper draws together information to help policy makers and practitioners understand first the different tasks that FOs can and cannot be expected to perform and second the conditions necessary for successful performance of these tasks. The paper discusses the expectations and demands different interest groups make of FOs, the challenges facing FOs in meeting these expectations and demands, and finally principles for the successful establishment and operation of FOs despite these challenges. The paper should be relevant to those working with FOs and to policy makers considering the potential for FOs to make different contributions to agricultural development.

## 3 Stakeholder Interests in Farmer Organisations

A variety of stakeholders have different interests in FOs playing different roles, and this makes different demands on them (see Table 1)<sup>2</sup>. While many of these interests and roles are complementary, there may also

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<sup>1</sup> This publication is an output from a research project funded by the United Kingdom Department for International Development (DFID) for the benefit of developing countries (R2875, Crop Post Harvest Research Programme). The views expressed are not necessarily those of DFID. The authors would also like to acknowledge the contribution to this study by colleagues in NASFAM, CARE Malawi, MRFC, and other organisations working with FOs in Malawi. Any errors or omissions remain the responsibility of the authors.

be conflicts between them – for example private sector and FO member interests in reduced transaction costs may require small and homogeneous membership (to keep down costs of group coordination) and a focus on a narrow range of high value activities – but this may conflict with the need to expand membership to gain economies of scale in marketing and to expand membership to poorer and more vulnerable groups.

**Table 1 Different Stakeholder interests in FOs<sup>3</sup>**

Interests	Stakeholders			
	<i>Farmers</i>	<i>Private sector</i>	<i>NGOs</i>	<i>Public sector*</i>
<b>Overall objectives</b>	<i>Improved livelihood opportunities &amp; security</i>	<i>Knowledge &amp; business opportunities to increase profits</i>	<i>Improved rural service delivery, economic growth, welfare &amp; poverty reduction</i>	
<b>Specific objectives in their own dealings with FOs</b>				
Access to commercial services	Financial, input & output markets, & technical services			
Low transaction costs	Trust, grading, etc			
	Economies of scale in transactions			
Improved information flow	Market & technical info.	Market (& technical) info.	Community (& market & technical) info.	
Power	Farmer lobbying		Empowerment	?
Cost effective rural entry			For a wide range of economic & social services	
Improved food security	Household food security		Household food security	Household & national food security

\* Does not include extension staff working directly with FOs to improve their market access.

There are also different interest groups among farmers (between members and non-members, between farmers with different resources and capabilities) and within farmer organisations (between leaders and ordinary members, between members with different resources and enterprise interests, between members and staff). A further distinction can be made between legitimate (generally explicit) interests and illegitimate generally unstated interests that different FO leaders or FO or other agency staff may have in working with FOs. These may include, for example, opportunities FOs provide for gaining political or social influence or diverting FO and other resources for personal gain. This is a specific and particularly problematic example of the more general situation that FO members (and other stakeholders) have interests outside FOs which may compromise or dilute their commitment to FO activities. Widespread income and livelihood income diversification among people in poor rural areas makes this an important issue.

Different interests of course lead to different criteria for judging FO success. While it may be possible to identify indicators for successful FO achievements against the different objectives in table 1, it is often difficult to attribute changes in members activities and welfare, or differences between members and non-members, to FO activities.

A wider public interest in FOs relates to the role that they can play in promoting economic coordination for pro-poor growth. Kydd and Dorward (2004) argue that ‘extensive coordination mechanisms’ are often needed to overcome ‘low level equilibrium traps’ in poor rural economies. Prior to the introduction of structural adjustment and market liberalisation policies, most African states attempted to provide this through extensive market regulation and intervention. ADMARC’s activities in Malawi in the 1970s and 1980s provide an example of such a system that achieved considerable success in promoting smallholder agricultural development. The system unravelled, however, with wider political changes and with market

<sup>2</sup> This paper is concerned with FOs as producer organisations concerned with improving members’ market access. It does not examine organisations whose principle focus is the management of common property resources (such as irrigation systems, local fisheries or forests), or grassroots ‘self help’ or faith based organisations. These organisations introduce another further sets of stakeholder interests not considered in Table 1.

<sup>3</sup> Source: Stockbridge *et al*, 2003; Kumwenda & Kachule, 2003; Kachule & Dorward, 2005; Kachule, *et al*, 2005.

liberalisation<sup>4</sup>. In the context of liberalised markets FOs then provide a potential alternative mechanism for promoting economic coordination (see also Rondot and Collion, 1999), but as ‘soft’ coordination mechanisms they have less potential scope and reach than the ‘hard’ pre-liberalisation systems (where these could be made to work).<sup>5</sup>

## 4 Challenges

Challenges facing FOs can be characterised in terms of (a) organisational difficulties relating to their objectives, access to resources, and management, and (b) the difficult operational environment or context.

### 4.1 Organisational challenges

In considering the organisational challenges facing FOs, it is helpful to compare them with private companies and NGOs, two different types of organisation with which they are closely related (see Table 2).

**Table 2 Principal Relations of Farmer Organisations, Private Companies and NGOs<sup>6</sup>**

	<i>Farmer Organisations</i>	<i>Private companies</i>	<i>NGOs</i>
<i>Suppliers of capital</i>	Equity: members, donors Loans: banks, trading partners	Equity: shareholders Loans: banks, trading partners	Donors
<i>Clients</i>	Members & non-members	Customers	Beneficiaries
<i>Employees</i>	Members & non-members	Not generally owners	Not owners
<i>Governance</i>	Specific regulations, taxes & subsidies	Specific regulations, taxes & subsidies	Specific regulations, taxes & subsidies

A key point from Table 2 is the multiple involvement of members as owners and suppliers of capital, as clients and (for some) as employees. These roles can lead to conflicting interests which do not arise in NGOs or private companies (or not in the same way). The nature of these conflicts will vary with the regulations under which FOs operate – their own articles or by-laws and national laws relating to different forms of association.

An example of the difficulties posed by these multiple roles for members relates to the scale and pricing of services offered to clients. The need to provide dividends to members’ capital, repay loans, and accumulate capital for investment suggests FOs should try to maximise profits and returns to capital. However members may be more interested in access to low cost services, either through low prices or through payments of dividends paid in proportion to use of services rather than in proportion to capital invested. Donors providing equity, however, may be interested in extending the scope and reach of services to poorer or more remote clients, although this may dilute and reduce FO profits and increase risks. Banks, trading partners, and FO leader and employee managers may again have other objectives<sup>7</sup>. Divergences of interest between different financiers, employees and clients are not unique to FOs, they also occur in private companies and NGOs. However it is important to recognise the extent and specific nature of the management and governance challenges these divergent interests pose in FOs with different origins and histories (Box 1).

The active involvement of FO members in different roles in FOs also poses ‘collective action’ difficulties which are not found in the same way in NGOs and private companies where clients, owners of capital, and employees do not overlap so much. Collective action involves individuals cooperating in a group to solve a shared problem or set of problems by establishing and implementing rules to promote common interests and action and to prevent ‘free riding’ (where individuals ‘shirk’ and try to gain the benefits from collective action without incurring some of the costs or foregone private opportunities necessary for the generation of these benefits). Agreeing and implementing rules to control free riding poses major challenges to FO leadership and is generally more difficult with larger and more heterogeneous FO membership and where the benefits of collective action are uncertain, not clearly limited to or identified with FO membership, and of varying importance to members’ livelihoods.

<sup>4</sup> Success was achieved in the context of a social and political system that had many unacceptable elements, and the degree to which this could have been achieved without these elements is debated.

<sup>5</sup> FOs were an integral part of the ‘ADMARC system’ in Malawi, primarily in reducing transaction costs and in achieving economies of scale in market service delivery and access.

<sup>6</sup> From Stockbridge et al, 2003.

<sup>7</sup> This clearly relates to and is complicated by different stakeholders’ interests in FOs, divergences as discussed earlier..

Other special difficulties arise in FO leadership and governance. Different organisational and leadership ‘cultures’ and structure may be more or less appropriate to different stages of organisational development and to organisations with different resources engaged in different activities. Young commercial organisations often benefit from strong, centralised but flexible leadership unconstrained by expensive and rigid bureaucracy— but where FO members lack basic literacy and business skills and experience then this model may allow FO leaders to be largely unaccountable to their members, with tendencies for misuse of FOs’ resources as they serve leaders’ rather than members’ interests. Weak accountability to members is also more likely where external donors are more important sources of capital and resources than FO members. Even if these problems are avoided there may be difficulties with leadership succession or where FOs outgrow the capacity of such systems to coordinate more dispersed and complex membership and operations. Finding an appropriate balance between accountability and flexibility is difficult.

### **Box 1 Different Types of Farmer Organisation**

Farmer organizations may be established by different kinds of grassroots or external initiative, though in the market access FOs encountered in this study there were none that had prospered without substantial external support. A useful if broad characterisation of organizations supporting grassroots farmer clubs was made between (a) diverse service providers (supporting a range of crops and services to clubs) and (b) focused service providers (supporting a range of services for a specific crop or product with varying degrees of ‘linkage dependence’ (Stringfellow et al, 1997)). Distinctions may also be made between apex membership organizations and other (government and non government) organisations supporting clubs. Some apex membership organizations were also classified as ‘phoenix’ organizations, where earlier top heavy structures collapsed and from their ashes new, leaner and more robust organizations have emerged.

#### **4.2 Environmental or contextual challenges**

The context in which FOs operate in Malawi poses challenges in a number of dimensions, some of which combine to promote poverty traps and low level equilibria (Dorward and Kydd, 2004). These contextual challenges include: physical and natural difficulties in agricultural production (for example poor soils and limited or uncertain rainfall); poor infrastructure (roads, telecommunications); people’s poor health status, and particularly the effects of HIV/AIDS; poor services (for example absent, late, poor quality and/or unreliable input and output markets and financial, technical and regulatory services obtainable only on unfavourable terms); an unfavourable macro-economic environment (with high interest rates and considerable price, trade and general economic uncertainty); low levels of wealth and economic activity in rural areas and in the country as a whole; low levels of literacy; and a weak and often inappropriate institutional environment<sup>8</sup>. The weak and inappropriate institutional environment has many different elements, including poor security, traditional attitudes to business and business relations, difficulties in separating FO leadership and management from local and national politics (for example FOs can be a source of political influence or diverted by political influence for political or personal gain), and inappropriate and/or weakly or wrongly enforced regulations for FO governance.

These environmental challenges exacerbate many of the organisational challenges faced by FOs, as they can increase uncertainty around and reduce FO benefits, encourage short term planning horizons, limit members’ willingness and ability to invest in FOs (with impoverished FOs constrained from making critical investments and highly dependent on external donors) and make FOs highly susceptible to capture by traditional, political or other elites.

These challenges to FOs (the multiple roles for members, demands of collective action, leadership difficulties, and harsh institutional, economic and productive contexts) limit the scale, scope and spread of FOs and their activities, and thus their development impact. They also tend to limit the extent to which FOs can attract and directly serve poorer people. These are under-represented in FOs in Malawi, partly as a result of FOs tending to be established in areas with lower land pressure and better cropping opportunities, and partly as a result of lower FO participation by poorer households in the areas where they are established (Kachule and Dorward, 2005). This may be attributed to poorer people’s more limited resources resulting in

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<sup>8</sup> The ‘institutional environment’ is used here as defined by Davis and North (1971) where ‘institutions’ are the rules and norms for social and economic interaction and relations.

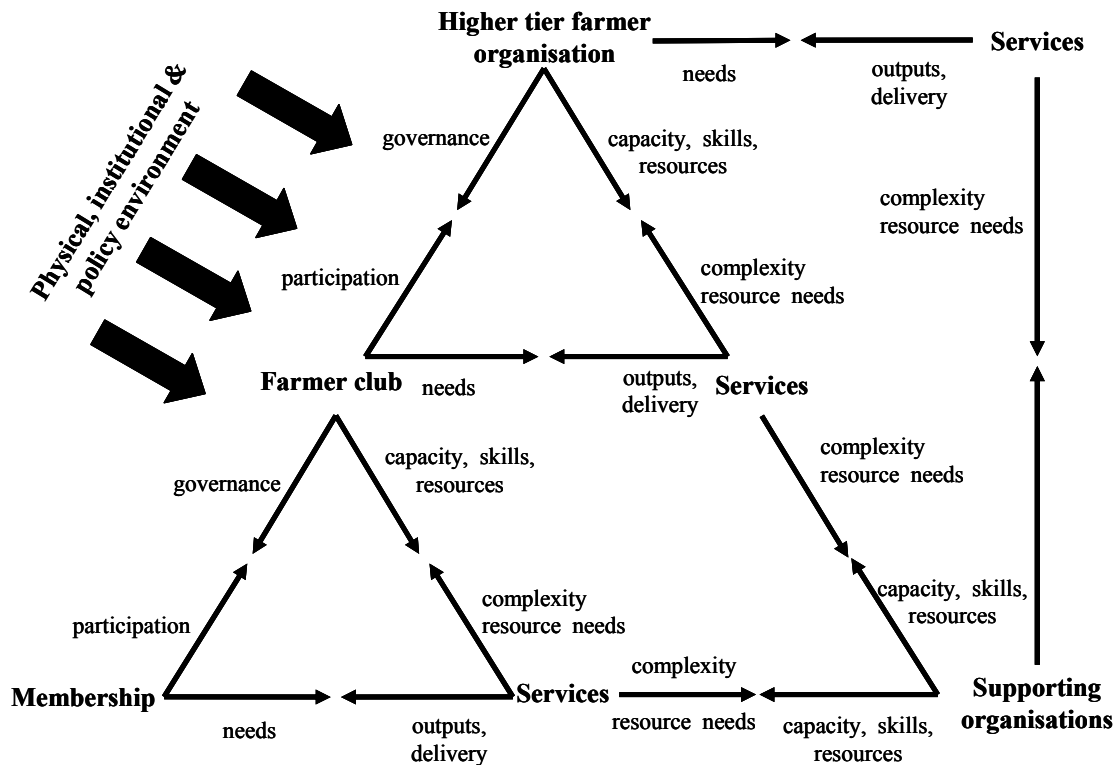
(a) their having less to gain from FO services and membership; (b) their being less able to afford the time and cash costs involved in membership, and (c) their being less welcome to existing FO members who may see them as posing difficulties in FO management.

## 5 Principles for Policy and Practice<sup>9</sup>

### 5.1 Ensuring Farmer Organisations 'Fit'

Previous discussion suggests that a complex set of conditions are necessary for FOs' effective promotion of members' access to markets. Developing and applying concepts from Korten (1980) and an important

Figure 1 Farmer Organisation 'Fit'



distinction between grassroots 'farmer clubs' and higher tier farmer organisations which serve their club 'members', figure 1. sets out the need for the wider environment and FO members' service demands to determine FO governance and roles in service delivery, at both club and higher levels. This analysis does not suggest a 'blue print' model for successful FOs but instead a focus on ensuring that FOs tasks and services, their establishment and governance, and external support and policy are designed and evolve to fit the changing capacities and constraints affecting FOs, their members, and other stakeholders with whom they interact. Figure 1 therefore emphasises the importance of 'fit' for and between different levels or tiers of farmer organisation, and hence the need for different structures and tasks at different tiers. Thus service outputs must fit members' needs, and the complexity and resource demands of service provision must be met by FO or supporting organisations' capacity skills and resources. This makes demands on FOs' governance structures which must also fit members' abilities and requirements for participation (themselves related to members' service delivery needs).

### 5.2 Principles for FOs tasks and services

Fundamentally, FOs must provide services that deliver to their members clear and continuing benefits that members recognise and want. These services should not be accessible to members from other sources on similar terms, nor should the FO offer them to non-members on the same terms as to members. As Figure 1 shows, the managerial (complexity) and resources demands of the services provided should also be within the capacity and competence of FOs: FOs should not try to provide too many services nor should they try to provide services that are very demanding in terms of FOs' technical, managerial or financial resources,

<sup>9</sup> This section reports key findings from project studies in Malawi. Stockbridge (2005) provides an annotated source of many excellent internet sites offering more comprehensive and detailed guidelines on FO establishment and operation.

otherwise they are likely to become over extended and unable to yield a satisfactory financial return while providing effective and timely services at an attractive price.

Since their members generally need sets of complementary market (or contract), technical and capacity development services (to use the terminology of Bingen *et al.*, 2003), FOs will generally need to play a facilitatory role in bringing service providers and members together rather than delivering services themselves. Where critical services do not exist, particularly those normally provided by the private sector, then FOs should exercise great caution in taking on these activities themselves: if private companies cannot provide these services at a profit then FOs will generally find it equally if not more difficult to do so. (Box 2 describes how NASFAM has addressed this by the creation of an independent commercial service subsidiary). Conversely if returns or benefits from any FO or member investments are directly or indirectly dependent upon services delivered by other organisations then FOs must clearly establish the reliability and costs of these services prior to members or FOs investments.

### **Box 2 NASFAM (National Smallholder Farmers Association of Malawi)**

NASFAM is a national farmer membership organisation that supports the formation and operation of farm clubs to improve their members' access to profitable farming opportunities. Initially formed in 1997 by 14 Farmer Associations that emerged from the USAID supported Smallholder Agribusiness Development Programme established in 1995, by 2004 it had established 20 more new associations to include over 100,000 members in more than 5,000 clubs, representing nearly 5% of farming households in Malawi. Local clubs with 10 to 20 members are organised into associations under the national umbrella of NASFAM. NASFAM owns NASDEC, a not-for-profit holding company with two subsidiaries, NASCOMEX and NASCENT which respectively provide commercial and development support services to associations, clubs and members. With increasing diversification into a range of other crops after an initial focus on high return opportunities in tobacco, NASFAM clubs and associations (with NASCENT) provide business support in terms of technical and business training, organisational development systems, and links to input, credit and output marketing service providers – which include NASCOMEX as it provides transport, input purchase, and produce marketing services to associations. Some associations also run input shops although NASCOMEX is now taking over their management to improve their operation. NASFAM has a growing national advocacy role and influence.

Critical elements of NASFAM's success include focussing on highly motivated farmers and good business opportunities; highly professional services with careful market and client research when starting new activities; concentrating on developing linkages with a range of service providers rather than attempting to provide too many services itself (with a 'Partners Fund' for business development grants to potential partners); and a core focus in its own service provision on developing market linkages, technical support, capacity building (literacy and management training for members and leaders) and governance (for standard membership rules, a strong structure, and financial management and auditing services). Club, associations and NASFAM constitutions are carefully crafted to provide overall membership control but also considerable independence to professional managers and commercially experienced leaders - a difficult balance. Thus NASDEC is governed by a board with eight members democratically elected by NASFAM associations, and four appointed on the basis of technical or commercial ability. NASCOMEX and NASCENT also run under advisory councils of stakeholders with technical and commercial expertise. Different services are provided from different levels to match the needs for local specificity and wider economies of scale, while the club, association and national constitutions explicitly prohibit office bearers from holding any political office. The establishment of NASCENT, NASCOMEX and NASDEC allows NASFAM to develop commercial and development services under separate specialist technical and financial management but with private sector discipline. This structure also provides some protection from the bureaucratic interference that cooperative structure are potentially prone to.

Critical elements in NASFAM's success can be analysed in terms of the way its structures address many of the organizational and contextual challenges discussed in section 4, as summarized in the table below.

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

NASFAM has benefited from long term, committed and high quality donor support involving financial, technical and policy assistance initially from USAID, with other donors such as NORAD also playing a key role. This has steadily evolved, with the withdrawal of technical assistance and falling financial support, which is increasingly concentrated on NASFAM's development rather than commercial services.

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

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

Particular care should be taken in developing relationships with private sector service providers or potential providers. FOs should not normally attempt to duplicate and compete with existing private sector supply, but rather try to work with private companies to improve the quality, competitiveness and scope of their services to members. This may involve collective action in negotiations and delivery on price, quality, timeliness and scale in input or produce transactions with a FO role as market facilitator engaging with private sector 'chain champion' (Best *et al.*, 2005). There may be particular opportunities where private produce buyers have processing plant or fixed sales contracts which means that they are looking for secure sources of produce and may be willing to invest in longer term relationships with FOs (see Box 3).

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

An important though sometimes unpalatable conclusion from this discussion is that there are certain tasks, geographical areas, products and indeed types of farmer that market access FOs should not attempt to work with. Particular difficulties should also be noted with supply of inputs and input credit for crops without a concentrated market chain which enforces credit recovery by deductions from producer sales (see boxes 2, 3 and 4 and Poulton *et al.*, 2004). Support to food crops intensification is particularly difficult unless it can be bundled with a cash crop marketed through a concentrated supply chain or (in micro-finance groups) linked to regular repayments made from other sources of regular income.

### **Box 3 Farmer Organisations in Smallholder Tea Production in Malawi**

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

After 2002 the STA was dissolved and the Smallholder Tea Growers Trust (STGT) created, with 3 growers, 2 chiefs, a lawyer and an accountant (appointed by their professional bodies). The Trust was then responsible for managing the smallholder tea company (STECO) through a board of directors comprising 4 farmers and 5 individuals appointed for their competence. Management and debt were then restructured with new appointments and slimmed down with a strong mandate to minimize operational costs, produce quality tea, pay farmers on time, and operate within the cash flow of the company. Since the reform a large number of farmers have returned to STECO and are receiving much better services, though some blocks continue to sell to estates and indeed have started to operate their own tea factory.

There are outstanding issues concerning the structure of the industry, efficient smallholder holding sizes, extension services, the auction system, and farmer ownership of the factory. However the case illustrates the difficulties in establishing FOs, the resilience and determination of smallholders in the face of a long decline in services to tea production, difficulties from political interference, the importance of lean but effective management and services, and the adaptability of both farmers and private sector estates in finding ways to work together for mutual benefit in the face of changing external conditions.

Source Chirwa and Kydd, 2005

### **5.3 Principles for FO establishment and governance**

The establishment and governance of FOs at both club and higher levels faces a number of difficult dilemmas. Fundamentally, FOs need to adapt to local and changing opportunities and constraints, but they also need clear, stable rules, procedures and structures which ensure accountability and assist and constrain leaders and officers to act in the best interests of FO members. FOs also need to be able to access skilled professional resources (in marketing, technical and financial and business management, skills) and provide transport and communication services, but they must be 'mean and lean' – effective but not burdened by high overhead staff or transport costs. The integrity and professionalism of strong non-executive trustees can play a critical role here (as with the Smallholder Tea Growers Trust described in Box 3 and NASFAM). Similarly, good FO leaders and managers need to be attracted by worthwhile incentives and opportunities for advancement, but these must be aligned with and not at the expense of the ability of FOs to serve their members' interests. These dilemmas and the difficult balancing acts they demand are particularly acute in the difficult environment facing most Malawian FOs – where poorly resourced members, limited business opportunities, costly and poor communications, and weak institutions make very challenging demands on weak organisations.



Other key lessons and principles in addressing these challenges emerge from FOs studied in Malawi<sup>10</sup>.

- Farmers' and farmer clubs' priority demands and needs are for coordinated and complementary sets of market, technical and capacity development services, as discussed earlier. Different skill and cost requirements mean that some of these should be facilitated and provided at farmer club level, and others at higher levels, by higher tier FOs and by different supporting organizations and by different financial and organizational structures
- Clear rules should establish required and unacceptable behaviour by members, with systems both for monitoring FO performance and members' adherence to rules and for responding to monitoring information. Sanctions for rule breaking need to be clearly set out but be appropriate to the seriousness and context of offenses. Financial audit systems are particularly important.
- Most grassroots farmer clubs need support from higher tier membership, governmental, non-governmental or commercial organizations, but this support needs to be carefully targeted at clubs needs and opportunities.
- Both farmer clubs and higher tier organization are susceptible to political interference that diverts resource away from the service of member interests. It is essential that clear rules are agreed and enforced to prevent political influence in trustee and leadership appointments and activities (see Boxes 2 and 3).
- Higher tier organizations should have particular responsibilities to provide technical, managerial and organizational support to clubs and in facilitating capacity development (see Bingen 2003). A particularly important role is to support the governance of farmer clubs in terms of establishment and enforcement of membership and leadership structures and rules, external auditing, and in the establishment of new clubs or the division of clubs which have grown too large and unwieldy.
- A very fine balance is needed between democratic participation by members (for feedback, commitment, accountability to members, and capacity building) and hierarchical control by strong professional managers (for effective management and for accountability to external stakeholders).
- Both farmer clubs and higher tier FOs need to beware of being too ambitious and of expanding the scope or scale of activities too fast. Korten (1980) is again helpful here in stressing the need for organizations to adopt a 'learning process' approach that develops through three stages – learning to be effective, learning to be efficient, and learning to expand. This is a slow process that requires explicit focus on 'embracing error' (learning from mistakes), planning with people, and linking learning with action.

#### **5.4 Principles for external support and policy**

The principles for FO tasks, services, establishment and governance, together with earlier discussion of the challenges facing FOs, have a number of implications for external support and policy. Again, there are dilemmas arising from the challenges facing FOs: the greater the contextual challenges facing FOs, the greater the need for external support, but the greater the likelihood of that support subverting and undermining the ability and willingness of FOs to genuinely serve their members' interests (due to external agents having greater control over resources and over the FO, and FOs' focussing on short term capture of resources from donors rather than longer term FO development). Nevertheless it is clear that some form of long term subsidy is probably needed if FOs are to become effective instruments for advancing long term economic growth for the advancement of people living in poor rural areas (although they may not be effective in serving the needs of people in areas where rural poverty is most severe and intractable). The challenge then is to deliver such support or subsidy in a way that is least distorting to member-focussed FO development.

One way of looking at this is to consider where government and donor agencies policies and programmes 'fit' in figure 1: how can they support governance and capacity, skills and resource development at different levels among FOs, their members and supporting organisations, so that these can deliver the complex and challenging sets of services that FOs and their members demand and need? This then leads to questions about principles for support organisations' tasks and services and for their establishment and governance, principles that match many of those discussed above for FOs.

Some clear lessons emerge from this discussion. First, FOs should not be expected to take on conflicting roles or roles that they cannot fulfil (as discussed earlier). Second, donors and policy makers need to pay attention to improving the conditions (or context) necessary for FOs to be able to operate effectively. Then if external support is to be provided to FOs it must be committed over the long term. It should also not rush FOs' expansion or expect too much in the scale or scope of activities, but should patiently allow FOs to

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<sup>10</sup> Lessons regarding FO services and tasks are highly relevant here but have been discussed above.

learn to be effective and to be efficient before they begin to expand, and should be prepared for this to involve errors and a slow road to FO financial independence (again NASFAM appears to have trod a careful path here).

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

In addition to their more general role in financing (and in some cases delivering) public goods of communications infrastructure, security, property rights, and some agricultural research and extension services, governments have a specific role to play in establishing and enforcing an appropriate legislative environment for FOs so that appropriate regulations exist and are enforced to assist and protect FOs and their members, staff, and leaders in the proper development and activities of FOs. Governments must recognize weaknesses in current laws and regulations where these are over-ambitious, rigid and outdated and require financial and human resources beyond the reach of the authorities responsible for their proper implementation. In such situations FOs are prone to *ad hoc* official interference which may inhibit their development but often have insufficient protection from dishonest or incompetent managers, leaders or business partners. A critical role for government may be in support for an independent, transparent, and clearly defined system for auditing FOs.

The role of governments in directly supporting the establishment of FOs is contentious but the Malawian maize and tobacco experience over the last 30 years (see Box 4) and the difficulties that most African FOs have in accessing seasonal finance outside of the restricted crops and regulatory systems where contract farming and other interlocking systems work suggests that some degree of government involvement in supply chain coordination for FOs is important.

#### **Box 4 Government Support to FOs**

Many observers argue that experience with government sponsored cooperatives and other FOs in Africa has been largely negative (Hussi *et al*, 1993). However the Malawian experience with Ministry of Agriculture and ADMARC supported FOs in the 1970s and 1980s was much more positive, supporting very high rates of maize productivity growth and credit repayment, although with limited human capacity development. Although most of these clubs were growing maize and failed in the 1990s (as a result of simultaneous shocks from drought, from political and economic liberalization, and from macro-economic instability) a significant number survived growing cotton (with some difficulty) or have managed to resurrect themselves with new opportunities to grow burley tobacco. These clubs continue to operate with direct Ministry of Agriculture technical support, although input credit disbursement and crop purchase and credit recovery functions are now provided by the heavily regulated tobacco auction system and the (Government owned) Malawi Rural Finance Company rather than by the Ministry of Agriculture and ADMARC. Other former Ministry of Agriculture supported clubs have provided experienced members for the formation of new clubs supported by higher tier FOs (such as NASFAM) and by other supporting organisations. Since the collapse of the Ministry of Agriculture and ADMARC maize club and coordinated market system in the 1990s Malawian smallholder farmers' investment in maize productivity has regressed and maize production has been supported mainly by large scale public disbursement of free inputs.

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