

# A New Approach to Farmer's Cooperatives

---

## Introduction

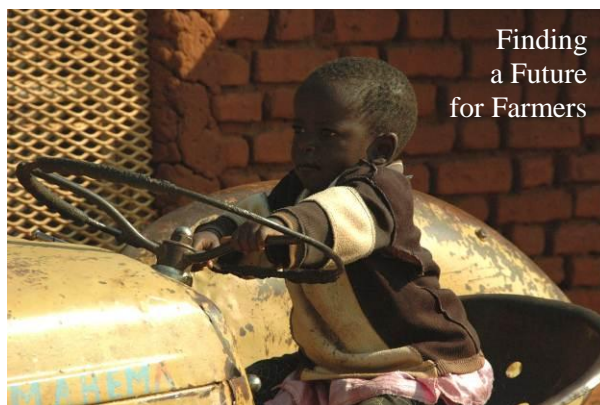
The vast majority of farms in Tanzania are between 2 and 8 acres with the average being around 6.<sup>1</sup> We find that farmers are generally only tilling about half of their available acreage. This means that farmers are very, very small and have little or no influence. As a result it is difficult for them to access inputs or markets. That's why it is widely believed that farmers must be organized into cooperatives in order for them to be lifted out of poverty. Numerous NGO and government agency efforts have been focused on this. Unfortunately efforts usually fail to achieve long-term self-sustaining success. The Iringa region of Tanzania boasts some 121 agricultural marketing societies<sup>2</sup>, a number that is very stable. However, nearly all of these are not functioning. As we engage in village areas, government officials are always able to offer up registered cooperatives that are not functional. This saves us some of the registration costs and time. They also invite us to work with other groups that are always nearly dormant.

The first farmer's cooperative was established in Europe around 1850 and 1810 in the USA. Since that time, cooperatives have been the primary way that farmers have lifted themselves up. Across every culture and for two centuries they have been effective. – Except in Africa.

There are three primary problems that plague farmer's cooperatives<sup>3</sup> in Africa:

1. Lack of trust
2. Insufficient finance
3. Limited access to markets

All of these problems must be solved together or cooperatives cannot succeed. For example, many NGOs have successfully established trusting relationships with cooperatives. However, if market access is not created, then the cooperative will fail. Therefore, all of these problems must be addressed together.



Cheetah Development has created a new approach to address these problems. This approach includes the following strategies:

1. Work Together: Changing the nature and positioning of relationships to one of mutual engagement and working together rather than a one towards farmers.
2. Provide New Organizational Structure: Changing the structure of business relationships to create systems of accountability and divide work tasks into natural areas of strength.
3. Build Market Access: Changing the way that markets are addressed from an approach of 'linking' to markets to one of building markets.

This paper briefly covers these three strategies and also discusses the issue of sustainability.

## Strategy 1: Work Together

Cheetah does not tell farmers what to do. Instead, we join with them to create solutions. We work together. This is the first step towards building trust. Cheetah's approach to farmers is based on an ethic of listening. Farmers understand their situation and have important ideas about how to overcome their problems. Without their participation and leadership, all efforts will eventually result in failure.

Our approach to working together with farmers uses the following tactics:

1. Listen; don't tell.
2. Start with an assessment of assets not of needs.
3. Be transparent in all matters.
4. Don't do anything for farmers that they can do for themselves.
5. Be careful about making promises. Make it clear that things rarely happen the way they are planned.
6. Encourage sharing of problems, challenges, complaints, worries, etc. Encourage people to speak the truth and to ask hard questions of each other and of us. Success comes more from solving problems than from having a good idea at the start.
7. Go slow. Farmers have come to expect the pace of aid organizations and often become impatient. Aid organizations usually make all the decisions and do all the planning separate from farmers, raise the money before appearing in the village, and arrive ready to implement. The Cheetah approach is just the opposite. The money can only be raised once a plan is agreed to by all. The plan must be put in place by all the participants together. As a result, the Cheetah approach is much slower at the beginning. But results are for the long-term.
8. Don't operate based on hand-outs. It is demeaning and it means that people are unable to achieve for themselves. In contrast, lending and investing has an expectation of results. Requiring repayment means that there is discipline to teach profitability. Profitability equals sustainability. Sustainability is critical.

## Strategy 2: Provide New Organizational Structure

The following organizational structure was developed with the direct assistance of farmers. It incorporates several innovations that solve problems that have been troubling cooperatives in Africa since the end of colonial times. (The diagrams are the actual diagrams used with farmers. They are in both Kiswahili and English.)

### First Structural Innovation: Teams

Farmers pointed out that it was unwieldy to meet in large groups. They were the first to propose that the cooperative be divided into smaller groups. This led to the innovation of Teams. (Please see diagram below) Teams have the following characteristics:

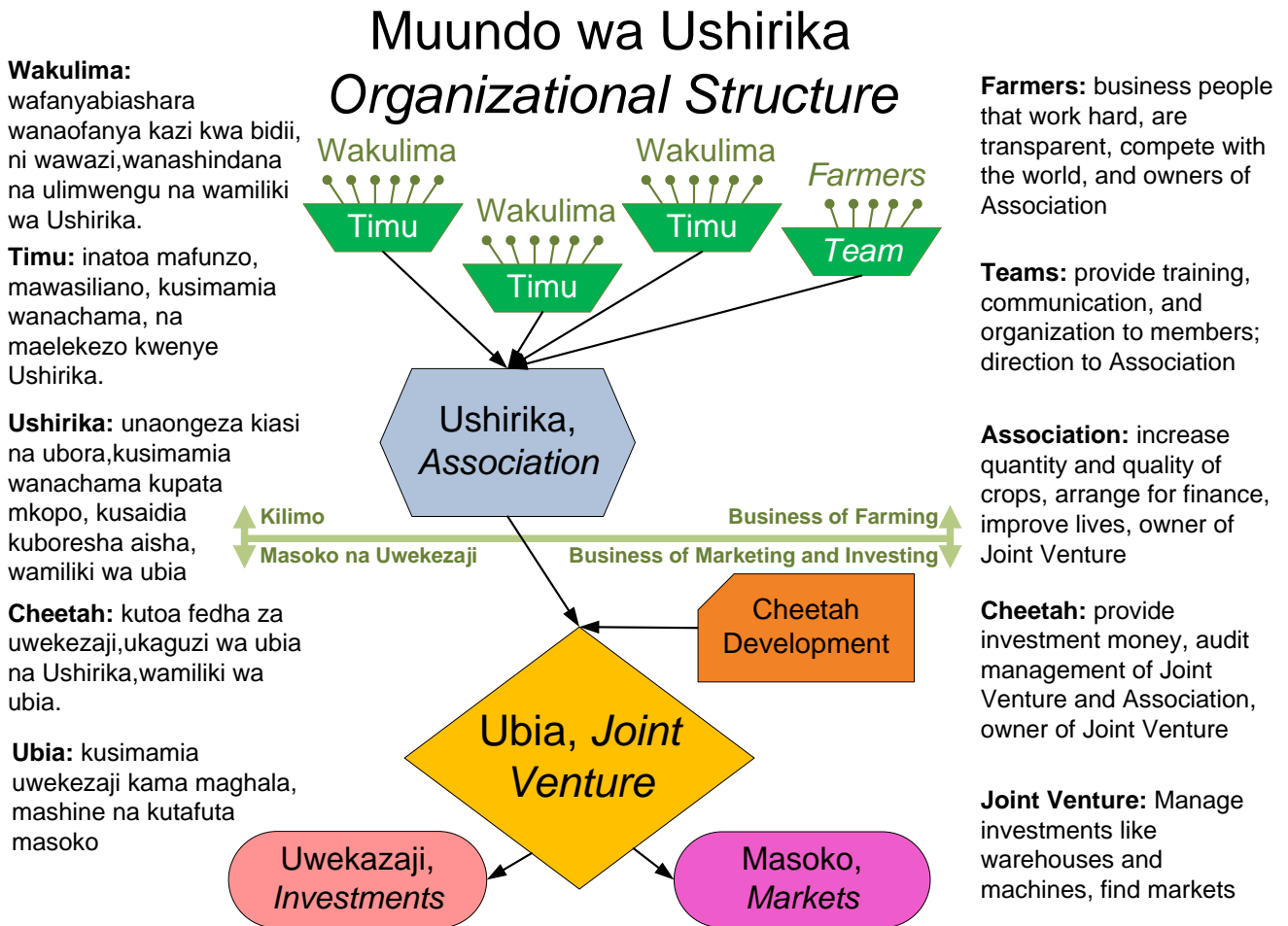
1. They are groups of 5-15 farmers that self-select each other based on trust relationships. They must be in located near to each other geographically. Teams name themselves, and we have seen them create themes of membership and other social activities.
2. Teams are led by two elected Coaches, which are required to include a man and a woman. Coaches are the conduit for information to and from the larger group. They are required to convene Team meetings at least quarterly.
3. Teams can be used for information dissemination, like training and for information gathering like input orders or group intentions.
4. A key function of Teams is to act like micro-loan groups. Team members are jointly and severally responsible for team commitments. This includes repayment of loans such as for seeds and fertilizer, and for delivery of crop commitments to the cooperative instead of selling on the side privately. This model of group commitment is well tested and proven

effective worldwide in the area of microfinance. As such, Team members sign a joint contract as a group with the cooperative.

In addition to its many practical functions, the Team is a key structure to build trust relationships between members and with the cooperative.

**Second Structural Innovation: Joint Venture**

One of the three problems plaguing farmer cooperatives is a lack of finance. This problem has of course been exacerbated by the trust issues that are present. But it goes beyond that.



The very structure of farmer’s cooperatives makes it difficult for commercial entities like banks to enforce loans and makes it easy for government and cooperative officials to influence elections and even steal funds. This is partly because cooperatives have been seen in a paternalistic light by governments, usually justified under the theory that they need to watch out for the welfare of the rural poor. Therefore local laws and management practices can be much less than transparent and business-like.<sup>4</sup>

Cheetah has spoken with commercial banking entities. They often tell stories of attempting loans with cooperatives but such loans nearly always failing. As a result they avoid providing finance to cooperatives. One notable exception is cooperatives that have export crop market guarantees. (We will come to the issue of markets in due course.)

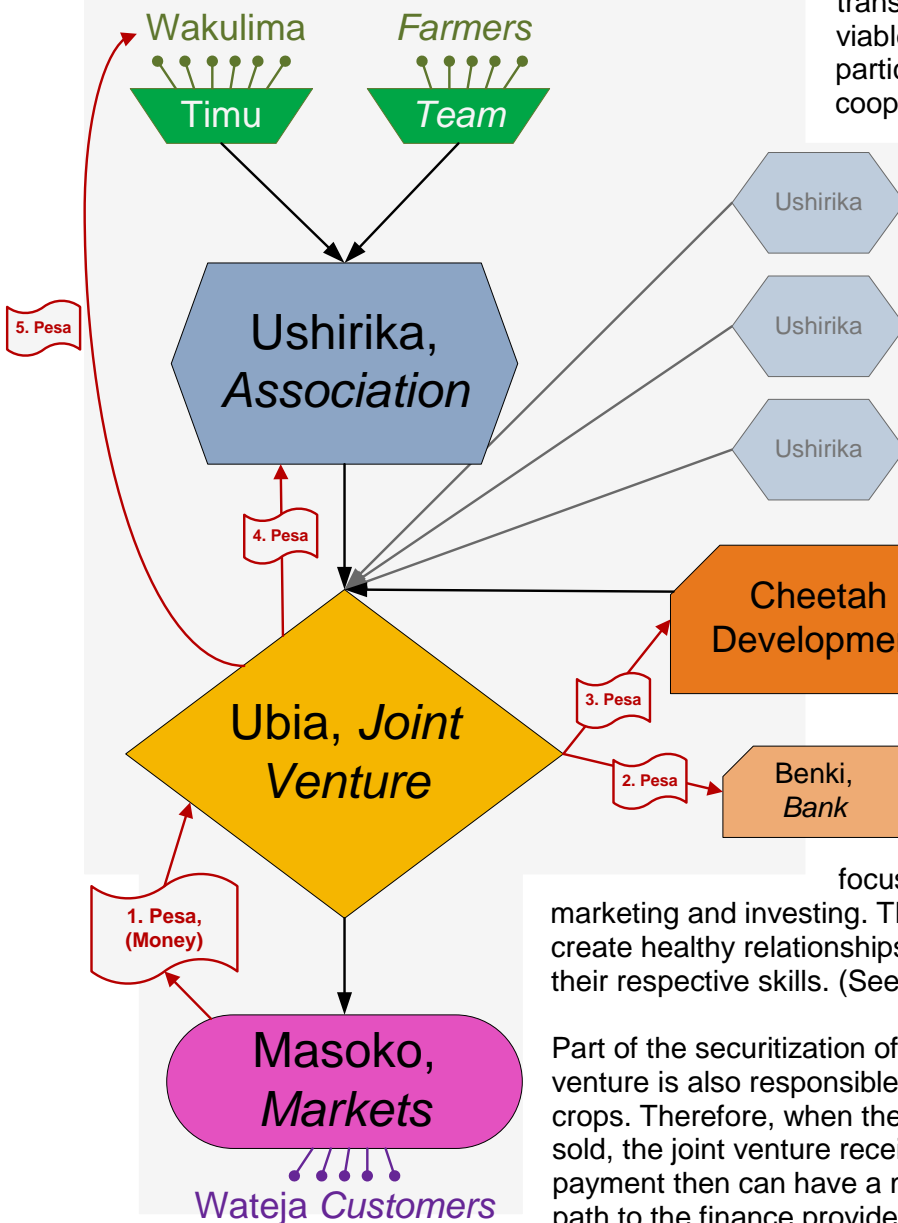
A few attempts have been made to overcome this finance problem including warehousing and input or crop voucher systems. These have not worked effectively. All across Tanzania

warehouses sit empty. Farmers do not trust them. And voucher systems have been troubled by examples of government corruption. They can be used as a way to print and steal money.

Cheetah's approach is much simpler and straightforward. It goes directly to the heart of the issue. It is to make the cooperative more accountable and commercially viable so that it can receive the finance it requires.

At first Cheetah thought it would achieve this by joining the cooperative, taking an equity stake, and requiring appropriate financial and accounting systems. But the laws of Tanzania restrict membership to farmers with each one receiving a single vote. Cheetah is not a farmer and a single vote wouldn't achieve the needed accountability. However, as we studied the laws we found that although Cheetah couldn't join the cooperative, the cooperative could join Cheetah. This is because cooperatives are allowed to enter into joint ventures. Therefore, Cheetah can form joint ventures with cooperatives. (See diagram above.)

## Muundo wa Ushirika Organizational Structure



The joint venture model connects the cooperative to a business structure that is much more transparent and commercially viable without giving up the participation of farmers in a cooperative arrangement. This

allows the cooperative to access finance through the joint venture. And it makes one of the responsibilities of the joint venture to place and manage investments on behalf of the cooperative. Therefore, if a cooperative needs an investment like a warehouse or machinery it can access and own it through the joint venture model.

The joint venture model creates a natural division of labor. That is, the cooperative is focused on the business of farming and the joint venture is

focused on the business of marketing and investing. This allows the partnership to create healthy relationships on both sides, playing to their respective skills. (See diagrams.)

Part of the securitization of the finance is that the joint venture is also responsible for the marketing of all crops. Therefore, when the agricultural commodity is sold, the joint venture receives payment. Therefore, the payment then can have a more direct and transparent path to the finance provider. (See diagrams.)

When Cheetah has discussed the joint venture model with farmers we are quick to point out that the bank is always paid first – ahead of the farmers. Then without any leading we ask the farmers to discuss the advantages and disadvantages of this situation. Farmers immediately recognize that this means that in bad years the bank will be paid but they may not be. It could make their income a bit more tenuous in that case. For example, they consider that they may have difficulty paying school fees or covering the cost of medicine. But farmers themselves soon point out that if the bank is paid first, then they will be able to have much more reliable access to the finance that they need. In the long run, they see that this is far more important to lifting them out of poverty. Farmers themselves conclude that this is the right thing to do.

### **Third Structural Innovation: Multiple Partner Joint Ventures**

The joint venture innovation unlocks a similar innovation – multiple partners in the joint venture. That is, more than one cooperative can join the joint venture. This may seem to be a small thing but it is not for several reasons:

1. NGOs have worked with numerous farmer groups, often creating trust and organizing them. What is most commonly lacking is the work that is the responsibility of the joint venture. That is, there is no finance and limited access to markets. Allowing additional groups to join the joint venture leverages up this already completed work.
2. The more investment and finance that is successfully placed and managed by the joint venture, the faster that it will be able to achieve further investment and finance. Therefore, the more farmer cooperatives that are participating in the organization, the stronger that it can become financially.
3. Additional cooperative members are able to leverage all the resources of the joint venture, whether it is buying power for inputs, extension services, shared post-harvest processing, shared warehousing, or market access. (The discussion of market access is continued below.) This increases the benefit to all and lowers the cost to all as scales of economy are achieved across an increasing base.



### **Fourth Structural Innovation: Central Payment System**

One of the shared resources that is worthy of its own discussion is a central payment system. Cheetah has been working with banks and service providers to begin creating a payment system for the disbursement of funds. The primary objectives are to eliminate the handling of cash, provide complete transparency, and put all payments into a system of high accountability. For example, mobile phone payments are an increasingly useful option allowing direct payment to be made to a farmer's cell phone. In Kenya, mobile money is now accounting for 17% of all currency in circulation. Given that most mobile transactions are small, they must account for an even larger share of the total transactions made. Such a solution is perfect for farmers who are often remote from financial institutions. Also, transactions can be wired directly to bank accounts.

Therefore, the cooperative can meet and through the democratic process determine the appropriate distribution of funds, profits, etc. That plan can be communicated to the joint venture, which then follows the instructions.

When farmers see the possibility of being paid directly by the joint venture and bypassing the cooperative link, their confidence in the plan jumps quite dramatically. Even cooperative leaders have more confidence when the payment responsibility is moved away.

## Strategy 3: Build Market Access

Across much of Africa, people bemoan that access to markets is difficult. This complaint is raised by government officials, by business people, by farmers and by NGOs. The country director for one NGO frankly said, “As NGOs we all claim to link farmers to markets but the truth is that it really doesn’t happen.”

### What is a “market”?

In order to understand the problem, we must ask the deceptively simple question, “What is a market?” Before going on, what is your answer? Here are the typical answers:

- In most African towns there are areas designated as ‘markets’ where sellers occupy small booths and sell products, including farmer crops.
- The World Bank and others are building ‘markets’ by putting up central shelters where buyer and seller can meet. We have viewed three of these in the region of Iringa. They are beautifully constructed and empty. (See picture) If such a market were to function, it would benefit only the middlemen. How are farmers to even transport their tomatoes to this location? We have found other such market, including for maize and livestock – which would presumably solve the transportation problem since animals can be herded. They are also empty.
- All around Africa, farmers carry their crops to the nearest road and hope to sell to passersby. Some see this as a ‘market’. (See picture – taken from exactly the same location as the prior picture of the newly constructed market shelter.)



- Middlemen come to villages and buy crops from local farmers at deeply discounted rates and often on exploitative terms.<sup>5</sup> For many farmers, this is their only ‘market’. They wait passively hoping a middleman comes. The middlemen solve two key problems: transportation and knowing who the buyer is.

Although all of these may be a market in some sense of the term, none of them is what people are talking about when they say “access to markets” or “link farmers to markets”. In that sense, none of these is a market, although oddly the middlemen come closest to the truth.

One local government official responding to the lack of results for such an approach to market development said, “All aid organizations care about is visibility, not feasibility.”

When farmers, NGOs and governments say they want to link farmers to markets, what they are speaking about is not a place. In this sense, a market cannot be pointed at. It is an idea.

## Definition of a Market:

A market is a group of customers. The one who is serving the market must understand the specific needs of their market or group of customers. That is, they understand all of the requirements for quality, quantity, delivery, pricing, services, related products, packaging, features, storage, etc. Indeed, they are able to break the market into market segments around these subjects. AND they are prepared to meet those requirements. A company that does that has a market. They have *accessed the market*.



In Africa most markets are not organized or developed enough so that one could accurately talk of 'access to markets' or 'linking to markets.' Instead, there is a need to 'build markets': to create an organized and developed market system.

## The Problem of Market 'Access' and 'Linking'

When an organization like an NGO or a government agency says that they will 'help farmers get access to markets' or says that they will 'link farmers to markets', then they will fail from the outset. The truth is that in most of Africa markets have not been developed or organized according to the definition just put forth. Therefore, 'linkages' cannot be established.

This is why so far the most successful market-based initiatives have been by found in linking farmers to foreign markets. For example, the export of tea, coffee, cotton, cashews, flowers, etc. are all examples where NGOs and various agencies have

enjoyed some success. In that case, the idea of 'linking' applies. Developed nations have developed markets. That's one of the most important reasons why developed nations have advanced: because commerce is able to proceed with a high degree of efficiency.

So linking farmers to foreign markets can work. But it's kind of 'cheating'. Why link farmers to foreign markets when Tanzania has a 40% malnutrition rate? And when a substantial percentage of food commodities are being imported? The explanation is simple. It's because the work of developing markets locally is very difficult.

The fact that markets can be organized is evidenced by the fact that Pepsi, Coke, mobile phone vouchers, beer, and many other products are available even in very remote areas of Africa – even beyond the reach of roads. Companies with high profit incentives and a commitment to organize and develop markets have succeeded at a near western level.

Therefore, when an organization says that they will 'link farmers to markets', the idea is wrong on its face. What is needed is to literally go and meet face-to-face with every possible buyer and build market access from the top down. Two examples are illustrative:

- In industrial nations, one can think of linking to markets because they are well organized and developed. For example, to sell its potatoes a farmer's cooperative could contact only a few large food distributors and reach thousands of retail points across several American states. In some markets, a single distributor will have international reach.
- In contrast, such market organization has not yet been created in most of Africa. Therefore, a seller of potatoes must be prepared to contact each individual

NGOs, government agencies and farmer's cooperatives are not prepared or able to build markets. This is a grind-it-out, difficult business process that is achieved incrementally over the course of years. It is the job of a classically structured business.

retail point directly. This is a grind-it-out, difficult business process that is achieved incrementally over the course of years. Naturally, the work begins with the largest possible buyers and proceeds down. This is not a work that NGOs or government agencies are prepared to undertake. **IMPORTANT:** this is also not the kind of work that a farmer's cooperative is prepared to undertake. This is the job of a classically structured business. It fits the model of the joint venture structure described herein.

## Market Demand

It is important to differentiate market demand from this idea of markets as defined herein. Although the markets in Africa tend to not be developed, the demand for products is very high. So when some say that there are no markets, they are speaking about the fact that the market has not been developed or organized. The demand remains very high.

Indeed, this is also easily demonstrated since large percentages of food are imported, including in Tanzania, 30% of rice, 60% of cooking oil, 95% of wheat, and nearly 100% of processed foods. Therefore, market demand is available.

## Joining Forces

This process of organizing or building markets is being pursued by entrepreneurs across East Africa. However, because there is not a formalized distribution system, they are forced to do it independently. Therefore each company sends its own sales person and its own delivery vehicle to each retail point. The peanut butter maker, the porridge maker, the potato crisps maker, etc. all build their markets in parallel. This is extremely inefficient.

In contrast, the joint venture is able to serve multiple farmer cooperatives with the same marketing and delivery systems. This leverages the strength of all. Indeed, Cheetah finds that the market is asking us to deliver more products from the same source. For example, when Cheetah offers potatoes for sale, the buyer often requests delivery of cooking oil since many of them are producing chips.

## Market Scale

Another problem faced when organizing the market is recognition of the required scale that needs to be met. Once farmers get access to markets they are ready, willing and able to increase their productivity. For example, using the model describe herein, in the first year only about 10% of farmers are willing to join a cooperative in any given community. Part of the reason is because of lingering distrust and the serious commitments engendered by the Team approach. The most important reason is that the farmers are waiting to see if there really will be any market access. Too many systems have been introduced and promises made that failed to deliver any customers.

We offer an actual calculation of what we forecast will happen once markets are delivered. For example, in the Kilolo district of Iringa we are working with potato farmers:

<b>Production Plan</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>	<b>% of Potential</b>
<b>REVENUE (Inflation Neutral)</b>						
<b>Production</b>						
Number of Farmers	150	270	486	875	1,575	10%
Number of Acres per Farmer	2.0	2.2	2.4	2.7	2.9	73%
100 Kilo Bags of Production per Acre	40	56	78	110	154	51%
Harvest Times Per Year	2	2	2	2	2	80%
Total Harvest per Farmer (Bags)	160	246	379	584	900	
Total Harvest for Association (Bags)	24,000	66,528	184,416	511,200	1,417,047	3%

This forecast shows that in the first year we must market around 25,000 100 kilo bags. By the fifth year we forecast a production capacity of almost 1,500,000 bags. In particular, note the “% of Potential” column. This is only about 3% of the potato capacity for this village area in that fifth year.

This large a production capacity is a number that bewilders most NGOs who consider trying to ‘link to markets’. They speculate that we will need to export to India, China, or around East Africa. But local market demand is high. This only represents around one bag per person per year *within the Iringa region!* This is ‘small potatoes’ by most international consumption standards. But it depicts the significant challenge required when becoming serious about organizing market access.

## Conclusion

Therefore, the problem of ‘market access’ is resolved through the traditional business approach of directly contacting and meeting the needs of individual buyers. The long-term objective is to create a formalized distribution system that can meet the needs of many cooperatives and many buyers. Not until the market becomes organized in such a way can people talk of ‘linking farmers to markets.’ Until then, we need to talk of organizing, developing, or building markets.

**IMPORTANT:** This business of building market access is not suited to NGOs or governments. Nor are farmers prepared to accomplish it. This is the business of business. That is why most such attempts have failed to date and claims to ‘link farmers to markets’ rarely achieve much success, except in the case of exports.

## Achieving Sustainability

Unless the arrangement can be profitable to all participants it cannot sustain. This means that all of the following must be achieved:

- Farmer income must go up
- The enabling efforts of the cooperative and the joint venture must be paid for, even make a profit
- Buyers must receive a better value

Win. Win. Win.

In short, everyone must win.

The way that this is achieved is quite simple. It comes from increased farm productivity. In every crop we have studied, it is very achievable to increase output per acre by a minimum of 5x in a one to three year period. This becomes one of the key objectives for the cooperative, assisted by the joint venture. This increased productivity provides the financial room to cover expenses and drive profits for all of the participants in the value chain.

And as described earlier, Cheetah doesn’t operate based on hand-outs. In contrast, lending and investing has an expectation of results. Requiring repayment means that there is discipline to teach profitability. Profitability equals sustainability. Sustainability is critical.

It should not be surprising that this financially achievable. After all, food prices in the developed world are much lower than in Africa. And the value chains are doing far more processing and delivering far higher levels of service and quality. And everyone wins.

## Summary

It is widely recognized that farmers must organize into cooperatives to lift themselves from the poverty. With the exception of export crops, this effort is generally not succeeding.



There are three primary problems that plague farmer's cooperatives in Africa:

1. Lack of trust
2. Insufficient finance
3. Limited access to markets

This paper has endeavored to show that there is a viable approach that can be taken to solve these problems. The reason it has not been adopted until now is that it is a commercial approach and outside of the natural proclivities and strengths of government agencies and NGOs. Moreover, this approach has an underpinning of profitability. This is good and necessary to create the sustainability of a system that can change the lives of farmers.

Nothing about what has been proposed is novel. Indeed it is being practiced in scale across the developed world. It is about time to do it in Africa, too. Macro-economic theories can't engage to solve on-the-ground business problems. It takes hands-on business development committed to profitability: that is the solution for long-term sustainability.

---

<sup>1</sup> Minot, N. (2010). *Staple food prices in Tanzania*. Washington, D.C. International Food Policy Research Institute

<sup>2</sup> Iringa Region government statistics, 2008

<sup>3</sup> In Tanzania, farmer's cooperatives are usually termed 'agricultural marketing societies'.

<sup>4</sup> Historically, cooperatives were often dismantled by post-colonial governments because they were seen as a threat to local power structures. Conversely, farmers were often forced to join new cooperatives that were often used to practice institutionalized stealing from the poor.

<sup>5</sup> We have analyzed the issue of middlemen in a separate paper. In short, middlemen arise in an open market system that is short of capital. (Thus there is a significant distinction between open markets and capitalism.) Middlemen respond to incentives that because of the shortage of capital are perverse.