Integrating farmers into export-oriented value chains, some comments on the role of cooperative pricing

By

Prof. Dr. Markus Hanisch (Director)
Centre for Rural Development – SLE and Berlin Institute for Co-operative Studies -BICS

The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.
Integrating farmers into export-oriented value chains, some comments on the role of co-operative pricing

Prof. Dr. Markus Hanisch (Director)
Centre for Rural Development – SLE and Berlin Institute for Co-operative Studies -BICS
Assignment

- Provide complementing comments on the basis of my past and current work on this topic
- Discuss presented paper, questions for discussion
Analyzing co-operative Impact: Minah (2021)

**Figure 1-1: Framework for analysing FOs and their outcomes**

- Farmer organisation
- Institutional environment
- Activities
- Impacts
- Membership
- Internal governance

Position in the value chain

Source: Author
Membership effects of co-operatives?

- Income, Quality, Yields dominant in the key peer-reviewed studies
- Majority of relevant studies (58%) reported positive effects of membership
- However, no or even negative effects are also found in the top literature on coop effects
## Table 1-1: Overview of services found in farmer organisations

<table>
<thead>
<tr>
<th>Type of service</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Output marketing</td>
<td>Transporting, storing, processing, selling farm produce, market information</td>
</tr>
<tr>
<td>Input marketing</td>
<td>Producing, supplying, distributing, channelling production inputs</td>
</tr>
<tr>
<td>Financial services</td>
<td>Credit, loan, insurance</td>
</tr>
<tr>
<td>Education</td>
<td>Extension, training</td>
</tr>
<tr>
<td>Policy advocacy</td>
<td>Represent members’ interests vis a vis external stakeholders</td>
</tr>
<tr>
<td>Linking service</td>
<td>Link farmers to external programs</td>
</tr>
<tr>
<td>Welfare service</td>
<td>Social safety net, community development</td>
</tr>
<tr>
<td>Production services</td>
<td>Collective production activities</td>
</tr>
<tr>
<td>Resource management</td>
<td>Manage common property resources</td>
</tr>
</tbody>
</table>

Source: Author, based on Shiferaw et al. (2011) and Ortman and King (2007)
Why would coops price differently? (Fulton&Hanisch)

- The yardstick literature claims that coops would offer service at cost \( \frac{F}{(N+1)} \), thus charge \( (N+1) \) members only the service set-up cost \( F \) when paying for produce.

- Investor or Firms without competitors would charge away producer benefit \( B \) and as much as possible from producer and redirect \( B \) to investors.

- Probably a bit simple; Sexton (2012)

<table>
<thead>
<tr>
<th></th>
<th>IOF</th>
<th>Co-op</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access price ( p )</td>
<td>( B )</td>
<td>( \frac{F}{(N+1)} )</td>
</tr>
<tr>
<td>Net Benefit to An Individual</td>
<td>( 0 )</td>
<td>( B - \frac{F}{(N+1)} )</td>
</tr>
<tr>
<td>Net Benefits to All Individuals</td>
<td>( 0 )</td>
<td>( (N+1) B - F )</td>
</tr>
<tr>
<td>Profits</td>
<td>( (N+1) B - F )</td>
<td>( 0 )</td>
</tr>
</tbody>
</table>
and yes, there are patterns on price and price risk...

Eurostat Yearly Panel Data, complemented with data collected in the EU SFC Project

time-invariant Dummy Variables, Milk Price in Euro/100 kg (Eurostat 2000–2010), Log Maize Price Euro/100 kg
Log Per Capita GDP (Eurostat 2000–2010), Relative Trade Balance – (Imports – Exports) / Total Production (EU Member State (joined 2005 or later), South: Bulgaria, Greece, Italy, Malta, Portugal, Romania, Spain, Cyprus), Dairy Cooperatives in % (SFC Country Reports)

It depends..., market shares matter
Well thought through paper!

- Shows a typical situation of markets with considerable transaction cost for buyers and farmers
- Two avenues: Either organized or sizeable farmers realize better prices (optimal producers).
- Q: Cost and technology for logistics may explain what happened in Mongolia?
Heterogeneous farmers and services

- Given the many services coops provide its plausible to assume that farmers share multiple motivations.

- Prices may only explain part of the membership decision.

Q: How comparable are the in reality?
Coop farmers are smaller, own less vehicles, are less able to add value prior to selling, depend more on inputs to be paid back, sell at 50% discount at farm gate, hold less storage, are poorer? How?

Do farming systems differ?

Q: Do traded volumes between cooperators and non members differ systematically? Model?
How to foster cooperatives that succeed in increasing farmers prices?

- **Quality of members!** Coops can only be as good as their member farmers, policies may start as well with capacity building here!

- **Quality of internal governance:** Leaders, loyalty and voice matter. *Collective action may cost the farmer just as much as monopsonistic pricing*

- **Complementary:** Credit and extension as a policy

- **Position in value chain:** Yardsticking needs both, a private competitor and a minimum coop market share? What don’t we know, Level playing fields!
Coops may at times not be important or professional enough to compete with private companies.

But they may serve in regions where private companies refuse to act as buyers.

...and maintain a price and access to market of last resort for poor farmers.

...easy to make things better from the bottom.
Workshop on Trading Food for Sustainable Development 24/25.11. 2021, Geneva

Integrating farmers into export-oriented value chains, some comments on the role of co-operative pricing

Prof. Dr. Markus Hanisch (Director)
Centre for Rural Development – SLE and Berlin Institute for Co-operative Studies -BICS