



Farmer Organisations for Market Access

Briefing Paper 2

Challenges facing Farmer Organisations

Successfully establishing, operating, or working with Farmer Organisations (FOs) needs a clear understanding of the many challenges that they face. This Briefing Paper sets out the most serious and common problems they have to address: other briefing papers consider some of the ways these can be addressed. It is helpful to consider two different types and source of challenge, though these often interact : (a) organisational difficulties relating to FO objectives, access to resources, and management, and (b) the difficult operational environment or context in which FOs in Malawi work.

Organisational challenges

A helpful way of considering the organisational challenges facing FOs is to compare the relationship between the clients, employees and suppliers of capital in FOs, private companies and NGOs, two different types of organisation with which they are closely related (see Table 1).

Table 1 Principle Relations of Farmer Organisations, Private Companies and NGOs

	<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

This table shows that a key feature of FOs is the multiple involvement of members as suppliers of capital, as clients and (for some) as employees. This can lead to conflicting interests which do not arise in the same way in NGOs or private companies. The nature of these conflicts will vary with the regulations under which FOs operate – their own articles or bye-laws and national laws relating to different forms of association.

An example of the difficulties posed by members' multiple roles 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 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, on the other hand, may be interested in extending the scope and reach of services to include 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. 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 (see Box 1)

Box 1 Different Types of Farmer Organisation

Farmer organizations may be established by different kinds of grassroots or external initiative, but it is unusual to find FOs that prosper without substantial external support. This may come through diverse service providers supporting a range of crops and services to clubs often formed during an earlier era or building on Village Development Committees) or service providers focusing on services for a specific crop or product. Support may be provided by apex membership organizations and by other (government and non government) organisations. Some FOs have emerged from previously failed FOs, with inefficient or corrupt management and structures being replaced by more accountable, leaner and robust systems.

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.

Other special difficulties arise in FO leadership and governance. Different organisational and leadership ‘cultures’ and structure may be more or less to 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.

Environmental or contextual challenges

The context in which FOs operate in Malawi poses many challenges to FOs. 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); and low levels of wealth and economic activity in rural areas and in the country as a whole; low levels of literacy. A further set of difficulties arise from 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, increasing uncertainty and reducing FO benefits, encouraging short term planning horizons, limiting members’ willingness and ability to invest in FOs (with poor FOs unable to make critical investments and highly dependent on external donors) and making FOs susceptible to capture by traditional, political or other elites.

This briefing paper is part of a series produced by the research project *Farmer Organisations for Market Access*. Other papers in the series are:

Briefing Paper 1: Stakeholder Interests in Farmer Organisations: Working together for Success

Briefing Paper 3: Principles for Farmer Organisation Tasks and Services

Briefing Paper 4: Principles for Farmer Organisation Establishment and Governance

Briefing Paper 5: Principles for Farmer Organisation Support and Policy

These are summaries of extracts from Chirwa et al (2005) *Farmer Organisations for Market Access: Principles for Policy and Practice*. All project outputs may be downloaded from www.

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