Farmer Co-operatives

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David Headley currently serves on the Vision Trust Food Security team commissioned to find sustainable feeding solutions for impoverished children in 16 countries. He has traveled to and/or worked on agriculture projects in over 70 countries, mainly in sub-Saharan Africa and Southeast Asia. Those opportunities have given him a unique perspective on global poverty and food insecurity, and he has seen the ripple effect on low-income small-scale farmers. David also works with trade team logistics for the Illinois Soybean Association. He is a graduate of North Carolina State University and the University of Illinois.

Figure 1: David Headley meets with farmer co-op members. Photo by Larry Bradley

This article will focus on the benefits of co-ops operating by and for small-scale farmers in rural communities in Sub-Saharan Africa. The most basic definition of a co-op is local farmers pooling their resources to improve the means of acquiring products essential to farming, as well as expanding market opportunities. The objective of a co-op is to increase a farmer's net income through expanded access to new markets and credit. However, in order for this to be successful, the group of farmers must decide on several factors: governance (who the elected committee will be), ownership (how to manage the co-op), self-regulation (a set of rules agreed upon by members) and accountability (to other members).[1]

In my work with co-ops in Sub-Saharan Africa, I have found that they enable greater access to large markets compared to individual farmers selling harvested grain. The bargaining power expands to the whole group, increasing market value of the harvested product. Farmers in a co-op also pay less for inputs since the co-op can buy larger quantities at a discount. Farmers who belong to the co-op experience a customized cost savings and more cash flow.

In my experience with co-ops, cost savings have continued over several cropping cycles enabling farmers to begin to upgrade farming methods. For example, in Uganda, old implements were replaced to better farm the land. This meant less down time due to maintenance and repairs and often resulted in faster work with less labor costs. Small-scale farmers that were members of the co-op benefitted as their rate of return enlarged and their products were marketed more quickly. The profit per harvest climbed, while the potential of post-harvest loss or other issues due to time lost in the field was greatly reduced.

Before one particular co-op was formed in Uganda, the farmers would have to drive the harvest to Kenya—several days' journey away. The long, bumpy drive caused grain to be spilled from the trucks. This, combined with costs incurred by vehicle ownership and use, caused farmers to lose money before they even got their grain to market.

By contrast, when farmers joined the co-op, either suppliers would come to them to collect the harvest, or (if they delivered the product) the distance traveled was greatly reduced because the co-op was able to secure grain purchases from larger buyers. As a result, the farmers' efficiency increased because they could spend more time in the fields or in markets close to home, as opposed to driving and delivering products far away. An added benefit is that the price for the crop is negotiated and set before harvest, which allows the farmer to know ahead of time how much his crop is worth.

One major goal of a co-op is to create a pathway to improvements in agricultural production. Rural co-ops improve agriculture in three ways that lead to prosperity for the farmers. First, the co-op educates farmers about financial decisions to help them protect their assets. This is the first step in being able to generate profit. Without co-op assistance, small-scale farmers will most likely continue to face negative returns. Second, the co-op seeks to educate a farmer on all aspects of agriculture, from inputs to marketing. He is taught about relevant venues for his sales, and is educated on fair prices for his goods—before formal engagement with market suppliers. Third, once a farmer has proper market knowledge, he can use the delivery services offered by the co-op, which keeps him from possibly undercutting himself through lack of understanding of the markets. Ultimately, aside from harvests and crops, farmers themselves are cultivated. Their newly acquired marketing business skills allow them to be successful both in the fields and in the marketplace.

In rural communities, other co-ops serve as community-based savings groups. Such groups provide a safe place for farmers to borrow money based upon their agricultural yield. Farmers are able to acquire loans once the harvest is delivered to the agricultural co-op. After the grain is accounted for at the co-op, the farmer is given a receipt which can be used at the local savings group co-op. The amount of the receipt varies depending on the commodity and price scale. This receipt system has empowered farmers, increased income (because the co-op, which can sell in larger quantities, could guarantee a higher price for the harvest), raised standards of living and provided a ready market for their harvest. The agricultural co-op centers know how to properly handle agricultural commodities, reducing potential losses due to bad post-harvest handling methods. Furthermore, this kind of system ensures farmers will not have to deal with middlemen, who often offer extremely low prices.

I would be remiss if I didn't include some potential pitfalls in dealing with co-ops. First, unsavory individuals might take advantage of a farmer, making it dangerous to go into any agreement without a valid contract. Before delivering any grain to a co-op, the farmer must obtain from the co-op a written contract which specifies: price; form of payment; expected delivery date; fertilizer and other agricultural inputs; and details of the cost to the farmer. Such contracts ensure a safety net for both the farmer and the co-op. Second, a farmer should consider risk management. Although I suggest that a farmer put a large percentage of his grain into a co-op, he should also diversify, not "putting all his eggs in one basket." If the co-op as a whole underperforms, the farmer will be at a disadvantage, because each farmer depends on the performance of the co-op as a whole to be successful.

To sum up, the positive results of co-ops are: 1) Small-scale farmers see value in crops and invest in their production; 2) access to co-ops allow for the purchase of inputs (seeds and fertilizer) cheaper than individually; 3) more small-scale farmers see value and join the co-op (leading to more agricultural production); 4) local household income increases; 5) farmers become empowered both financially and personally in the community; and 6) co-ops provide access to markets for farmers in rural communities, which will collectively provide a comparative advantage over individual farmers in the agricultural marketplace. For small-scale farmers in many rural communities around the world, the local co-op is an essential link in the agricultural value chain.

[1]For people interested in exploring the feasibility of a co-op in their area, David suggests the following. First, find out what is the major cash crop being grown in the region by small scale farmers. Second, start conversations with those farmers to see if they are interested in working together. Third, start building coalitions with buyers, sellers, and banks.