

# Creating Market Linkages Through Collective Action



Supplying formal markets such as multinational supermarket chains and fast food restaurants offers both higher income and improved business relations for farmers. However, accessing these markets requires higher product quality, securer supply chains, and more efficient marketing and business management. To meet these conditions and engage with these higher value markets in the long term, farmers need increased levels of bonding social capital and strengthened bridging social capital through partnerships with service providers and market chain actors.

#### SOURCE:

Kaganzi, E., S. Ferris, J. Barham, A. Abenakyo, P. Sangiga and J. Njuki. 2008. *Sustaining Linkages to High Value Markets through Collective Action in Uganda: The Case of the Nyabyumba Potato Farmers*. CAPRI Working Paper No. 75. International Food Policy Research Institute, Washington, D.C.

The use of collective action, combined with strong leadership and an iterative, market-led learning process, has enabled a smallholder farmers' association in Uganda to supply a perishable crop (potato) to a modern food outlet market with stringent quality parameters. Success in this market linkage was possible through effective support from both development and research providers and the strong entrepreneurial drive from the farmers' association.

This farmers' association in a remote rural area in Southwestern Uganda has successfully sustained market links through sales of high-quality Irish potatoes to a fast food outlet in Kampala. To meet the volumes, frequency of supply, and quality parameters demanded by their client, the farmers had to learn a series of new skills and integrate multiple innovations at the technical, organiza-

tional, financial, and marketing levels, and meet many of the classical conditions associated with collective action based on empowerment through social and human capital development.

The International Centre for Tropical Agriculture (CIAT)'s participatory learning approach was used to build the "market facilitation capacity" of service providers so that they could in turn support the entrepreneurial needs of farmers' organizations and local business development services operating within a defined project area. This investment empowers local organizations to increase their market performance in selected market chains and be more responsive to dynamic market conditions.

#### CIAT's Participatory Learning Approach: Participatory and Area-based Agro-enterprise Development

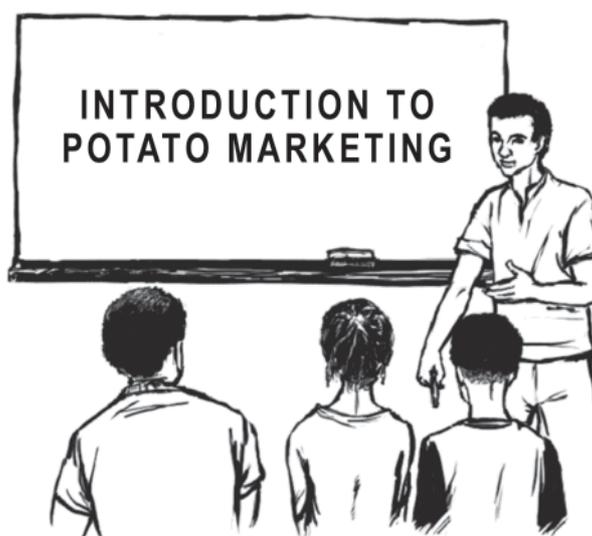
- Step 1.** Group development and partnership formation.
- Step 2.** Product identification and market analysis.
- Step 3.** Business planning and enterprise development.
- Step 4.** Identifying and strengthening relevant business development services.

## Key Factors Supporting a Collective Response to an Identified Market Opportunity

A cluster of social factors enables farmers to make the many changes required to increase their market performance. The following key factors supported a collective response to an identified market opportunity.

**1. The ability of farmers to organize, learn new skills, and innovate is highly dependent upon effective and long-term support from service providers.** "Learning by doing" empowered the farmers' group in developing skills and management capacity, and helped them to strengthen shared norms, interdependence, and trust. The farmers' social capital and technical skills allowed them to rapidly link new organizational structures, technologies, and market opportunities together in their business planning process.

**2. Lack of training in basic marketing limits farmers' ability to capitalize on their social strengths and to use these to focus their investments and innovations.** Long-standing groups usually have improved technology or production skills but lack basic marketing training. Nevertheless, these groups have the characteristics to enable successful collective action such as being clustered in small groups, having shared norms, past successful experiences, appropriate leadership, interdependence among group members, and homogenous interests.



These factors are interrelated but hierarchical in improving the prospects of market success. Strong leadership within the group is the most important factor in identifying and maintaining market links, followed by quality of service provision and then the collective purpose of the group members. Ownership of projects and decision-making capacity are fundamental requirements when investment of work, time, money or trust (social capital) are required.

**3. High levels of participation in product selection are required to confirm support for the product and to build the basis for a common purpose.** Identifying the product requires the participation of all members of the group or community in offering ideas and confirming the selection of a product. This decision must be based on the information generated from a market analysis. Farmers must feel that they have ownership of this decision, as subsequent investments by the group will be based on this collective decision.

**4. Supplying a high-value, high-risk market often requires the innovation of existing production and marketing systems.** The new market channel required a fundamental change in the focus of the group, from supplying an input market to supplying an output market. The stringent quality and supply requirements of the preferred market in the case study necessitated the shift from one harvest a year to a consistent supply of a specific quality. These, in turn, required a series of changes in the production system and a familiarization with quality standards. To offset this risk, the farmers identified alternative market channels to receive the produce that failed to meet the requirements of the preferred market.

Challenges for the farmers' group were resolved systematically based on basic business and operational plans. Wider adoption of new methods, as well as the acceptance of the quality standards, was essentially driven by profit. Farmers were encouraged to produce as individuals but to sell collectively. They were rewarded for volume and quality supplied. Rewards were not given simply for being a group member.

**5. Financial investment is critical for any enterprise plans.** In the short term, the only option to kick-start a new business is to gather the required working capital through a combination of savings, borrowing from family and friends, and taking a loan from the local money lender. In the case study, in order to address the financial issue over the longer term, the members of the group established a savings and credit co-operative (SACCO), which enabled members to save and receive loans to invest in potato production or to cover essential short-term needs as they awaited payments from the preferred buyer.



**6. Innovation and market responsiveness require organization to monitor market conditions, identify problems, and find rapid, practical solutions.** The organization made changes at critical points in the development of the business model, and decision-making was helped to a large degree by the group's ability to access advice from a number of specialized service providers in their vicinity.

The combination of rapid assessments and access to services accelerated the innovation process. However, it required strong leadership and specialists within the farmers' group to recognize what type of help was needed, test options, and then engage others to take on new ideas.

Market performance of farmer groups may be improved by a combination of strong social cohesion within the group, supported by specialized roles to interact with partners beyond the group. An

example of this is a position devoted to marketing that could be located within a farmers' group or a position that serves as an information cluster at the group or association level.

To overcome the need for investment capital, an interesting alternative is to adopt a savings-led approach to building capital through mechanisms such as SACCOs, saving and internal loan clubs (SILCs), self-help groups (SHGs) and internal savings and loan groups (ISLs). Savings-led interventions mean that group members learn practical financial skills and build social bonding and trust. This type of financial approach allows service providers to focus their interventions on analysis and training or advice, rather than investing in capital items.

#### Keys to Maintaining Market Links

Success of the farmers in identifying and maintaining market links was based on a combination of effective service provision, their strong social base, collective learning, sequenced skills development, access to new technology and development of social networks acquired through long-term support.

The usefulness of new ideas and their performance was based on profit. In this case, there was no need for a sophisticated monitoring and evaluation processes, as profit was a sufficient stimulus to focus the group on finding their own solutions and networking effectively with partners to introduce new ideas and put them into practice.

This outcome highlights the importance of marketing strategies and the value of market linkage through collective action approaches. In the future, as markets become more competitive and product quality more exacting, it is likely that many more market opportunities, particularly higher value options, will only be accessible through disciplined collective efforts.

### Suggested Readings

Agrawal, A. 2001. *Common Property Institutions and Sustainable Governance of Resources*. World Development 29(10): 1649-1672.

Ferris, S., E. Kaganzi, R. Best, C. Ostertag, M. Lundy and T. Wandschneider. 2006. *A Market Facilitator's Guide to Participatory Agro-enterprise Development*. CIAT Publication 348.

Sourcebook on **Resources, Rights, and Cooperation**, produced by the CGIAR Program on Collective Action and Property Rights (CAPRI)