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Empowering Small holder Farmers in Markets

National and International Policy Initiatives

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1 Introduction

This working paper will present a review on national and international policy initiatives that aim to empower small holders in markets. By policy initiatives we mean those plans and actions developed by national governments and international governing bodies that affect the functioning of agricultural markets and define the context within which the sales of agricultural products takes place, as well as those plans and actions that support small holders' economic organizations. As policy reforms are often long-term developments, the review will study changes in public policy and private responses over the last 15 years.

The review will cover experiences in both OECD and developing countries. We will look for general patterns and processes in these policy initiatives and highlight the ways in which small holders and their economic organisations have been influenced by and reacted on these initiatives. The review will explicitly focus on the interaction between public policies and private responses. Initiatives of small holders' organizations themselves to influence the institutional environment will be included. Special attention will be given to initiatives where IFAP is involved in or is consulted on.

The main issues to be covered include the following:

A. What are the major developments in public policies and regulatory reforms that affect the position of small holders and their economic organisations in domestic and international agricultural marketing systems, in both OECD and developing countries?
In answering this question we will include the following policies and policy reforms:
1. policies and regulations that regulate access to, and participation in markets (e.g. licenses to participate in markets, export or import bans within regional markets);
2. controls on supply and prices (e.g. compulsory marketing boards);
3. quality standards, their imposition or abandonment (often following market liberalisation) and how they affect trade by small holders; and
4. policy and regulatory changes that affect contracting and access to finance/credit by farmer organisations (as formal or informal entities).

B. The legal and policy framework as well as other forms of specific support that exists for establishing small holders' economic organisations for agricultural marketing.
In answering this question we will include the following issues:
5. licensing and other legal requirements for establishing producer organisations and how they facilitate or limit formation of effective farmer organisations;
6. regulations that affect participation by small holders in formal organisations.

In many countries, small holder farming is important in terms of agriculture and food security. For instance, the majority of the rural population in sub-Saharan Africa can be considered as small holders. Their importance derives from their prevalence, their role in agricultural and economic development and the concentration of poverty in rural areas. The term 'small holder' refers to their limited resource endowments relative to other farmers and therefore the definition of small holders differs between countries and between agro-ecological zones. For instance, in favourable areas with high population densities small holders may be characterised as cultivating less than one ha of land, whereas in semi-arid areas small holders may be characterised cultivating 10 ha or more or managing 10 head of livestock. Some production is far more intensive than others: irrigated agriculture versus rainfed agriculture; dairy production versus extensive grazing; etc. The distinction between small holders and larger farms based on their landholdings is not always possible. A distinction that is more useful is the one based on labour use. Small holder farms are usually family farms, with the labour (including management) needed on the farm being supplied by the household. Large farms commonly employ hired labour.

Most small holders are vulnerable to economic and climatic shocks and spread their risk by diversifying their sources of livelihood including significant off-farm income. In this respect, small holders also form a diverse group in terms of their allocation of resources to food, cash crops, livestock and off-farm activities, their use of external inputs and hired labour, the proportion of food crops which are sold, and their household expenditure pattern. In addition, different types of small holders are differently integrated with outside markets, whether national or international, and this influences the way they are impacted by policy changes.

Complete subsistence or self-sufficiency does not really exist anymore and there is at least always some form of local market, in which small holders trade their surplus. But these markets are not very remunerative and offer limited opportunities for negotiation. Finding and entering markets that will provide them with better prospects can be extremely difficult, and small holders are often faced with a number of difficulties.

Several studies have listed the constraints that small holders encounter when they want to link to new markets or become more competitive in existing markets. The World Bank (2007) distinguished the following five issues: lack of access to these markets; weak technical capacity; difficulty in meeting quality standards; difficulty in meeting contract conditions; and exposure to additional risks. IFAD (2003) discusses three dimensions of the issue of market access: physical access to markets; market structure; and lack of skills, organization and information. Finally, Bienabe et al. (2004) in their review of projects that aim to link small holder farmers to markets distinguished the following constraints for trade: barriers to entry; risks; transaction costs; asymmetry of information or lack of information on markets; lack of bargaining power and asymmetry of negotiation; lack of economy of scale; lack of human capital; and lack of social capital. By combining several of the constraints mentioned in the literature, we limit our discussion of the impact of public policies on market access to the following four constraints:

- barriers to entry markets;
- high market risks;
- high transaction costs (which includes asymmetry of information); and
- low bargaining power.

Public policies do impact these constraints. Such impact may be positive, for instance where governmental agencies provide farmers with market information, improve rural roads or set up laboratories for quality control services, or they can be negative, for instance through over-taxation of market transactions, or when farmers are prohibited to sell their products directly to specific markets.

The marketing of agricultural products is affected my many different laws and regulations. Some of these laws and regulations work directly on agricultural marketing opportunities, such as the legal requirement to have a licence for selling products or the legal obligation to sell to a state marketing board, or the requirements for government procurement, other laws and regulations have an indirect effect such as public quality standards or policies on investing in physical infrastructure. The latter policies often have a broader objective than just to regulate agricultural marketing.

The importance of laws and regulations that support agricultural marketing is related to their impact on production and trade, and thereby on incomes and prices. As trade provides opportunities for specialization, a regulatory framework supporting trade also supports efficiency improvements, production increases, and quality improvements. Thereby, rural incomes may increase and affordable supplies of basic foodstuffs become available to urban consumers.

Even where a marketing system is already effective in achieving its main objectives of bringing produce from small holders to consumers, it is often possible to increase the efficiency of the system. Legal reform can play an important role in this regard by removing unnecessary restrictions as well as by establishing a sound legal framework for commercial transactions which will reduce uncertainty in the market.

Cullinan (1999) distinguishes several functions of law and groups the functions which laws perform in relation to agricultural marketing into three categories:

- enabling functions, which provide the essential legal framework for the marketing system (e.g. establishing property rights, rules about economic behaviour, currencies, and negotiable instruments such as cheques) without which markets could not function;
- economic regulatory functions, which seek to promote, guide and discipline the operation of markets (e.g. laws dealing with competition, uniform weights and measures, product-quality standards, and tax); and
- constraining functions, often designed to restrict the operation of the market in some way in order to avoid what are perceived as socially undesirable consequences (e.g. environmental and consumer protection legislation).

It is important to note that a particular legal mechanism may perform more than one function. For example, the imposition of product-quality standards could perform the economic regulatory function as it established a level playing field in a competitive market, and it could perform the constraining function as it reduces the opportunity to market products with different quality.

A set of well-functioning formal rules is essential for the effective functioning of marketing systems. In many developing countries, the capacity of the state to conceive, implement and enforce these formal rules is weak. In such a case, the efficiency of the market is reduced, the costs of doing business are increased and the development of a competitive private sector becomes more difficult. Not only the absence of rules may hamper effective and efficient marketing; the existence of inappropriate laws and regulations may have the same detrimental effects on markets.

Formal laws and regulations are not the only institutions governing agricultural marketing, as informal institutions also play a role in directing, enabling and constraining human behaviour. Formal institutions (such as laws and regulations) and informal institutions (such as norms and traditions) together constitute the institutional environment in which farmers and their (economic) organisations develop specific strategies for agricultural marketing.

Sometimes, informal institutions play a more important role than formal ones, particularly in situations where enforcement of formal rules is weak. Moreover, the cost of developing, implementing and enforcing formal rules may be much higher than the cost of maintaining informal rules. Informal institutions (and the trust that results from them) do not only prevail in developing countries; also in developed countries they continue to play an important role, both as a substitute and a complement to formal institutions. For informal institutions the same argument about negative effects hold: also informal rules may distort markets and reduce their efficiency and effectiveness, for instance by reproducing power asymmetries leading to inequitable outcomes.

Even when the legal environment is supportive and enabling, farmers may still be experiencing constraints in obtaining market access. The small size of their holdings, their limited resource endowments, the high risks they face, and their lack of (market) information may hamper access to and competitiveness in markets. In response, farmers have developed collective strategies that can reduce these constraints by pooling resources, sharing risks, joint processing and storing, and collective bargaining. By collective action in formal or informal producer organisations farmers can reduce production and transaction costs, improve countervailing power, reduce risks and improve quality. In addition, these collective organisations may function as advocacy organisations to lobby for more enabling and supporting formal institutions.

A special type of legislation dealt with in this paper concerns the laws and regulations on producer organisations. When POs become formalized, which in some situations is desirable or even required, they fall within the scope of specific laws regulating registration, organisational structure, scope of activities, and fiscal status. Similar to the general laws and regulations on agricultural marketing, special formal institutions on producer organisations can be enabling or constraining. For instance, the legislation on cooperatives is very strict in some countries, leaving the cooperative few option for organisational development, while it is very flexible in other countries, giving cooperatives (and their members) opportunities to adjust to shifting market conditions.

This review is structured as follows. Chapter 2 presents a discussion of national and international policy initiatives that impact market access constraints. The discussion is structured according to the four constraints that were selected above: barriers to entry, high market risk, high transaction costs and low bargaining power. Chapter 4 discusses trends and developments in the legislation on producer organisations, such as laws and regulations on cooperatives. Chapter 5 presents the conclusions.

2 Policies affecting constraints in small holder market access

2.1 Barriers to entry to markets

2.1.1 What is the constraint, and what are the main developments?

Reasons why barriers to entry exist are varied and numerous. Constraints can be related to lack of infrastructure (usually roads or ports), to prohibitive tariffs, or to quality requirements. All three types of barriers mean that a certain market exists, but that the small holder is constrained in some way to sell produce on that market. In this section we define barriers to markets as ensuing from physical limitations in reaching markets as well as from formal rules and regulations that apply to markets (such as tariffs, licensing, special quality and food safety standards, etc).

Infrastructure

A large percentage of public expenditures in developing countries is dedicated to the maintenance or improvement of physical infrastructure. The quality of local roads, national roads and international corridors have a profound impact on the agricultural marketing system. International corridors facilitate the international trade in agricultural products. On the one hand it makes that the local producer faces additional competition in the local market; on the other hand it opens opportunities to access international markets, especially in neighbouring countries (see Box 1). The relative weight that governments and international organisations like World Bank, Inter-American Development Bank, African Development Bank and Asian Development Bank give to the different kind of roads is a contentious issue. For small holders the quality of the mud road connecting their village to the city is far more important for the reduction of their transport costs, than the improvement of international corridors.

Box 1: International Corridors

An example of the relatively large emphasis of policy makers on international corridors is IIRSA in Latin America. This project was launched in 2000 and includes Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Guyana, Paraguay, Peru, Surinam, Uruguay and Venezuela. IIRSA's objective is to improve the competitiveness of the regional economy and its integration into the global economy, and promote sustainable socioeconomic development in these countries, especially through the modernization and integration of their infrastructure and logistics in the transport, energy and telecommunications sectors. Through IIRSA the international corridors between countries are financed, usually with soft loan public debt. These corridors will change the agricultural marketing system in the countries around the Amazon, reducing the existing high transport costs of agricultural bulk trade through the Panama Canal or around Patagonia.

Tariff barriers

World trade has expanded rapidly over the past decades. This has been facilitated by the periodic rounds of multilateral trade negotiations at the World Trade Organization (WTO) which led to a considerable reduction in tariffs on goods crossing national borders. The WTO negotiations of the Doha round are still going on. For agriculture, it is intended to reduce import tariffs even more and reduce export subsidies. In the Everything but Arms (EBA) agreement the EU allows free access to the European market for the least developed countries for many products ("everything but arms") from 2009 onwards. Besides this, the ACP agreement with former colonies of the EU countries will be converted into the Economic Partnership Agreements (EPAs). The goal of the EPAs is to better integrate developing countries into the world economy. The EPAs contain agreements on aid (technical assistance) and trade.

The networks of farmers' organisations in five ACP sub-regions (Southern, East, Central, West Africa and the Caribbean region) conducted a mid-term review of the ACP-EU negotiations on the EPAs and concluded that because of competition between the regional institutions and pressure from the European Commission, the countries of the region appear as if they were drawn into negotiating an EPA without clearly defining their own interests (Trade Negotiations Insight, Vol 6, No.1). Regional Trade Agreements (RTAs) have become in recent years a very prominent feature of the multilateral trading system. RTAs have increased since the early 1990s. If we take into account RTAs which are in force but have not been notified, those signed but not yet in force, those currently being negotiated, and those in the proposal stage, we arrive at a figure of close to 400 RTAs which are scheduled to be implemented by 2010. Of these RTAs, free trade agreements (FTAs) and partial scope agreements account for over 90%, while customs unions account for less than 10 % (WTO, 2007).

The impact of these tariff reduction and market liberalisation processes on the agricultural sector continues to be heavily debated. While for exporting countries these tariff reduction mean a reduction of transaction costs and an improved market access, for the farmers that supply their local markets with products the picture is far less positive. Increasingly the merits of 'general' tariff elimination is questioned and the proposals for the assignment of Special Products, important to be protected due to employment or food security reasons, is a reflection of this. These Special Products are not only a defence of domestic production against subsidized products from the industrialized countries, but also to control import surges from more competitive neighbouring countries (South-South trade).

Non Tariff Trade Barriers

In most developed countries, public policies on safety and quality standards have been revised, and significant institutional changes have been make in oversight of food safety and quality. Standards have been tightened on foods that have long raised safety concerns, while new standards have been developed for previously unknown or unregulated hazards or to address the food quality concerns of consumers. At the same time, product liability has come to play a more prominent role, defining new realities for food suppliers that make available for sale products that fail to supply the claimed food safety and/or quality attributes (Henson and Reardon, 2005).

The proliferation and increased stringency of food safety and agricultural health standards is a source of concern among many developing countries, as they pose non-tariff trade barriers (NTTBs). Some NTTBs are permitted under WTO in very limited circumstances, for instance, when they are deemed necessary to protect human health and safety, animal welfare or to protect natural resources. These barriers may create increasingly obstacles for especially poor countries to engage in international trade, either because these countries lack the technical and administrative capacities needed for compliance or because these standards can be applied in a discriminatory or protectionist manner.

Some of these barriers are heavily contested. Food-and-Mouth Disease (FMD) in cattle is endemic in many countries but often restricted to particular areas only. The elimination of the import ban for cattle or dairy products from FMD-free areas demands lengthy and complex administrative processes and requires the substantial investments in quality control. For instance, in several countries the national laboratories are not accredited by the importing country to certify the quality of the product exported. The investment in an internationally accredited laboratory is a very important step to obtain market access.

Domestic certification systems often have to be adapted to changing requirements in importing countries. For instance in October 2006 USDA's National Organic Program discredited a group certification system used for small holder organic production and threatened to cut-off an important market outlet for small holder farmers in Mexico (see Box 2).

Box 2: The USDA National Organic Program and coffee cooperatives in Mexico

"Last year, the USDA National Organic Program decertified a coffee cooperative in Mexico after an inspector discovered that the cooperative's internal control system had failed to detect that one farmer had used pesticides and stored his coffee in used fertilizer bags. After an unsuccessful appeal filed by the Mexican cooperative, on October 27, 2006, not only did the USDA decertify that cooperative– based on a legal reading by USDA administrative law judges– USDA decided to abandon the grower group certification process altogether by unilaterally declaring that, "The use of an internal inspection system as a proxy for mandatory on-site inspections of each production unit by the certifying agent is not permitted." Now every farmer, no matter how small, must submit to yearly, on-site inspections. Certification inspection visits, often to remote coffee farms, can take three to five days at a cost of \$150-\$270 a day. There is little likelihood that individual small holders—who produce the bulk of the world's organic coffee— can pay this price, or that certifiers can reach all of them."

Source: NOP Appeal Summaries, 10/2005–3/2007 cited in: Holt-Giménez, Bailey and Sampson, 2007

Jaffee and Henson (2004) have examined the underlying evidence related to the changing standards environment and its impact on existing and potential developing country exporters of high-value agricultural and food products. They found that the picture for developing countries as a whole is less pessimistic than the mainstream 'standards-as-barriers' perspective. Indeed, rising standards serve to accentuate underlying supply chain strengths and weaknesses and thus impact differently on the competitive position of individual countries and distinct market participants. Some countries and/or industries are using high quality and safety standards to successfully (re-)position themselves in competitive global markets.

Quality related barriers to entry are often higher in high value markets (e.g. supermarkets) and in international supply chains, such as those selling (high-value) agrifood products from developing countries to developed country markets. Quality and safety standards are often higher in these developed country markets than in developing country markets, and customers (importers, retailers) want minimum volumes that go far beyond the production capacity of small holders. As the relative number of urban consumers is rising and more supermarkets are being opened, also in developing countries, barriers to entry are also increasing in domestic markets given the development of supermarket procurement systems and the higher demand for quality by urban consumers.

2.1.2 What are the main trends in public policies dealing with these constraints

Public budgets for investments in infrastructure are to a large extent financed with soft loans from the World Bank or the regional Banks (BID, AfDB, ADB). There is increasing attention to the construction of international corridors that link countries on each continent. The tendency is re-enforcing the trend that urban cities in developing countries are increasingly supplied by imports to meet urban demand.

As the role of traditional trade barriers vanished under negotiations (WTO, EPA etc), the focus of trade policy has shifted to these remaining non-tariff barriers to trade (NTTBs), which are becoming increasingly important in international trade issues. These affect production in developing countries by raising standards and making it more difficult to trade.

In many developing countries, official controls on quality at the point of first sale are often impossible to implement due to lack of trained staff and shortages of grading equipment. Where trading is in the hands of the private sector, traders have developed standards which govern the prices paid to producers and in some countries traders have developed very sophisticated but unofficial standards. This suggests that education of small holders and traders rather than official controls may be most effective in ensuring produce standards. However, it may still be appropriate for legislation to penalise producers and traders who incorrectly grade or contaminate produce and for government inspectors to enforce this. In relation to produce for export, the case for rigorous state inspection and verification of standards is stronger because of the importance of maintaining a country’s reputation for its produce in foreign markets. Inspection by state authorities may also be necessary to comply with the phytosanitary and officially recognized grading requirements applicable to international trade.

An example of a public policy solution for foreign market constraints is the support of local and regional markets. Where local and regional markets exist, farmers have more market outlets available (which improves their bargaining position), can economize on information costs (as it easier to collect information on local consumer demand), and can easier comply with special (local) consumer demands. By establishing and facilitating local and regional markets, governments can support local farmers, and establish links between producers and consumers. Consumer can be made aware of the local produce and the benefits in terms of the environment, health, leisure, and support for the local community.

Box 3: Public support for local and regional markets

- **The Netherlands**: special state funding programmes have been set up to support the development and marketing of products of regional origin. On an EU level, the marketing of products of regional origin have received much support from the special brand certification scheme.
- **The Netherlands**: state financial support for the provision of domestic fruits to school children.
- **Canada: The Ontario provincial government** launched television advertising campaign to promote fresh fruit and vegetables grown in Ontario.

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2.1.3 What is the particular relevance of the constraint for small holders?

Small holders use to supply domestic markets and are particularly vulnerable to low cost imports. They have limited resources to invest in technology and switch to other crops and markets. They need time, knowledge and public support to make such a transition.

To what extent world trade negotiations and developments will benefit small holders depends on several factors. More trade can benefit small holders if it increases their opportunities to access profitable export market. However, this depends on the potential to produce export crops, on obtaining export licenses, and on whether appropirate infrastructure exists. But it can also means that small holders have to compete with farmers overseas who may be more efficient or who may receive subsidies that reduce their production costs.

NTTBs can pose significant barriers to small holders who produce export products. Investment in production and processing technology are usually required to fulfil the high quality requirements and this may pose a real problem for small holders. Meeting these requirements is where the constraints for small holders may arise because they entail costly investments in production techniques (e.g. using specific varieties), post-harvest or processing techniques and facilities, and specific knowledge (e.g. quality control). For instance, small holder growers find EurepGAP a major challenge as they lack the necessary infrastructure and trained personnel and do not have the finance to support adoption and maintenance of EurepGAP without external help. On the other hand, small holders may also take advantage of the creation of niche markets that result from NTTBs. Due to small scale production, small holders are sometimes able to ensure (labour-intensive) high quality produce.

2.2 High market risks

2.2.1 What is the constraint, and what are the main developments?

Agricultural producers face many risks. One can make the distinction between risks that can potentially be managed and those for which coping strategies are required. The first type includes market risks, for instance those due to increased national and international integration of markets. The second type of risks arise from weather (in particular in countries were agriculture is predominantly rain fed), disease, pests or other natural factors. In the industrialized countries, farmers benefit from an array of arrangements to isolate or cushion farmers from various shocks. Apart from provisions related to the welfare state, there are many national agricultural policies in place that seek to protect farmers from market risks, especially from variability in farm gate prices. In addition, and backed by well-developed financial markets, farmers in industrialized countries have been quite successful in pooling risks of the second category under cooperative insurance schemes, a process in which producer organisations have been instrumental.

Farmers in developing countries generally face bigger risk than their counterparts in the industrialized countries. Small holders, because of their low resource endowment, tend to be highly vulnerable to production risks due to natural conditions and climatic shocks, as well as to the marketing risks due to price fluctuation, opportunistic buying behaviour, etc. In most developing countries, institutions that can mitigate risks (such as insurances) are missing or weakly developed. In the past, the government often reduced market risks by market intervention (e.g. through price stabilisation), but this was often not very efficient. With the withdrawal of state market intervention, risks for small holders have increased over the last decades, due to growing price instability, higher quality demands, more competition and more asymmetric information.

2.2.2 What are the main trends in public policies dealing with this constraint?

Reducing risks for small holders by public policies entails establishing or developing risk reduction institutions. The quest for long-term solutions on how to get more stable and remunerative prices for agricultural products produced by small scale farmers in international markets has been on the agricultural policy agenda for many years. There are three broad approaches to this problem, namely:

- Market-management solutions– i.e., policies to better organize markets so that supply and demand is kept in balance
- Market-compensation solutions – i.e. policies to compensate for the effects of market instability and non-remunerative prices
- Negotiation of contracts, including price and delivery conditions

“Market-management measures” were practised by UNCTAD in the 1970’s through 18 international commodity arrangements with the objectives of preventing prices fluctuations through control of exports and stocks. Unlike producer cartels such as OPEC for oil, most of these agreements were composed by both importing and exporting countries. All these mechanisms collapsed in the late 80’s under the costly burden of managing surplus stocks. They were not managed well and typically farmers were not engaged in decisions to cut back on supply.

At the national level, prior to the 1980’s, supply management systems at national level were used by many countries. These were undertaken through price stabilisation mechanisms put in place in order to protect farmers from world market fluctuations and ensure a stable, remunerative price for farmers. These systems were administered in the framework of State Marketing Boards with the aim to move the market risk from farmers to national governments. Owing to the costs of administering these systems, and to the difficulties of managing national supply in a context of WTO trade liberalisation, many have been dismantled. One notable exception is in Canada where national supply management systems are managed by producers themselves.

Another mechanisms used for reduction of price variability is the use of variable tariffs on imports relating to the price level on the international market. These ‘price band systems’ are under challenge in WTO arbitration bodies. A good example is the Andean Price Band System (SAFP) which stabilizes internal prices by lowering tariffs when world prices rise above the five year average, and increasing tariffs when world prices fall below that reference price. The system was introduced in 1994 and covers 13 product groups for which import surges and price variability might destroy domestic supply chains for cereals, dairy, chicken, rice, soy products, etc.

With the phasing out of producer price support schemes and marketing boards, governments are now giving more attention to “market-compensation solutions” or income safety net programs. They are looking at schemes that do not distort trade. Developing countries are also interested in donor driven schemes for risk management in agriculture e.g. the EU-ACP Flex program under the Cotonou agreement.

Many different approaches exist in agriculture to manage risk, and each has its own context. For example, the World Bank’s International Task Force on Commodity Risk Management is focusing on market-based instruments to manage risk. In particular, it seeks to bring “price insurance” to farmers in developing countries through hedging schemes using put options. It is doubtfull whether this “insurance”, which is delivered through rural banks, will bring benefits to small holder farmers. The Task Force is also looking at “yield insurance” by using weather derivatives.

Spain has a crop insurance scheme that is backed by government. France has a calamity fund to deal with disasters but has no crop insurance. Australia has no crop insurance either but uses special flexibility in the banking system and general social security scheme to help farmers deal with shocks. In Canada, there are market organisation schemes, not involving supply management, and various income insurance programs have been tried. Further analysis is needed in order to present the advantages and disadvantages of the different instruments to face the commodity market crisis at national and international levels.

A progressive differentiation among farmers seems to be appearing, with on the one hand a small group of farmers having enough resources to deal with market risks or even to control price instability and competition, and on the other hand the large group of impoverised small holder farmers. This differentiation may even be accompanied by dual policies, such as in Brasil which has agricultural policies for the small group of export-oriented farmers, and social policies for the large group of poor farmers (Chaddad and Jank, 2006).

2.2.3 What is the particular relevance of the constraint for small holders?

Small holder strategies to reduce risks often imply an inability to invest in profitable but risky activities. Small holders often have diversified production activities, in order to stabilise income, but this strategy does not facilitate growth. Public policies that reduce market risks help small holders to specialize and thereby to increase their income.

Not all of the insurance and hedging instruments available in industrialized countries are appropriate to small holders. Hedging on commodity markets typically requires high volumes of standard quality product.

2.3 High transaction costs

2.3.1 What is the constraint, and what are the main developments?

Transactions costs arise from market transactions and are often divided into three categories (North, 1990):

- **Contact,** which consists of finding and exchanging information between people who want to agree on some transaction. Finding partners or obtaining information about them can be costly, in terms of time, effort and money;
- **Contract,** which refers to the specific agreements that are made between the people in the context of a transaction, including bargaining over the terms of the trade;
- **Control** which entails the monitoring of the exchange as well the enforcement of the agreements.

Small holders living in areas where markets are not well developed and market support institutions are absent usually face very high transaction costs. For rural producers, and small holders in particular, it is often difficult and costly to obtain appropriate information on market demand. Producers may lack information on prices (both in the local market and in distant markets), price trends, consumer demands, quality requirements, different market opportunities, potential buyers, etc. This type of information is needed not only to be able the produce the right product and to supply what is demanded, but also (from an economic perspective) to provide the right incentive to producers. Thus, producers face two problems. One is the problem of having not enough or not the right information. The other problem is the risk of opportunistic behaviour by the buyer. While the buyer provides the producer with information on market demand, the producer has insufficient means to check this information. In other words, he has to trust the buyer that she provides honest information. Unfortunately, there are multiple examples where buyers have used an information advantage to their own benefit and to the detriment of the producer.

Obtaining proper market information seems to become more important when products to go distant markets, when products are customer-specific, when competition is increasing, and when quality (and quality control) is becoming more important. Thus, small holders seeking to become participants in high value supply chains are faced with more serious information problems.

Besides formal institutions there are also informal institutions and social mechanisms that that reduce transaction costs. Small holders often prefer to enter into transactions with members of the local community, with family members or persons they have known for a long time. Social mechanisms of reputation, social sanctions and informal information exchange thus reduce the transaction costs related to uncertainty, asymmetric information and transaction risks. Trust therefore plays an important role, because it reduces trading risks. However, being limited to trading partners with whom a long-term relationship has been established reduces the scope of increasing trade by selling to or buying from multiple (or more distant) traders.

2.3.2 What are the main trends in public policies dealing with this constraint

Public policy potentially has a large role to play in reducing transaction costs. Public policies to reduce transaction costs consist of developing institutions that support market exchange; providing training for farmers and their representatives in contract desing and contract management; providing training for farmers and their representatives to exert their rights and to accept their obligations; fostering institutes for dispute resolution; and supporting the establishment and strengthening of producer organisations. In addition, policies that provide or support the provision of market information are also important for reducing the transaction costs small holders face in markets.

An important policy initiative to reduce transaction costs in developing countries is the work of Hernando de Soto. His team of the Institute of Liberty and Democracy analysed in many countries the number for working days that it took to start a business, and tried to find ways to reduce this time. Though this work was highly urban biased, the implication of this effort to reduce bureaucracy affecting commercial transactions has important implications for farmers organisations.

Alternative dispute resolution (ADR) mechanisms, whence flexible and low-cost, may help to reduce the transaction costs related to the enforcement of agreements. ADR mechanisms may range from informal dispute adjudication by respected members of a market, to formal arbitration procedures. As far as the proper functioning of an agricultural marketing system is concerned, for most disputes it is not essential that a representative of the state such as a magistrate or a judge should decide disputes. The most important thing is that participants in the system have easy access to dispute resolution procedures that they believe will generally result in fair and independent decisions. It can be provided by a private sector trade association or Chamber of Commerce. However, such procedures are only effective when all the parties to a dispute agree to resolve their dispute in this manner (either in advance in the contract, or after the dispute has arisen). Furthermore, the courts must always be available to those who wish to enforce their legal rights.

The problem of information asymmetry between suppliers and buyers can be solved by third party certification of the quality of the product. This third party can be state agency (by implementing public grades and standards), or a private organisation (implementing and controlling a system of private grades and standards). Due to the substitution of private grades and standards for public ones, the concommittant trend in third party quality control and certification is from public to private execution of these tasks.

2.3.3 What is the particular relevance of the constraint for small holders?

Small holders usually have little information about markets, as they cannot afford to bear the transaction costs of collecting and screening market information. Their solution is to sell their products to a village collector or trader, who sometimes fulfils several roles, such as pre-financing inputs, grading and sorting, and organising transport. However, the trader is better informed about the market than the small holder and this asymmetric information may lead to an unequal power balance, to the disadvantage of the small holder (see next section). Organizing themselves in economic farmers' organisations may solve this problem.

2.4 Low bargaining power

2.4.1 What is the constraint, and what are the main developments?

When small holders enter into input or output markets they are usually faced with market structures that are much more concentrated than the farming industry itself. In other words, sellers of inputs or buyers of farm products are usually much larger firms than the small holders themselves. These larger firms have more bargaining power and more resources available for market research, innovation and/or rapidly adjusting to changing economic and political environments.

Bargaining power refers to the relative capacity of different actors to obtain favourable terms from the transaction. It is strongly related to access to information, to alternative options, to dependency relationships, as well as to the perishable character of the product. The bargaining power of small holders is especially low since they have poor access to market information and limited access to financial markets that prevent them from selling their (non-perishable) products at the most profitable period. Their lack of bargaining power may lead them to under-value their production and obtain a smaller share of the added value created in the commodity chain. Small holders have particularly low bargaining power when they operate in processed products supply chains where the economies of scale in the product transformation (processing) stage lead to the creation of oligopsony.

Small holders individually are too small to supply sufficient volume to their buying partners (whether these are traders, processors or retailers). This leads to low bargaining power, but it may also lead to buyers looking for other suppliers that can supply them with sufficient volume. Traditionally two solutions can be found for the problem of asymmetry in the sales and purchase volumes. One solution is the middle man who collects produce from different producers and sells them in bundles to processors, wholesalers or retailers. The other solution is the producer organisation (PO) that collects (or bulks) the products from different producers. The PO can go one step further in the value chain, by not only selling the 'raw' produce from the farmer, but can also engage in sorting, grading and packaging. A second step that POs can take is also processing the farm products. This form of vertical integration, however, requires investments for which capital is usually not easily available.

On the inputs and innovation side also low economies of scale exist. Given the small size of many of their farms, small holders face many diseconomies in purchasing inputs, obtaining market information, and in carrying out R&D. These activities generally have minimum efficient scales that are far beyond the size of the individual farmer. Solutions for this problem can be state provision of particular services (such as R&D) as well as collective action solutions by establishing some kind of producer organization.

One of the effects of low bargaining power is the huge difference between farm gate prices and prices paid by consumers. Especially in fresh products the price difference can be very big. Prudencio and Ton (2004) investigated the ratio between urban spot market price and farm gate price for several small holder products in Bolivia.

Table 1: Price differences between farm-gate and urban consumer prices in two Bolivian cities

La Paz Spot Market	Potatoes	Onions	Rice	Wheat Flour
Farm gate price	5.85	4.69	12.94	11.42
Urban spot market price	26.87	22.17	30.40	19.90
Ratio	4.6	4.7	2.3	1.7
Potosí Spot Market				
Farm gate price	6.38	3.98	11.35	11.33
Urban spot market price	14.10	12.12	21.69	24.79
Ratio	2.2	3.0	1.9	2.2

Source: Prudencio and Ton 2004, p.77

The difference between farm gate prices for tropical export commodities and consumer prices in industrial countries is even higher. Aside from the necessary processing typically associated with crops like coffee, cocoa, quinoa, etc., the cost of serving a increasingly segmented market to consumer groups that demand special processing requirements and specific qualities explains part of this, the concentration in the retail and processing sector that sources these commodities is a driver too. In several countries (like Ivory Coast) marketing policies on export commodities are still designed to extract surplus from agriculture in order to finance state investment in other sectors. So, even where a marketing system is effective in achieving its main objectives of bringing produce from small holders to consumers, it is often possible to increase the efficiency of the system and reduce the price differential between farm-gate prices and consumer prices.

2.4.2 What are the main trends in public policies dealing with this constraint

Different public policies can reduce the problems of low bargaining power of small holders in markets. Policies supporting the establishment of producer organisations that bargain with customers on behalf of their members, help to build farmer countervailing power. Other relevant policies are those that promote local and regional markets, in which economies of scale are less important. In addition, policies regulating markets, such as through supply management, may reduce asymmetric market power (see Box 4). Policies promoting the modernization and upscaling of farms may also reduce the low bargaining costs, although customers also often grow in size. Finally, competition policies preventing uncompetitive behaviour (or uncompetitive market structures) in the inputs and outputs markets also strengthen the position of farmers in markets.

Box 4: Supply Management in dairy in Canada

Canadian agriculture has many different examples of how farmers have organized themselves to seek empowerment in the market place, both domestically and internationally. One of them is the system of *supply management* that is both farmer initiated and government supported. Supply management allows farmers to regulate the supply of a specific product to meet the demands of domestic consumers. The supply management system also allows farmers the negotiated prices that they receive from processors, therefore ensuring an efficient and equitable value chain. Farmers have also actively supported non-supply managed marketing structures that allow farmers to collectively sell their products or collectively purchase their inputs. For many years co-ops have also been used as a means of returning profits back to the farm level. All these policy initiatives require legislative amendments that more or less allow for farmers to collectively buy or sell their products.

Supply management allows producers to act collectively to balance the market power of increasingly large and powerful firms beyond the farm gate in the dairy industry. Supply management ensures that the terms of trade between the producers and others in the Marketing chain are fair. Ensuring that farmers receive a stable income in exchange for producing high-quality food while not costing taxpayers a penny has been a major success of supply management. Supply management also fosters stability of price and supply. Supply management is founded on three pillars. Each of them is critical to supporting the system to ensure it operates smoothly:

1) **Production discipline**: Farmers plan production to ensure that a steady supply of quality milk is available to meet consumer demand for milk and dairy products.
2) **Predictable imports:** Farmers need to know the level of imported dairy products so they can plan their production to meet Canadians' needs, without creating a surplus.
3) **Pricing mechanism:** Farmers collectively negotiate prices for their milk. Farmers are thus empowered to deal as equals with the small number of large processors who buy their milk.

Source: http://www1.agric.gov.ab.ca/$department/deptdocs.nsf/all/apmc2626]

3 Policies on economic producer organisations

3.1 Introduction

The objective of this section is to present a discussion on policies and changes in policies that explicitly deal with producer organisations. The focus will be on those policies and those organisations that support farmers to get access to markets and/or to improve their competitiveness in markets. We do not limit ourselves to the challenges of smallholder farmers in developing countries, but we seek to review policies and organisations from all around the world.

Laws regulating private sector organizations such as POs can consist of both general laws such as company laws, commercial codes, and taxation laws, or special laws on marketing agricultural products by POs (e.g. certain marketing board) or special legislation on the formation and operation of POs (such a laws on agricultural cooperatives).

One has to acknowledge that many laws and regulations are country specific and that they are not static. For instance, the legislation on cooperatives is very strict in some countries, while it is very flexible in other countries. In addition, with the withdrawal of the state from direct involvement in marketing of farm product or in the delivery of farm inputs, the legislation on cooperatives is evolving in many countries, notably in transition and developing countries (see box 5 for a example of the flexibility in legislation on cooperatives).

Box 5: Changing legal formats: cooperatives and member liability in The Netherlands

In the Netherlands, cooperatives can choose between full liability, partial liability and excluded liability. Traditionally, most agricultural cooperatives traditionally were established under full member liability, in order to be able to obtain sufficient loans. In recent decades, many cooperatives shifted to either partial liability (where each members is liable for a maximum amount) or excluded liability (where members are no longer liable at all).

Many different types of producer organisations exist. Producer organisations can be distinguished on the basis of their legal status, their functions, their geographical scope, and the character of the economic services they provide. Different typologies of POs are:

4. Formal or informal organizations, where formal means that the organisations is established and registered under some kind of legislation;
5. Community-based or member-based organizations, where a community-oriented PO has the whole community as it beneficiary, while a member-oriented PO provides benefits primarily to its members;
6. Local, regional of national federations, where a group of grassroots organisations undertake activities; these federations can be organized according to the type of commodities (e.g. coffee, dairy) or according to the type of service (e.g. credit) or the geographical or cultural criteria
7. Cooperatives and associations, where the cooperative is a firm, usually with the members as owners, while the association is more like an (economic) interest organisation (e.g., a bargaining association).
8. Specialized or multifunctional organisations.

3.2 Are formalization and special legislation needed?

POs may be formal or informal organisations. There are advantages and disadvantages of both formalization and staying informal, very often depending on the particular social and political, and legal context. The following arguments can be put forward for formalization. First, a formal legal status provides POs, just like other legal persons, with the ability to enter into contracts and to borrow money. Without legal status for the PO, any contract with a third party must be with an individual member or with individual members of the PO. Second, without a legal framework, each group of associated individuals must determine the nature of their relationship to each other and their governing structure. Third, a formal PO and its membership can more easily be protected from abuses such as fraudulent use of funds or the misuse of name and identity of the PO. Fourth, a special legal status also facilitates the (inter)national collaboration of POs, for instance in dedicated federative organisations. Fifth, having a legal status clarifies the rules on liability of the PO and its members. While full liability of the members for the debts of the PO is attractive of any borrower, as the loans can be recouped from the members in case the PO is no longer solvable, it is less attractive for the members.

However, formalization may not always be desirable, for internal or external reasons. First, informal organizations have more flexibility, particularly in countries where legislation on POs (such as cooperative law) is rather restrictive. Second, registration of a POs may be so so expensive that the costs exceed the benefits. Third, formalization provides state authorities with the opportunity to tax the PO and/or members. In situations where the competitors (such as informal traders and middlemen) do not pay taxes, establishing formal marketing POs may not be an economically sound practice (see Box 6).

Box 6: Taxation and competition in Bolivia: the case of lettuce producers in En Alto

Crossing the divide of the formal-informal dichotomy is costly. Economic agents subject to the informal economy legal framework that have to compete market shares with other agents in the informal economy that change their tax regime (inscribing themselves in the General Tax Regime) loose a significant percentage of their margins. As an example we present a study of lettuce producers in the Viacha municipality, near the city of La Paz, that shows a decrease in the gross margin for marketing services with an astonishing 64% when all taxes on transactions would be fully paid by their economic organisation. Registration of small holders in the Unified Agricultural Regimen (RAU) can lower the tax burden for the marketing associations somewhat (it eliminates the obligatory 8% retention tax), but still the reduction in gross marketing margin makes it very difficult for these associations to feasibly by-pass informal intermediaries in the chain and further vertical integration of the lettuce chain.

Informal lettuce marketing:

Viacha producer price 1.00 B$** → **GROSS MARKETING MARGIN 0.50 B$ → **La Paz consumer price 1.50 B$**

Formal lettuce marketing:

Viacha producer price 1.00 B$** → **RETENCION TAX 0.08 B$ / VALLUE ADDED TAX 0.24 B$ / GROSS MARKETING MARGIN 0.18 B$** → **La Paz consumer price 1.50 B$

The impossibility to get VAT deductible transaction notes from small holders places a serious financial burden on agribusiness serving the internal market. Competition in some sectors, like dairy and horticulture, is to a large extent made up of non-VAT paying intermediary agents that buy there goods directly from domestic producers.

Source: Mendoza and Ton, 2003.

There are several arguments to support special legislation on POs:

1. The presence of a legal framework for POs provides legitimacy to POs as *bona fide* organizations. The presence of a legal framework for POs is a sign that a country has understood the need for producers to work together to address problems they are facing and is willing to provide them with a mechanism and a structure for them to work together.
2. Separate legislation can make clear the special characteristics of a PO, emphasizing and formally acknowledging the differences between POs and other associations and businesses. For instance, the legislation can firmly entrench the principle that the members of the PO ultimately are the ones who control it. Without legislation this fundamental characteristic may be absent or ambiguous.
3. Special legislation provides the legal instruments to treat POs differently from other businesses, for instance by giving them tax exemptions or special status under competition law.
4. Special PO legislation can promote the acceptance by state officials, other businesses and the general public of the special social and economic functions that POs have and of the special organisational and legal characteristics that are needed to carry out those social functions.

The advantages of formalization may become more important when POs want to enter into contracts with buyers about the delivery of special quantities and special qualities of farm products. Thus, formalization seems to be a basic requirement for POs who want to establish a sustainable trading relationship with downstream actors in the agrifood supply chain.

Still, not all special legislation on PO may lead to good outcome for the (small holder) members. Box 7 gives an example of legislation on a marketing PO that actually had a detrimental effect on the market access of the producers.

Box 7: How Marketing Monopoly Affects Efficiency

The coffee cooperatives of Kenya in the early 1990s illustrate the effect of a marketing monopoly on the efficiency of cooperatives. Although they were generally successful in terms of sustainability, diversity of member services, and administration of their activities, the coffee marketing societies became increasingly inefficient in the early 1990s. The basis impediment to efficiency in the coffee cooperatives was the legal monopoly which the cooperatives has been given in the marketing of coffee produced by small holders. This left the management of the societies with insufficient incentives to improve performance and cost-efficiency.

Source: Hussi et al., 1993: 29

3.3 Changes in legislation on cooperatives

Legislation on cooperatives may differ substantially among countries (UN, 1998). Many states consider cooperatives to be a particular type of business organization or corporation operating in the market, subject to specific cooperative laws in the form of one law covering all types and forms of cooperatives or separate laws for different types and branches of cooperatives. Provisions governing cooperative societies can be found in special chapters of more general codifications (such as the civil code, the commercial code, the labour code, the rural code); in special provisions governing the application of general organization law to cooperatives (such as the Industrial and Provident Societies Act in the United Kingdom); in competition law (the Capper-Volstead Act in the United States of America); or in taxation law. A number of countries (e.g. Denmark) do not have any special cooperative legislation and cooperatives are subject to general laws such as tax law, competition law, labour law and land law governing all business organizations. The co-operators choose the appropriate legal form for their cooperative and make by-laws according to their needs and on the basis of their practical experience and internationally recognized cooperative principles.

In former socialist countries (as well as in many developing countries), the transition to free market economies brought about tremendous changes in the economic and political arena, leading to the immense challenge of elaborating a totally new legal and administrative framework for almost all aspects of life, including cooperative arrangements (UN, 1998). For many countries, the process of restructuring old and/or enacting new legislation on cooperatives was a process of trial and error, with amendments, revisions and clarifications often needed soon after a new legislation was introduced. Some countries followed a more gradual process of revisions of the old structures, while others went for immediate and fundamental transformations. For instance in Poland, the law of 1990 provided for the liquidation of all cooperative unions and introduced a statutory ban on the association of cooperatives. Other legal regulations were introduced which favoured splits within the cooperative movement. The law brought about the disintegration of the cooperative movement and significant material losses including property, manufacturing plants and real estate. The 1994 Cooperative Law reinstated the right to voluntary association of cooperative societies into cooperative unions. The purpose of these changes was to kill discredited old institutions and allow new cooperative structures to emerge.

Also in many developing countries cooperative legislation has been changing over the last one and a half decade. Box 8 and 9 provide information on recent changes in the cooperative legislation in Ethiopia and Tanzania.

Box 8: New cooperative legislation in Ethiopia

Since 1994, the Federal government of Ethiopia has expressed renewed interest in cooperative development to support small holder's participation to market. Three important features distinguish these cooperatives from their predecessors: (i) they should be based on peasants' free will to organize; (ii) they should have such power to fully participate in the free market; and (iii) they should be rid of the governmental interventions in their internal affairs. More recently, it was stated that "it has become necessary to establish cooperative societies which are formed of individuals on voluntary basis and who have similar needs for creating savings and mutual assistance among themselves by pooling their resources, knowledge and property; (...) it has become necessary to enable cooperative societies to actively participate in the free market system". These objectives were later reaffirmed in the 2002 Sustainable Development and Poverty Reduction Program.

In 2002 the federal Cooperatives Commission of Ethiopia was created to organize and promote cooperatives at the national level. Its ambitious five year development plan (2005-2010) aims at providing cooperative services to 70% of the population by 2010, increasing the share of the cooperative input marketing up to 90%, and increasing the share in cooperative output marketing to 60%. It also targets to establish 500 new unions (from 100 at present), six federations and a cooperative league. Services in areas ranging from management training, to market information and HIV aids prevention should also be provided, along with the recruitment of several thousand cooperative managers. Finally, the federal cooperative commission aims to increase women participation from 13 to 30%, and youth participation from almost none to 25% by 2010.

Source: Bernard et al., 2006

Box 9: Cooperative Reform in Tanzania

Tanzania's cooperatives have a long history which goes back to the early 1930s. In the first decade of independence, the movement was particularly strong, with a complex structure of primary coops, secondary coop organizations and a national cooperative bank. Since then, however, the story has been less happy. For a period, coops became a tool for top-down governmental policies and were effectively integrated into state structures. By the time trade liberalization was introduced in the 1990s, the cooperative movement had become unresponsive to its members' needs and was unprepared for competition from the private sector.

A turning point came in the year 2000, when a special Commission was established by the then Tanzanian President Benjamin Mkapa to investigate what could be done to rejuvenate the country's cooperative sector. The Commission was blunt in its critique of the movement, which it said suffered from a lack of capital, unwieldy structures and problems with poor leadership, misappropriation and theft.

Since then, a series of concerted steps have been taken to overcome this legacy. New coop legislation, which among other things aims to strengthen member participation and democracy, was passed in 2003, whilst in 2005 the government approved an overarching initiative, the Cooperative Reform and Modernization Programme (CRMP). Designed with assistance from the ILO, the CRMP has, in its own words, the objective of a "comprehensive transformation of Cooperatives, to become organizations which are member owned and controlled, competitive, viable, sustainable and with capacity for fulfilling members' economic and social needs". Member empowerment and commercial viability are seen as the two central themes of this reform agenda.

Implementing the Cooperative Reform and Modernization Programme, which is intended to run from 2005-2015, is an ambitious task which has already attracted some Tanzanian government funding but which will probably also require donor finance if it is to be successful. A start has been made, however, at the grassroots, in moves which aim to reinvigorate the democratic principles of cooperation.

Source: Bibby, 2006.

Even though China has also a history of planned economy, and older farmers still have bad memories of state-run cooperatives, the central government has enacted a new law on agricultural cooperatives. This law will be effective as of 1 July 2007, and is particularly meant to strengthen market access for small farmers. Although the term "farmer specialized association" or "farmer professional association" is quite common in literature on producer organisation in rural China, the government has chosen to stick to the internationally well accepted and well understood name of cooperative (Bijman et al., 2007).

The legislation on cooperative in Latin America has a long and diverse history. Cooperatives in some countries (Peru, Bolivia) tend to be intimately related with land reform programmes and organized around land titles, less as marketing instrument for their members. In other countries with less drastic land reforms, cooperatives tend to be more market oriented. The 'embedding' of cooperatives in the national legislation differs widely.

3.4 Other organisations representing agricultural producers

Cooperatives are certainly not the only organisations that support market access for (small holder) farmers. Many organisations exist that prefer to distinguish themselves from cooperatives, for several reasons, but that often adopt the main principles and characteristics of cooperatives. Such reasons could be the tight legislation on cooperatives, the high registration costs, or negative part experience farmers may have with cooperatives. In sub-Saharan Africa, cooperative policies and regulations perceived cooperative organisations as being within the public sector domain and subject to close control by governmental authorities (Hussi et al., 1993).

The legislation on freedom of association, and the development of specific statutes for various types of organizations can provide the legal framework for rural groups to be established. This has been particularly true in Francophone countries, which used the French legislation on non-project, civil, and commercial societies, as well as the law on cooperatives, as a basis for their legislative framework. In addition, innovative forms of societies were created in France to answer the new needs, and these have influenced some new legislation in a few African countries. For instance, the *Société d'Interêt Collectif Agricole* (SICA) shares the same status as a cooperative, but with a broader objective (Hussi et al., 1993). A *Groupement d'Interêt Économique (GIE)* can be formed by two or more individuals or legal entities, for a specific duration, with the objective to facilitate or develop the economic activity of its members, to improve or increase the results of its activity. This form of association, more flexible than a cooperative and easier to create, was sanctioned in France in 1967 and has been adapted by several Francophone countries, including Côte d'Ivoire and Senegal (Hussi et al., 1993).

In Francophone Africa, the *Chambres d'Agriculture* is an example of an organisation that supports the interests of agricultural producers. The Chambers, whose focus is on consultative information sharing, are constituted on the principal of universal membership. Individuals do not join to become members (as in cooperatives). Instead, the Chambers have a legal mandate to represent the constituency of all farmers and herders (Bingen, 2004).

In both Mali and Togo, the Chambers of Agriculture are recognized by law as public bodies (*Etablissement Publique à Charactère Professionnel*) representing and speaking for the agricultural sector in all policy and program discussions related to agricultural development. The statutory mission of the Chambers is to make policy makers aware of the needs and interests of all rural people, and in doing so promote the development and implementation of more responsive and acceptable development policies. To fulfil this mission, the Chambers seek to achieve three objectives:

- Play a consultative and representative role for agriculture in policy discussions.
- Provide information and training that improves producers' access to markets and to credit.
- Promote the development of professional agricultural associations that help producers participate more effectively in agricultural policy making.

4 Conclusions

This paper has presented the main constraints that small holder farmers face when entering markets or when strengthening their competitiveness in markets, and has discussed how developments among national and international policies may impact small holder market access. We particularly discussed policies that may remove or reduce the constraints to market access. While small holders encounter many constraints to market access, four categories cover the most important ones:

- Barriers to entry to markets
- High market risks
- High transaction costs
- Low bargaining power

We have seen that national and international policy initiatives play a major role in creating or resolving these constraints. The government has a direct role in establishing the regulatory framework in which small holders develop their strategies to access markets. At the international level, governments agree on the height and type of import tariffs, export subsidies within various agreements (in particular the WTO rounds). The outcome of these negotiations can facilitate or impede trade, and can have a differential impact according to the type of farm product The importance of a strengthened regulatory framework comes out especially in developing countries, where the capacity of the government to conceive, implement and enforce such as framework is weak and where policy formulation is often driven by non-farm interests or urban interest groups, without a proper consideration of the realities of farmers and farmers' organisations. This can have serious consequences for small holders, and usually means that their transaction costs of trade increase. Public services such as the provision of market informatgion, the enforcement of agreements, the establishment and control of grades ans standards, and the provision of appropriate financial services are only partially taken up by governments in developing countries, or are not taken up at all, which means that poor small holders in developing countries face additional barriers compared with their more resource-rich competitors.

Compared with their larger colleagues, small holders may be disadvantaged by their inability to benefit from scale economies and bargaining power. The bundling of produce as well as provision of services has usually been taken up by middlemen, that therefore take a relative large share of the added value created in the producer-consumer chain. Alternatively, producers' organizations can and do take up this role in the supply chain.

POs exist in many different forms and sizes. Which type of PO is most appropriate depends on the constraints that have to be solved as well as on the formal and informal institutions that prevail in particular region or country. Different types of PO's can be distinguished:

1. Formal or informal organizations, where formal means that the organisations is established and registered under some kind of legislation;
2. Community-based or member-based organizations, where a community-oriented PO has the whole community as it beneficiary, while a member-oriented PO provides benefits primarily to its members;
3. Local, regional of national federations, where a group of grassroots organisations undertake activities; these federations can be organized according to the type of commodities (e.g. coffee, dairy) or according to the type of service (e.g. credit) or the geographical or cultural criteria

4. Cooperatives and associations, where the cooperative is a firm, usually with the members as owners, while the association is more like an (economic) interest organisation (e.g., a bargaining association).
5. Specialized and multifunctional organisations

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