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journal homepage: www.elsevier.com/locate/jcomCooperatives, partnerships and the challenges of quality upgrading: A case study from Ethiopia[☆]Annie Royer^{a,*}, Jos Bijman^b, Gumataw Kifle Abebe^c^a School of Agriculture and Food Science, Department of Agricultural Economics and Consumer Science, Laval University, Canada^b WU Social Science, Management Studies, Wageningen University, The Netherlands^c Faculty of Agricultural and Food Sciences, American University of Beirut, Lebanon

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ABSTRACT

Food value chains in developing countries are changing in response to the increasing quality and safety demands of domestic and international customers. Tighter vertical ties are developing to comply with these stringent quality requirements. In addition, the issue of limited bargaining power for smallholders in these coordinated chains has prompted a renewed interest in cooperative organizations. In Ethiopia, a partnership between a domestic trading firm and a cooperative union has helped enhancing capabilities at the supply-base as well as strengthening the cooperative's internal governance, managerial capabilities, and financial and non-financial resources. Based on in-depth interviews, our paper presents a case study on how this partnership operates. Good technical assistance provided by the union, with support from the exporting company and an NGO, is one of the key success factors of this partnership. The study also highlights that a high price is not necessarily a driver for a successful partnership, as predetermined prices are preferred by farmers despite relatively higher prices on the local market.

1. Introduction

Higher quality and safety demands of domestic and international customers in food value chains pose both opportunities and challenges to smallholder farmers in developing countries.¹ One of the key success factors for smallholders to benefit from remunerative markets is the way production and marketing is organised in the value chain (Briones, 2015). Over the past decades, various institutional arrangements have emerged that entail a tighter coordination among chain partners. In these aligned value chains, farmers and traders collaborate closely in order to improve and maintain product quality, and smallholders have obtained access to higher value markets (Ayuya et al., 2015).

As tighter forms of coordination develop in food chains, the issue of limited bargaining power for smallholders has prompted a renewed interest in cooperative organizations (Markelova, Meinzen-Dick, Hellin, & Dohrn, 2009). However, empirical evidence showing the effectiveness of collective action in improving marketing performance of smallholders through quality upgrading is still limited (Barham & Chitemi, 2009). Several internal and external factors challenge the market performance of cooperatives, such as poor internal

governance, lack of managerial skills, lack of human capital, lack of financial resources, and a constraining institutional environment.

The challenge for farmer-based organisations such as cooperatives operating in a value chain is to combine horizontal coordination among farmer-members with vertical coordination with the chain partners. Improving product quality while maintaining inclusiveness is a challenging ambition for a cooperative that operates in a value chain configuration. One of the solutions presented in the literature is the partnership between a cooperative and a trading company (Bitzer & Bijman, 2014).

In Ethiopia, cooperatives (unions and primary cooperatives) have grown substantially in number over the last decade. For instance, from 2008 until 2013, the number of unions grew by 44%. As smallholder farmers face multiple constraints in enhancing farm productivity and product quality, cooperatives may provide the services that those farmers need. This has been acknowledged by the Ethiopian government, which has given cooperatives a prominent role in its agricultural transformation policies (ATA, 2012).

Cooperative unions focus on marketing of the products that primary cooperatives deliver. In addition, unions support primary cooperatives

[☆] The data used in the paper have been collected in November 2010 but the paper has been written in 2011. The authors were all at Wageningen University (Gumataw Kifle Abebe was also at Hawassa University in Ethiopia) during data collection but Annie Royer left for Laval University a few months later, the paper has therefore been written while she was at Laval.

* Corresponding author.

E-mail addresses: annie.royer@eac.ulaval.ca (A. Royer), Jos.bijman@wur.nl (J. Bijman), ga81@aub.edu.lb (G.K. Abebe).

¹ Although quality is an elusive concept (Luning, Marcelis, & Jongen, 2002), for the purpose of this study we define it as conformance to customer requirements.

with credit, inputs and logistic services. However, quality improvement and guaranteeing customers a consistent quality is still challenging for the unions, as the majority of the members do not favour sanctioning farmers that do not comply to the quality requirements (Faysse and Simon, 2015; Francesconi and Ruben, 2012).

In order to help their members obtain access to better inputs and technical assistance, cooperatives increasingly enter into contract farming arrangements (CFAs) with agribusiness companies. Insights on how these contractual arrangements work out, how they should be structured in order to be sustainable and fair, are still scant. An exception is the study by Abebe, Bijman, Kemp, Omta, and Tsegaye (2013a) who explored the preferences of potato farmers in Ethiopia as to the type of contract attributes. The authors found that farmers enter into CFAs in order to minimize input market uncertainty and to obtain access to the technical assistance provided by the agribusiness firm.

This paper aims to shed more light on the contractual partnerships between cooperatives and trading companies in developing countries. The paper seeks to describe a particular partnership and discusses the pros and cons for the smallholder farmers and the cooperatives involved in the partnership. The paper uses a case study from Ethiopia to describe and then reflect upon a particular partnership in vegetables value chain. The case evolves around a domestic trading firm that has developed a partnership with a cooperative union in order to produce and export green beans. The key mechanism used by the partnership to enhance product quality is the building of capabilities at the supply base, that is, both at the farmer and primary cooperative level of the value chain.

The paper uses an abductive research approach, which implies a combination of induction and deduction. Deduction is first applied to arrive at the main factors that could affect the performance of the partnership under study. Induction is then used in the empirical research to explore what stakeholders consider as the key success factors. In the conclusion, we combine results from both literature and field study.

Our paper provides insights how such a partnership can help to overcome the internal and external constraints that cooperatives in developing countries often experience. More specifically the study attempts to answer the following research question: *How can a partnership between a cooperative union and a domestic private firm help overcome small-scale producers' challenges in meeting the quality demands of a high value international market?*

While our paper takes a managerial perspective on the role of cooperative in the value chain, focusing on capabilities to enhance quality, the results have wider rural development implications. Cooperatives, as collective action organisations, are often considered as appropriate institutional solutions for the challenges of how to transform smallholder agriculture into a modern production system with higher food security, more sustainable production and higher farm income (Herbel, Crowley, OurabahHaddad, & Lee, 2013; Shiferaw, Hellin, & Muricho, 2011).

The paper proceeds as follows. The next section reviews the most relevant literature on quality upgrading in value chains, the role of cooperatives in linking farmers to markets and the provision of technical assistance needed for quality improvement. Section 3 presents the methods used and data collected. Section 4 presents our findings of the case study between cooperative union and trading company. Section 5 discusses those findings, while Section 6 concludes with the main results, limitations and ideas for further research.

2. Literature review: partnerships, contracts and cooperatives

2.1. Partnerships

Partnerships have started to emerge in the late 1990s as governance structures to address rural development challenges such as promoting capacity building and market access for smallholder farmers (Kolk, Van

Tulder, & Kostwinder, 2008; Glasbergen, 2007; World Bank, 2007). Partnerships can be defined as collaborative arrangements between actors from different sectors of society. Although the most common form of partnership is the public-private partnership, there also exist business-NGO alliances and multi-stakeholder partnerships involving combinations of public, private and NGO partners (Dentoni, Bitzer, & Pascucci, 2016). These partnerships all aim at reducing the constraints faced by smallholder farmers in accessing markets.

Literature on partnerships in the food sector indicates that they primarily focus on providing extension services, training and technical assistance. Several studies demonstrate that partnerships play a critical role in helping farmers to meet export requirements and obtain the necessary certification (Boselie, Henson, & Weatherspoon, 2003; Okello, Narrod, & Roy, 2007; Jaffee, Henson, & Díaz Rios, 2011; Kersting and Wollni, 2012; Narrod et al., 2009). Partnerships can also assist farmers in applying good agricultural practices, enhance production efficiency, raise product quality, and overcome adoption constraints to new technology (Bitzer, Glasbergen, & Arts, 2013). Through providing technical support and information to producers, partnerships can increase market access and create new market opportunities for smallholders.

In this study, we explore the relationship between a cooperative union and a trading company as a chain partnership, and the effect of this partnership on small-scale farmers, organized in the primary cooperatives. These primary cooperatives are members of a cooperative union, as the necessary scale in marketing the farmers' products as well as in setting up efficient technical assistance programs goes beyond the scale of the individual primary cooperative.

2.2. Contract farming arrangements

Contract Farming Arrangements (CFAs) have emerged as a strategy of agribusiness firms organizing the supply of the products they need for processing and marketing (Bellemare, 2012; Key & Runsten, 1999; Minten, Randrianarison, & Swinnen, 2009). One of the main explanations for the increase in the presence of CFA comes from transaction cost economics and states that agribusiness firms want to reduce the transaction costs that are inherent in value chains with high quality products (). By setting up a CFA with the supplier farmers, the agribusiness firm has more opportunities to control product quality compared to a spot market transaction. For instance, as part of the CFA the buyer firm may provide seeds of a particular variety, it may provide pesticides needed to maintain quality and it may provide the technical assistance which farmers need when producing under specific quality requirements.

When comparing CFAs with proprietary production, the advantages lie in having access to land, labour and other production resources that may not be available for own farms. CFAs also give the agribusiness firm the flexibility in the selection of supplying farmers (Singh, 2002; Bogetoft & Olesen, 2004). Thus, in countries where agricultural land remains under state control, CFAs remain a viable strategy for agribusiness firms to ensure sufficient quantity and as well as the appropriate quality.

However, entering into CFAs with smallholders may not solve all transaction costs. Particularly if agribusiness firms set up contract with individual farmers, substantial cost of reaching out to all farmers and negotiating with all farmers remain. Also, supervising those farmers individually entails major transaction costs. For the individual farmers, the transaction costs are particularly high due to their unfavourable bargaining position and their lack of guarantees that the agribusiness firm will honour the agreement.

Both transaction cost problems – the high cost of contracting with multiple smallholders and the high risk for the farmer of buyer default – can be dealt with in an institutional arrangement involving farmers, cooperative and agribusiness firm. As the cooperative is expected to act on behalf of the farmers, the cooperative and the agribusiness firm are

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