

# GOOD PRACTICES IN BUILDING INNOVATIVE RURAL INSTITUTIONS TO INCREASE FOOD SECURITY



Photos from left to right: Papaya Fiji Coop; Organic certification system – India; Credit warrantage – Inventory credit system Niger

Continued population growth, urbanization and rising incomes are likely to continue to put pressure on food demand. International prices for most agricultural commodities are set to remain at 2010 levels or higher, at least for the next decade (OECD-FAO 2010). Small scale producers in many developing countries were not able to reap the benefits of high food prices during the 2007-2008 food price crises. And yet, this upward food price trend could have been a good opportunity for them to increase their incomes and food security. The opportunity that high food prices could have provided as a pathway out of poverty for small producers was not realized.

Evidence shows that when strong rural organizations such as producer groups and cooperatives provide a full range of services to small producers, they are able to play a greater role in meeting a growing food demand on local, national and international markets. Indeed, a myriad of such institutional innovations from around the world are documented in this FAO case study-based publication. Nevertheless to be able to provide a broad array of services to their members, organizations have to develop a dense network of relationships among small producers, between small producer organizations and with markets actors and policy makers.

## OVERCOMING BARRIERS WITH PRODUCER ORGANIZATIONS

The lack of supply response is largely due to a number of small producer constraints. Dispersed and fragmented in small economic units, small producers face high transaction costs on imperfect markets. In recent years, a broad variety of institutional innovations have emerged, in response to small scale producers' constraints. Innovative small producer organizations and institutional arrangements provide an array of services ranging from enhancing access to and management of natural resources, accessing information, technologies and facilitating participation in policy making.

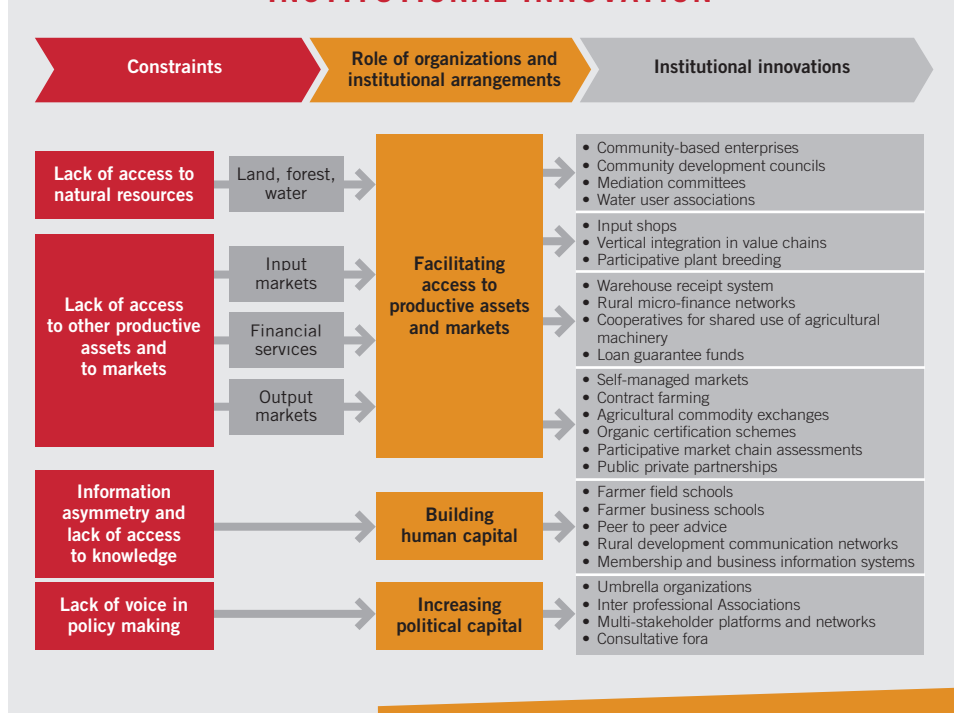
## Enhancing access to and management of natural resources

The initiatives presented show a diversity of organizations and institutional arrangements regulating access to and management of natural resources for small farmers. These include mediation committees for conflict resolution over land, securing land use rights, women associations reclaiming land and improving crop yields as well as forest community based enterprises generating income activities. These arrangements are effective because they provide incentives for small producers to manage natural resources in a sustainable way while creating benefits for the rural communities. Hence institutions are crucial in regulating how the natural resource base is accessed and managed in order to achieve sustainable food security.

## Accessing input and output markets

The publication shows how a vast array of producer organization initiatives that enable small producers to increase their access to markets and productive assets, while reducing transaction costs. By acting collectively, through their organizations, small producers are able to access seeds and fertilizers. For instance, input shops in Niger, enabled small producers to develop effective local input markets by grouping input demand and supplying them in quantities and types that are specifically adapted to their needs and limited financial capacities. Access to financial services is critical for developing input markets. Many micro-finance systems managed by small producers themselves have burgeoned over the last 20 years. The micro-finance system is useful in ensuring subsequent marketing activities. Nevertheless it does not always reach the

## INSTITUTIONAL INNOVATION



needs for credit to cover farm operating expenses or equipment. To close this gap, small producers and service providers together develop other innovative arrangements such as warehouse receipt systems in which stored produce is used as a collateral guarantee to obtain short term credit. Collective investments to acquire agricultural equipment represent another innovative institutional arrangement managed by small farmers themselves. Collective marketing through groups, associations or cooperatives enable small producers to reduce their transaction costs and risks and improve their bargaining power. When linked with other private and public actors, these arrangements range from contract farming and fair-trade schemes to multi-stakeholder coordination along the value-chain through inter-professional associations and multi-stakeholder platforms. Farmers, traders, processors and supermarket buyers use contract farming to respond to modern procurement systems. Kenya's African leafy vegetable farmers used groups of small producers to respond to modern market system requirements. Through contractual arrangements, they ensure compliance with food quantity, quality and time delivery requirements set by supermarkets. Hence, contractual arrangements between small producer organizations and commercial stakeholders represent an effective means to overcome market imperfections.

### Improving access to information and knowledge

Producer organizations combined with relations to NGOs and public and private actors, help small-scale producers build their skills to access and use appropriate information and knowledge to innovate and adapt to changing markets. Some of them enable

farmers to build their capacity to analyze their production systems, identify their problems, test possible solutions and eventually adopt the practices and technologies most suitable to their farming systems.

### Enabling small producers to engage in policy making

Another powerful contribution of producer organizations is their ability to help small producers voice their concerns and interests in policy making processes. Multi-stakeholder platforms and consultative forums are good examples of mechanisms for small-scale producers to discuss the design, formulation and implementation of public policies. In Gambia for instance, the National Fisheries Post Harvest

Operator Platform, is a mechanism for dialogue where governments can learn about small producers' needs while producers can express their concerns and preferences. Mechanisms for transparent dialogue support the emergence of new co-operative behaviour between government and small producers based on trust and shared values, both critical conditions for successful policy development.

In sum, producer organizations and the institutional arrangements they develop, can help small producers to overcome critical obstacles to development. They enable small producers not only to "play the game" of managing natural resources or accessing input and output markets, information and knowledge effectively, but, also to influence the "rules of the game" by becoming an integral part of policy making processes.

## BUILDING EFFECTIVE PRODUCER ORGANIZATIONS

This good practice publication suggests that effective and sustainable producer organizations and institutional arrangements with market actors and policy makers are the result of three interdependent types of relationships that small producers develop:

- Bonding or intra-group relationships among small producers within organizations,
- Bridging or inter-group relations between small producer organizations to create apex organizations,
- Linking or extra-group relations between small producer organizations and market actors and policy makers.

### **Bonding relations**

Close bonds of solidarity among small farmers, fishers and forest users within grass-roots and self-help groups, local associations and cooperatives, are the basis for the development of strong rural organizations. Through bonding relations, small producers gain self-confidence and knowledge to analyze their own problems, make informed decisions, and act collectively. Farmer field and business schools, for example, help small farmers improve their understanding of “how things work” through trial and error experimentation. Bonding relations enable small producers to identify solutions collectively and build strategies to cope with change. Nevertheless, beyond this, small producers need to develop a sense of ownership of their organizations. The good practices documented suggest that a shared mission with mutual benefits, common values and members’ commitments are critical success factors for the sustainability of bonding relations in the form of small producer organizations.

### **Bridging relations**

Given the large dispersion of production in fragmented, small scale and distant units, small producers often encounter difficulties in entering markets and influencing policy-making processes. Bridging relations (inter-group relations) connect similar small producer groups together to form larger organizations in the form of producer unions, federations and networks. Through bridging relations, small producers from different organizations are able to pool their assets and competencies to overcome market barriers, control larger market shares, and access better quality information. Greater negotiation power, in turn, translates into more favourable transaction conditions and greater influence over other actors. In essence, bridging relations prepare small producers to engage, under fairer and more balanced conditions, with more powerful market actors and policy makers. In Benin, small scale cattle herders organized in grassroots groups of 20 to 100 herders, formed a national apex organization (or federation) called the ANOPER (Association Nationale des Organisations Professionnelles des Eleveurs de Ruminants). As these bridging relations developed, they first created local unions encompassing grassroots groups to supply inputs and provide technical advice. The Union of Borgou-Alibori district (UDOPER), for example, includes about 500 male and 30 female herder groups comprising some 25 000 cattle herders. The national apex organization (ANOPER), created in 2007, later helped strengthen the organizational, technical and financial capacity of constituent groups, such as UDOPER, while ensuring financial intermediation and representation.

Bottom-up and top-down relations which provide a two-way information flow, are critical for effective


bridging relations. They contribute to building transparency and accountability in decision making as well as a shared understanding among member organizations. The Argentinean Viticulture and Winemaking Cooperatives Federation (FECOVITA), for example, improved its corporate governance by guaranteeing that members’ views could influence the management of the federation.

### **Linking relations**

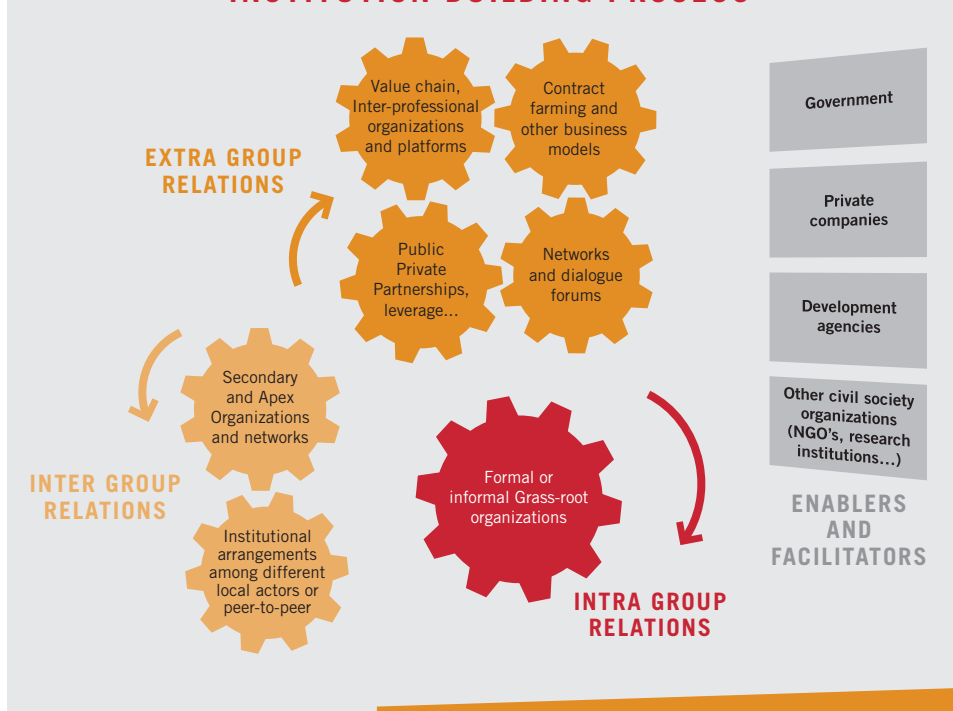
To be fully effective, small producer organizations must link with external economic and policy actors, such as private businesses and governments. Through strong links with economic actors small producers can access national and international markets. Such institutional arrangements may take a myriad of forms. In Thailand for instance, small scale vegetable and fruit producer groups developed a contractual arrangement with a private company supplying fresh produce to international markets. Linking relations with policy makers help small producers create the enabling environment and conditions for their organizations to thrive and develop sustainably. The formulation of the Economic Community of West African States (ECOWAS) Agricultural Policy (ECOWAP) offers a good illustration of how small farmer organizations can link with national and regional governments to influence policy processes.

To be successful, these links between small producers, market actors and policy makers must result in a positive sum game in which all partners agree to cooperate to advance their common interests, achieve and increase profits and share benefits and risks.

### **Intertwined relations**

The three constituent relationships, namely bonding, bridging and linking, interact closely with one another and enhance the benefits of each of the individual relationships. For instance, within value chains, effective linking relations between small producer organizations and market actors, exemplified in the Senegal inter-professional tomato association, relied on strong small producer bargaining power which was largely the result of well developed bridging relations among small producer organizations in apex organizations. Similarly, Kenya’s African leafy vegetable farmer groups were able to link effectively with supermarkets, powerful market actors, because they first strengthened their capacities by developing strong links with NGOs. Clearly, different “mixes” of the three relations coexist in different cases presented. And the processes of institution building take different paths depending on the context, rather than following a linear pattern or predetermined succession of steps. 

## INSTITUTION BUILDING PROCESS



that support their strengths and respond to their needs rather than direct them. Creating new organizations from scratch is the least desirable option. Support organizations may need to facilitate existing institution building processes in order to stimulate small producers to become actively engaged in their own development, appreciate their own successes and build on existing assets. While benefiting from these new forms of collaboration, small producers need to maintain their autonomy of action and ensure that they themselves drive the changes within their organizations and in their long term relationships with government, economic and civil society actors.

## BUILDING NEW FORMS OF COLLABORATION

This good practice publication presents numerous examples of innovative producer organizations and institutional arrangements that have proven to be successful in helping small producers overcome their different constraints. However, they often remain limited in scale and scope. The main challenge is to build on these success stories, to up-scale or replicate them, in order to increase food security, catalyze sustainable rural and agricultural development.

Small producers, governments and profit and non-profit private actors, need to find better ways to collaborate to shape the environment that enables and supports producer organizations. Such new forms of collaboration, like a new social contract, need to clarify the rights and duties as well as roles and responsibilities for each stakeholder. Within these new forms of collaboration, one of the main challenges for policy makers is to build upon existing small producer knowledge capacities, skills, and organizations, to formulate and design better policies

In order to implement this new partnership, governments, development agencies and NGOs have to make a shift in the nature and quality of support. From their traditional role of provider of assistance, they need to become facilitator of change, in a capacity development (CD) approach. Strengthened knowledge and capacities of individuals are central to fortifying rural institutions, but this cannot happen in a vacuum. Capacity development<sup>1</sup> is constrained when the organizations and overall environment to which individuals belong lack the ability to absorb and maintain the enhanced resources, or fail to anticipate emerging needs. The capacity development approach recognizes and addresses these three dimensions.

By engaging in such new forms of collaboration with policy makers, civil society actors, the private sector, and other key stakeholders, small producers from developing countries, who were once largely excluded, from markets, can “fully play the game”. By giving them voice in policy making, it contributes to improve “the rules of the game”, and creates the conditions to optimize this contribution to world food security.

1/ As stated in FAO corporate strategy on capacity development.

This publication was supported by the Ministry for Agriculture, Food, Fisheries, Rural Affairs and Town and Country Planning of France.

Food and Agriculture Organization  
of the United Nations

Viale delle Terme di Caracalla  
00153 Rome, Italy  
Phone: + 39 06 57051  
www.fao.org

For further information please contact:

Denis Herbel – denis.herbel@fao.org  
Eve Crowley – eve.crowley@fao.org  
Nora Ourabah Haddad – nora.ourabahhaddad@fao.org