

Evolution of Producer Organizations: International Experience

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OUTLINE

- I. Background to the ACIAR Enabling Policies Project
- II. Constraints faced by smallholders
- III. The role of farmer cooperatives or producer companies
- IV. International experience and some lessons
- V. Conclusion

ACIAR Enabling Policies Project

- Project Focus
 - Smallholders in Dairy, citrus & mango sectors of Punjab & Sindh
- Aim
 - To improve smallholder households' incomes & livelihoods
- Objectives
 - To identify major constraints
 - To review existing policies
 - To develop options for enabling policies, including
 - capacity building at provincial government levels

Constraints Faced by Smallholders

- Access to markets
- Access to affordable credit
- Access to relevant extension services
- Access to quality inputs at affordable prices
- Access to improved germplasm for plants & animals
- Low level of farmer organisation
- Position of women

The Role of Farmer Cooperatives or Producer Companies

- Farmers' cooperatives can help farmers to overcome most of these constraints and capture a higher share of the value added in the food supply chain. The key benefits of farmer cooperatives are:
 - improving the bargaining power of their members and letting members benefit from economies of scale.
 - reducing market risks, transaction costs, and strengthen farmers' competitive position by providing access to credit, extension services, technical knowledge and product innovation and guaranteeing food quality and safety (European Commission, 2012).

International Experience -1

- Co-operatives have become a global phenomenon and operate successfully in both developed and developing countries.
- According to the International Co-operative Alliance (ICA) more than one billion adults worldwide are members of cooperatives, which provide nearly 100 million jobs around the world.
- Farmers' cooperatives are common in all agricultural sub-sectors, including dairy, fruit and vegetables, sugar, olives, wine, cereals, pig meat and sheep meat.

International Experience -2

- In Australia, the first consumer cooperative, Brisbane Co-operative Society was set up in 1859.
- The first agricultural cooperative in Australia (the South Coast and West Camden Cooperative Company) was formed in the dairy sector in the 1880s, with the aim of improving returns for dairy farmers and removing “middle men” from the supply chain.
- The number of cooperatives peaked in 2000 at 2350 and dropped to 1700 in 2012.
- Until recently, cooperatives in Australia were regulated by the State and Territory Governments. Now, the *Co-operative National Law* has replaced the state based regulatory system. This changeover occurred by agreement of all governments and took seven years (2005-2012) to be completed.

International Experience -3

- In New Zealand, 40% of adult are members of one or more cooperatives
- Cooperative enterprises are responsible for:
 - 99% of dairy market;
 - 95% of dairy exports,
 - 60% of meat market;
 - 50% of farm supply market;
 - 80% of fertiliser market;
 - 75% of wholesale pharmaceuticals market; and
 - 62% of the grocery market.
- NZ has six cooperatives in Global 300 list.

Some Common Issues

- Despite their success in many countries, and in some States in India, farmers' cooperatives in the developing countries have been commonly afflicted by problems of:
- opportunism and free-riding by members who do not contribute to the functioning of their cooperatives;
- capture by powerful minority of members;
- capture by commercial interests who promote their own sales/profits;
- lack of member commitment;
- lack of leadership; and
- lack of managerial capacity among members and in local rural communities.

Producer Companies in India

- Producer companies are more profit-oriented than traditional cooperatives and are more transparent in financial reporting as they are obliged under the Company Act to report on financial results.
- The number of producer companies in India has increased rapidly; by 2011 India had 156 PCs (Singh 2012). In 2014, the number had increased to 258 (Nayak 2014).
- The cost of management of many PCs continues to be borne by the state or external facilitators (Nayak 2014).

Government Assistance

- Although in the initial stages, government support included fiscal concessions and subsidies, since the 1990s governments have wound back these concessions and cooperatives have been exposed to domestic and international competition.
- This change occurred due to the realisation in the 1980s that whilst public sector financial support in the form of subsidies and concessions may be needed for a time, its continued presence is likely to create perverse incentives among recipients (Markelova 2012).

Competition Laws

- Within the domestic markets, competition laws have ensured that mergers of cooperatives do not create a domestic monopoly or monopsony. In New Zealand, for example, the *Dairy Industry Restructuring Act 2001* (DIRA) has a number of clauses for protecting farmers and consumers from monopolistic behaviour by Fonterra – the largest dairy cooperative in the country. Indeed, a number of new milk processing firms have emerged in the past few years and market share of Fonterra has fallen from 96% in 2001 to 92% in 2009 (EC 2012).

Internal Management

- In general, better performance is highly correlated with professional management.
- Better performing cooperatives have a large and diverse Board of Directors.
- Outsiders serving on the boards are also found to be associated with better performance, especially if selection of outsiders is based on product representation rather than regional representation.
- Small cooperatives are often unable to attract or retain good professional managers and trained outsiders to serve on their boards. [European Commission, Support for Cooperatives, 2012]

Cooperatives not yet Mainstreamed

- In spite of being a global phenomenon, cooperative enterprises seem to have failed to ignite excitement in the general public, particularly among the professions of economics and management sciences. And, the academia has devoted minimal attention to the study of cooperatives and most bureaucracies are not inspired by them.
- No wonder cooperatives were dubbed as the “*enfants terribles*” of economics (Levi and Davis, 2008).
- The IIM’s Centre for Management in Agriculture is admirable in this context.

Top-down v. Bottom-up Models

- Mostly, co-operatives in the developed countries have been formed voluntarily by members.
- In the developing countries attempts have been made by governments to initiate co-operative movements using various types of incentives.
- Not all of these top-down co-operatives have taken root, however, because the member loyalty and commitment are lacking. This is certainly the case in China, with its Rural Credit Co-operatives (RCCs) and Micro Credit Co-operatives (MCCs), and in Vietnam. In both countries, the co-operatives appear to be equated by the rural population with 'collectives' of the yesteryear and suffer from lack of enthusiasm of the members.

MANY THANKS