1. The changing nature of farmer collective action: introduction to the book

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INTRODUCTION

When looking for an appropriate title of the book we were faced with a dilemma: do we use ‘cooperative’, ‘producer organization’ or ‘farmer organization’? We choose to use the more conventional term of cooperative, as that is still the most common name for the type of organization we are going to describe, and also most of the contributions to this book use this term. However, farmer collective action in developing countries is increasingly labelled under the term ‘producer organization’ (PO). Why do academics and practitioners increasingly use ‘PO’ and not the traditional terms of ‘farmer organization’ or ‘cooperative’? Is it because cooperatives are becoming old-fashioned, a relic of the twentieth-century development models? Is it the unpopularity of the term ‘cooperative’ in former socialist countries? Is it because the World Bank has coined the term ‘PO’ in its influential 2008 World Development Report?

Over the last decade, agricultural producers have regained central position in the debates on international development. They are the producers of the food that is needed for a growing and increasingly urbanized world population. They are the rural entrepreneurs that need to increase the productivity of their farms and produce more and better food. Such an entrepreneurial perspective requires the farmer to make his/her own decisions based on current resources, capabilities and aspirations, but also based on the needs of the farming family, the incentives from the market, and the norms and values of the farming community. These farmer decisions can be enabled by an institutional environment of policies and supporting organizations.

Using the term ‘PO’ instead of the term ‘cooperative’ emphasizes that the farmer is the producer of food, feed and fibre. Another reason is that cooperatives have been used by governments as tools for rural
development. State domination and lack of grassroots embeddedness has given the cooperative a bad reputation in some countries (Attwood and Baviskar, 1988; Uphoff, 1993), and PO has become the alternative name for farmer collective action in those countries.

The central theme of this book is that farmer collective action in developing countries is in a process of transformation. While traditional farmer organizations and cooperatives often had various social, political and economic functions, the new POs are focusing on economic benefits for their members. While in traditional collective action organizations the community, village or region determined the constituents and beneficiaries, the new POs are working in the direct interests of their members and only indirectly generate benefits for the wider community and region.

However, the transformation is not a linear process, nor is it developing along the same lines in every region and country. Thus, the chapters in this book show how cooperatives and POs are changing in various parts of the world, but also how they are struggling with old and new challenges that collective action brings along. Some of these challenges relate to the structure and process of internal governance (that is, who is participating in the internal decision-making of the organization) and member commitment (that is, how can farmers be induced to maintain loyalty in a voluntary organization when faced with a volatile market, climate change and new technologies). From a development perspective, it is important to see how the transformation process affects inclusiveness, particularly of the poorest farmers. Does the new PO lead to more exclusion when it is mainly oriented to economic activities and market requirements? And what is the indirect effect of POs on the farming community and on regional development?

The transformation process in farmer collective action has several faces. One element is the greater emphasis being placed on farmer market access. While in the past cooperatives were focusing on supporting farmers with access to inputs, credit and technical assistance, POs are explicitly seeking to strengthen the market position of the farmer in output markets. An often-used definition of a PO emphasizes this market orientation: ‘A Producer Organization is a rural business that is generally owned and controlled by small-scale producers and engages in collective marketing activities’ (Penrose-Buckley, 2007). The shift toward more marketing has implications for the resources and capabilities needed to perform this function properly. More investments are needed, often involving higher risks, and the leadership needs to become skilled in marketing and negotiating.

A second element of the transformation process relates to the beneficiaries of the PO. While traditional collective action organizations were
community-oriented, seeking to provide social and economic benefits for all members of a community, POs are member-oriented, pursuing primarily the (economic) interest of the members of the organization (and not of the whole community). This shift has an effect on the degree of inclusiveness of the PO, on the expectations various stakeholders may have of the PO, as well as on the relationship the PO maintains with local and regional politicians. A third element of the transformation is the shift from policy orientation towards market orientation. In an agricultural sector strongly dominated by state policies, farmer collective action needs to address public policy-making. However, in a more liberalized and privatized world, POs need to strengthen the market position of the farmer, particularly when they trade in markets characterized by few sellers of inputs and few buyers of farm products. To counteract the market power of these sellers and buyers, POs seek to build up bargaining power themselves, for instance by bulking a large share of regional output, but also by actively seeking new customers.

This introductory chapter discusses the background of the transformation processes as well as the potential implications. The chapter does not present final answers as to the direction and impact of the changes, but it sketches the conditions under and forms in which farmer collective action develops. Because PO is a wide concept, used with many different meanings, the second section presents a preliminary typology of POs. The third section discusses the trends towards market access and integration and coordination in agrifood value chains in developing countries. This trend to a large extent influences the scope of the old and new POs. The fourth section discusses the current body of knowledge on the impact of cooperatives and POs on market access. The fifth section discusses the issue of inclusiveness. The next two sections zoom in on two internal organizational issues that are crucial for the success of the transformation process: internal governance and member relations. The final section presents the outline of the book by briefly introducing each of the chapters and linking each chapter to the main topics of the book.

POS AND SOCIO-ECONOMIC DEVELOPMENT

Before we zoom in on what POs are, what they do and what their impact is on market access, we want to briefly discuss the wider social and economic significance of these rural membership organizations. POs can be assessed on their direct effect on member welfare. Most of the chapters of this book focus on the direct impact on members and their communities. However, one can also study the importance of POs from a broader perspective:
do POs promote political and economic democratization beyond the membership?

There are claims that POs have a wider beneficial effect for the societies in which they are operating. Blokland and Schuurman (see Chapter 11) discuss these claims and refer to a number of studies that have elaborated on this topic. POs can be a school for democracy, that is, an organization for learning how to participate in joint decision-making and respect minority interests. Another powerful contribution of POs is their ability to help small producers voice their concerns and interests in policy-making processes, at local, regional and national levels. Finally, POs provide access to information on wider social and economic developments, such as globalization, climate change and sustainability demands, and help farmers to develop strategies in dealing with these challenges.

An FAO (2012) study on Innovative Rural Institutions presents many cases of POs providing an array of services ranging from enhancing access to and management of natural resources, accessing input and output markets, improving access to information and knowledge and facilitating small producers’ participation in policy-making. Through collaboration in groups and organizations, and with economic actors and policy-makers, farmers can fully participate in the economic, social and political life of the society they live in. In sum, these cases show how rural membership organizations can contribute to social change and economic progress.

While many studies have emphasized the beneficial role of POs for farmers (see the chapter by Shiferaw et al. for a good overview), particularly for smallholders, it is not fully clear how many farmers do benefit from POs through their membership. According to FAO (2014), there are more than 570 million farms (and thus more than 1.5 billion farmers) in the world. Of these 570 million farms, more than 525 million are so-called smallholder farms. More than 82 per cent of these are found in Asia (China: 35 per cent, India: 24 per cent, rest of Asia: 23 per cent). How many of these farms are organized? While in Europe and North America most farmers are members of a cooperative as well as of a farmer organization, in developing countries the numbers are much lower. The World Bank (2007) estimated that 20 per cent of all farms in the world are organized in formal organizations, including cooperatives and farmer organizations. This is most likely a conservative estimate, particularly as rural credit and savings cooperatives were not included. Also if we include informal organizations, the percentage of membership is much higher. However, as this book focuses on POs that provide market access and vertical coordination, formal organizations are our focus. The next section discusses the different types of PO.
A TYPOLOGY OF PRODUCER ORGANIZATIONS

The cooperative is a form of farmer collective action with a long history and a strong ideology, and it is often institutionalized in national legislation. However, other forms are farmer organization, farmer association, (rural) producer group, (rural) producer organization, producer marketing group, rural community enterprise, producer association, and bargaining association. In what follows we discuss different POs (and different names for POs) mainly on the basis of their functionality. In other words, we develop a typology anchored in the main objectives and activities of the PO.

The first distinction in our typology is between informal and formal organizations. Informal (or traditional) organizations are usually focused on the community (for example the village) mainly regulating relations among villagers, while formal organizations have an outside perspective, mediating relations between community members and economic, institutional and political actors outside the farming community (Bernard et al., 2008). While a PO may develop on the basis of an informal community association, formalization becomes important when the PO wants to enter into contracts with other parties or be able to receive funds from governments and Non-Governmental Organizations (NGOs). Formalization is a basic requirement for POs who want to establish a sustainable trading relationship with downstream actors in the value chain. For this reason, this book mainly deals with formal organizations (although the chapter by Pascucci and Duncan also deals with informal organizations of dairy producers in India).

A second distinction relates to the core of the transformation process. Broadly, farmer organizations may have to fulfil three functions for their members: provide services when markets fail, provide club goods or local public goods when states fail, and provide a voice in political affairs (Rondot and Collion, 2001). Taking the public goods and voice functions together, Thorp et al. (2005) have made the distinction between claims groups and efficiency groups. This classification is similar to the distinction between community-oriented and market-oriented organizations of Bernard et al. (2008). Claims groups typically operate vis-à-vis public authorities as they seek to get favourable conditions from policy-makers and administrators, such as subsidies, enabling legislation or other public benefits for the members of the group. Claims groups are lobby organizations and advocacy organizations. Efficiency groups seek to increase the efficiency of the production and marketing processes of farmers, for instance by reducing transaction costs and improving bargaining power. Thus, our main argument on the transformation process could be stated...
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as a shift from claims towards efficiency. We would like to emphasize that this shift is a relative one, not an absolute one. Our argument is that in the current market and policy environments efficiency groups become relatively more important for agricultural producers, and claims groups become relatively less important but are not disappearing, as state failure often continues.

Within the category of efficiency groups, further distinctions can be made. Thus, our third distinction is based on the primary economic function of the PO. Here we distinguish between supply POs and marketing POs. Supply POs provide the farmer with inputs (seeds, fertilizers, feed and so on), credit, technical assistance and all other services needed as input for farming activities, while marketing POs take care of the sales of the farm products, including product handling and processing. Although many POs are multi-purpose, thus combining supply and marketing functions, making this distinction helps us to understand the challenges of the transformation processes. First, as marketing POs are generally more important for the income of the farmer compared to supply POs, the performance of the marketing PO has more impact on the commitment and loyalty of members to the PO. Second, many traditional supply POs are broadening their scope by starting marketing activities. This, however, requires different leadership capabilities and also entails higher investment risks. Third, the role of the state is different towards supply POs than towards marketing POs. As part of rural development and food security policies, the state has always been more concerned with supply POs as these provide the inputs and extension service that farmers need to increase production and productivity (Wanyama et al., 2009).

A special group of POs found in marketing farm products are the so-called bargaining POs. These are organizations that centralize and coordinate the selling of farm products. They do not take legal ownership of the product, but function mainly as commissioner or intermediary between farmers and their customers (Bogetoft and Olesen, 2004). Bargaining organizations may have different legal status (they can be associations, cooperatives or even a special type of collective action organization, like the Erzeugergemeinschaft in Germany). They can be found in many sectors of agriculture, but are particularly present in value chains with perishable products like dairy and fruit and vegetables (Bijman et al., 2014). The distinction between bargaining POs on the one hand and marketing POs on the other hand is important because it has implications for the type of leadership and the investments needed.

A fourth distinction among POs is based on the geographical scope of the organization. POs exist at local, regional and national level. Often POs are organized into a federative structure, where local level organizations
(for example primary cooperatives or cooperative societies) are members of regional organizations (often called unions), which are members of national organizations (usually called federations). This distinction in geographical scope is important because organizations at different levels often have different functions. While the primary cooperative, having a strong community base, usually combines economic and social functions, the union focuses on economic functions such as jointly marketing the products collected by the primary cooperatives. The federation traditionally focused on the political arena by lobbying for favourable policies.

As with all typologies, the above classification is not meant to place an individual PO in one or another box. The purpose of a typology is to help analyze and understand particular phenomena, in our case the transformation process. In reality, POs may combine various functions and activities. A survey among POs in Ghana showed that most organizations combined inputs provision and marketing services, but also more social activities like community development and mutual labour support (Salifu et al., 2012). Bernard et al. (2008) found a clear functional distinction between community-oriented and market-oriented groups, although market groups also had several community tasks. Unfortunately, most of the literature on the development and impact of POs remains vague on the type of PO under study. For understanding the dynamics of POs, particularly in a more demanding market environment, it is important to understand the main functional and organizational characteristics of the PO, because structure and strategy (or function) need to be aligned for the organization to be effective.

While a more detailed typology of POs can be made, the distinctions that are most relevant for understanding the new roles of POs in a changing market and political environment are threefold: supplying farmers with inputs and credit versus selling farmers’ products; focusing on social, political or economic objectives; and working on a local, regional or national scale. We expect POs to focus increasingly on selling farm products, thus focusing on economic objectives, with an emphasis on the regional scale. The focus on sales brings us to the topic that is mostly discussed in scholarly work on POs in developing countries: how can POs provide market access to smallholder farmers?

MARKET ACCESS AND VALUE CHAIN COORDINATION

One of the dominant themes in the agricultural development literature over the last two decades has been market access, particularly for smallholder
farmers. Answering the global need for food security requires farmers to increase productivity and total production. At the same time, agricultural producers face challenges of climate change and the need to enhance the sustainability of process and product. Increasing production and productivity in a sustainable way can only be obtained when farmers have access to inputs and technical assistance of good quality. On the output side of the farm, farmers need proper incentives to make the necessary investments. Accessing inputs and marketing outputs requires that farmers become integrated in value chains, and coordinate their production decisions with the processing and marketing decisions of their customers (Swinnen and Maertens, 2007).

Vertical coordination, particularly through contract farming arrangements, allows farmers to benefit from new market opportunities, arising from export markets, local supermarkets and newly established processing companies. Such customers often demand high and consistent quality, which can only be attained with the proper inputs, skills and technical assistance. Vertical coordination may provide access to the credit that is needed for investments in new production techniques and in sorting, grading and quality assurance activities. Finally, vertical coordination arrangements allow for the transfer of risk from farmer to customers, without which farmers could not afford to invest in new varieties and new production techniques.

While it may be feasible for large farmers to enter into vertical coordination schemes individually, most farmers are too small to benefit from new market opportunities individually (Poulton et al., 2010). Buyers are not interested in contracting with individual smallholders, due to the high transactions costs (Barrett, 2008). Thus, the only option left for smallholders is to enter vertical coordination schemes as a group (Coulter et al., 1999). Such a group not only reduces transaction costs for both farmers and buyer, it will also give farmers some bargaining power (Banaszak, 2008; Jia and Huang, 2011). In addition, a group has more options in creating access to input markets, technical assistance, and outside support from the state or NGOs. Thus, the rise of various vertical coordination arrangements is one of the determinants of the renewed attention for farmer collective action (Markelova et al., 2009; Shiferaw et al., 2011).

A key question still to be answered is what effect more emphasis on market access and vertical coordination and the concomitant transformation of farmer collective action have on the livelihood of smallholder farmers. In the next section we briefly review the literature on the impact of POs on market access of smallholder farmers.
THE IMPACT OF PRODUCER ORGANIZATIONS ON MARKET ACCESS

Since the publication of the *World Development Report 2008*, emphasizing the need for institutional innovation in agriculture and the relevance of POs, the number of studies on the impact of POs on farmer income in developing countries has grown steadily. Most of these studies use a transaction cost theoretical framework (Williamson, 1985). Market imperfections like missing or thin markets, information asymmetries, behavioural uncertainty and the risk of expropriation of quasi-rents by more powerful trading partners leads to high transaction costs (next to high production costs). Transaction costs go up when farmers sell to buyers outside their own community and when they sell products that are customized for specific buyers (Dixit, 2009). Agricultural cooperatives are conceptualized as governance structures that are able to reduce transaction costs related to buying farm inputs and selling farm products (Hendrikse and Bijman, 2002).

With the rise of value chain coordination in agrifood chains, the attention for transaction costs in marketing agricultural products has grown. And with the liberalization and privatization of agrifood markets, which has led to more competition in local and national markets, gaining bargaining power has become crucial for smallholder farmers. Thus, proper functioning of the PO has become relatively more important for the production and marketing activities of the farmer, and thereby for the income of the farmer. This leads to the question whether POs are able to support this market access, to reduce transaction costs and thus support farmers in their income-generating activities. If the answer is positive but conditional, what are the internal and external conditions under which POs work well for their members?

A growing number of studies are analysing the impact of cooperatives (as a specific group of POs) and the conditions under which positive impact can be obtained. Most studies have measured the effect of being a member of a cooperative on a number of different performance indicators. Wollni and Zeller (2007) have shown that cooperative membership facilitates access to more lucrative speciality markets in the coffee sector of Costa Rica. Holloway et al. (2000) have shown that cooperative membership increases market participation among dairy farmers in Ethiopia. Fischer and Qaim (2012) found that cooperative membership leads to higher prices and higher farm income among banana producers in Kenya. Vandeplas et al. (2013) found that dairy farmers in India are more efficient and have higher profits when organized in a cooperative. A similar result was found for smallholder farmers in Ethiopia (Abate et al., 2014). Ito et al. (2012)
have shown that membership in a cooperative has a strong positive effect on the income of watermelon producers in China.

Next to marketing costs, farmers also face high transaction costs in accessing markets for inputs, technical assistance and credit. Also here, cooperatives may solve the transaction cost problem by collective purchasing or by providing the services that are otherwise not available. For instance, Shiferaw et al. (2009) show that membership in grain cooperatives in Kenya leads to increased adoption of improved varieties. Francesconi and Heerink (2011) and Abebaw and Haile (2013) found that membership of a cooperative increases the adoption of mineral fertilizers, thus leading to higher farm productivity. This outcome, however, is not surprising as there is no free market for fertilizers, and cooperatives are the only option for accessing the state-controlled fertilizer distribution programme (Abate et al., 2014). Finally, as Fischer and Qaim (2012) have argued, POs can function as important catalysts for innovation adoption and upgrading of production systems through promoting efficient information flows. Thus, the benefits of PO membership not only include market access as such, but also entail better opportunities to innovate and improve product quality.

Few studies on the impact of agricultural cooperatives in developing countries, however, have paid much attention to differences among POs, for instance along the lines of the typology presented above. Recently, however, some exceptions have appeared. For instance, Verhofstadt and Maertens (2014) compared cooperatives in Rwanda in different sectors (maize versus vegetables) and with different remuneration schemes (more individual versus more collectively). The authors found that the impact of membership on farm performance is largest for cooperatives where production and remuneration are individually based, even when marketing is done collectively. Fischer and Qaim (2012) found that, for banana POs in Kenya, older and more homogeneous groups were better able to create benefits for their members. Also the way the POs were founded – bottom-up by the farmers themselves or top-down by state agencies – influences the performance of the PO.

Barham and Chitemi (2009) compared farmer groups in Tanzania and found that more mature groups with strong internal institutions, with well-functioning group activities and a good asset base of natural capital (for example access to irrigation water) are more likely to improve the market position of farmers. Also the type of product is important: groups that sell fruit and vegetables were more likely to improve the market situation than groups promoting staple crops like cereals and legumes. The explanation lies in the ability of the group to pool resources to buy special equipment needed for sorting, storing and transporting perishable commodities.
like fruit, vegetables and milk. Also, for perishable products the risk of exploitation of time-related dependencies (or ‘hold-up’ in transaction cost theory terminology) is higher, which increases the incentives for farmers to collectively solve this problem. This relative importance of cooperatives for high-value crops was confirmed by Markelova et al. (2009) in a study on collective action in Meso-America. These findings are also in line with results for Europe, where cooperatives have the highest market share in dairy and fruit and vegetables (Bijman et al., 2012).

Not only is the type of product relevant; the organizational characteristics of the group also affect its performance (Ostrom, 2010). The relationship between group size and group performance is ambiguous. Small groups are more likely to show internal cohesion and high informal information exchange (Bowles and Gintis, 2002), while large groups have more opportunities to gain economies of scale. Besides group characteristics, also the size of the member deliveries is important. Because POs depend on member deliveries to achieve efficiency in processing and marketing, side-selling by members poses a threat to the economic viability of the PO. This issue of side-selling is a widespread problem, not only in developing countries, but also among European cooperatives (Pascucci et al., 2011).

In a recent study on coffee cooperatives in Costa Rica, Wollni and Fischer (2014) found a U-shaped relationship between farm size and member deliveries. Small-scale farmers deliver a larger share of their coffee to the cooperative because side-selling to private buyers is less attractive for them. As farm size increases, farmers find it increasingly attractive to market part of their harvest to private buyers and the share delivered to the cooperative decreases. However, the authors found that deliveries increase again for large farm sizes. They explain the U-shaped relationship on the basis of the lower need for credit on the part of large farms. Farmers do not get full payment for their harvest upon delivery, because cooperatives pay in two parts, one share at delivery and one share as patronage refunds after the end of the fiscal year. Particularly for average size farms this delayed payment is a reason to sell part of their harvest to private buyers and receive direct payment.

This brief review of the literature suggests that POs can have a positive impact on market access and thereby on smallholder income. However, this positive impact is conditional on a number of variables, such as type of product, type of market, and a set of organizational characteristics. From the work of Ostrom and others on collective action in natural resource management we know that structural variables greatly influence the effectiveness and sustainability of collective action (for example Ostrom, 2010; Poteete and Ostrom, 2004). Better understanding of the functions and structure of the POs will lead to more refined research results.
PRODUCER ORGANIZATIONS AND INCLUSIVENESS

While there is an increasing body of literature showing that POs, under particular conditions, facilitate smallholder market access and integration in modern value chains, the issue of inclusiveness is still unresolved. To what extent do POs include all farmers or only a subset of the farming community?

Traditionally, farmer organizations and cooperatives were community-based organizations, certainly at the local level. Village and community organizations are primarily a means to channel resources to a community or to mobilize community activities (Hayami, 2009). Being community-based entails important benefits for the governance of the PO. Bowles and Gintis (2002) have argued that frequent and multiple-purpose interactions within small communities support informal information exchange, trust and norm building, and these elements reduce transaction costs related to information gathering and contract enforcement. POs that are strongly embedded in the community benefit from such local social capital.

This community orientation, however, may not fit with the commercial orientation that is currently needed for market access and value chain coordination. Market access often requires compliance with strict quality and volume requirements, while not all producers in the community may be able to deliver the required quality and quantity. As a result, POs become more selective in permitting members and accepting products. Also, the investments needed for a strong market position, for instance in building storage facilities, require profits to be retained instead of being used for community projects. Finally, a commercial PO may soon grow beyond its original geographical base, thereby weakening the linkages to the local community.

The concept of inclusiveness of producer organizations encompasses several dimensions (Bernard and Spielman, 2009). First, inclusiveness relates to the open or closed character of the PO: can all producers become members or does the PO hold strict entry requirements? Second, it relates to the benefits that all individuals in a community, irrespective of their membership status, may experience from the activities of the PO. And third, inclusiveness relates to the extent to which participatory decision-making is conducted within the PO. A fourth dimension of inclusiveness is about gender and generational diversity: are women and young people sufficiently represented in the PO? Often participation in PO decision-making is dominated by male household heads, while most of the farm work is done by women and young people (Woldu et al., 2013; Bock and Shortall, 2006).
Inclusiveness of a PO should be measured along all four dimensions. Bernard and Spielman (2009) found that the poorest of the poor Ethiopian grain farmers tend to be excluded from membership in marketing cooperatives. Although they may experience some spillover benefits from the cooperative in their community, these benefits are limited compared to those accruing to members. The authors also found that decision-making tends to be concentrated in management committees that are less inclusive of the poorest members of the PO. Finally, the authors found a trade-off among (a) inclusive membership, (b) participatory decision-making, and (c) economic performance. Successful cooperatives had either participatory decision-making but exclusive membership, or they had inclusive membership but non-participatory decision-making. This finding seems to support our argument that commercial POs are more likely to exclude particular groups of farmers.

IMPLICATIONS FOR INTERNAL GOVERNANCE AND MEMBER RELATIONS

Above we argued that POs are transforming from organizations providing social, political and economic services to the whole farming community into organizations providing processing and marketing services mainly to members. How does this shift in main objectives affect internal governance, leadership capabilities and member relations?

Internal governance relates to the structure and processes of decision-making within an organization. Key characteristics of internal governance are the allocation of rights and obligations over the governing bodies, the monitoring and control of decision-makers, the selection and election of the members of the board of directors, the distribution of rights between board and general assembly, and the distribution of voting rights. POs have complex internal governance structures, with a delicate balance in the allocation of decision rights and income rights. This balance may shift when POs become more market oriented.

One of the challenges for effective internal governance is the heterogeneity in membership. Heterogeneity is a natural consequence of the community orientation of traditional cooperatives. Within the community, farmers demand various services from the cooperative, such as supplying inputs, providing credit, giving technical assistance and marketing farm products. Often social functions like employment opportunities are added. Also, farmers expect the cooperative to deal with all products resulting from diverse farming systems. There may be good (historical) reasons for cooperatives to be multiproduct and multipurpose. Economic arguments
in favour of combining various functions emphasize risk diversification and economies of scope, while sociological arguments emphasize social capital building through multiple interactions (Hayami, 2009).

However, internal governance scholars usually argue against heterogeneity within the membership of voluntary organizations, as it makes decision-making more costly due to so-called influence costs (Iliopoulos and Hendrikse, 2009). Hansmann (1996) has argued that one of the main advantages of cooperatives (compared to other organizational forms) lies in the low internal governance costs precisely because of the homogeneity of the members. Thus, heterogeneity of membership is a challenge to the internal governance of POs because it reduces the efficiency and effectiveness of decision-making. In market-oriented POs membership heterogeneity is more problematic than in community-oriented POs, as marketing requires more product-specific expertise as well as risky investments (Bijman, 2010).

The transformation process may also have implications for leadership. When POs become more engaged in vertical coordination and transact in more demanding markets, a different type of leader may be needed. While traditional cooperatives had leaders with networking skills to maintain good relationships with politicians and administrators, the leaders of the market-oriented POs need more expertise in marketing, financial management and strategic management. Also management capabilities for processing and marketing are needed. While finding and maintaining good managers is already a challenge, setting up effective control mechanisms may be even more problematic. While the scale may be different between cooperatives in developed and developing countries, they all face similar control problems when appointing professional managers (Bijman et al., 2014).

Whether traditional cooperatives become more market oriented or new POs are established to facilitate market access, in both cases investments are needed beyond what members can contribute. As an alternative, POs receive funds from the state and/or from International Non-Governmental Organizations (INGOs). While these funds are highly appreciated, they do not come without strings. Either directly through a seat in the board of directors or indirectly through the threat of withholding funds, outside supporters are able to influence the decision-making of the PO. The interests of the state and INGOs, however, may not be fully aligned with those of the membership. Both state and INGOs have a broader development or inclusiveness focus, and they often request the PO to provide support for the community as a whole and to include those farmers that are not able to supply the minimum quality and quantity that is needed from a business point of view. This is not to say that outside support is undesirable, but it
is important to organize internal governance in a way that facilitates the sustainability of the PO as a member-owned enterprise.

The issue of finance also influences member relations, particularly when the PO is only paying its members after a delay. Fully committed members, willing to remain loyal, can still engage in side-selling when the PO only pays out after it has sold the products and received payment itself. Such delayed payment can be a real problem for farmers that are in need of short-term cash, either for farm input costs or household consumption expenses. The uncertainties associated with late payment were a reason for members of coffee cooperatives in Rwanda to side-sell to local traders (Mujawamariya et al., 2013). Thus, the lack of working capital in the PO is one of the greatest challenges for member commitment and thus for the viability of the organization.

Member commitment is even more important when the PO is marketing high-value added products, with quality attributes that are not always easy to measure (for example in the case of organic foods). Members have a common interest in delivering products that comply with the quality and safety requirements and in building up a collective reputation through the PO. However, individually, they may not be willing to assume the cost of guaranteeing quality and safety. Each member may think that other members will invest in improving quality at the farm level. Thus, POs are faced with the classical free-rider problem, and for several reasons they have a hard time solving this quality management problem (Merel et al., 2009). First, democratic decision-making may prevent the exclusion of free-riding members because no majority can be found for such strict policy. Second, POs often do not have clear policies of rewarding quality, because they lack the measurement equipment. Third, POs in many developing countries are founded on the principle of equity, of treating all members equally and distributing surplus equally (World Bank, 2007). Also outside supporters like the state and INGOs often expect the PO to follow a policy of equity.

However, in an environment where quality requirements of final customers (for example, retailers) are becoming more strict, POs are forced to strengthen the vertical coordination in the member–PO transaction. This will result in more contractual relationships between the PO and its members. While it is often expected, based on the voluntary character of the membership and therefore the intrinsic incentive to comply with PO policies, that more hierarchy in the member–PO relationship will reduce member commitment, Cechin et al. (2013) found, in a study on cooperatives in Brazil, that member commitment is positively correlated to a more hierarchical (that is, contractual) relationship. More generally, we expect member commitment to increase when the PO is becoming more
market-oriented, establishes direct contractual relations with customers, and reduces its functional heterogeneity.

THE CONTENT OF THE BOOK

The topics discussed above will be revisited in most of the chapters of this book, sometimes explicitly, sometimes more implicitly. While these chapters were not written with the assignment to provide evidence of the transformation among farmer collective action, they all discuss how cooperatives and POs in various developing countries are dealing with the changing political and economic environment and how they are responding to member needs to facilitate market access and participation in modern value chains as well as to the broader societal need to enhance productivity and food security.

After this introductory chapter, the first part of the book presents the general trends and dilemmas among cooperatives, farmer organizations and POs. Pesche and Losch (Chapter 2) stay close to the traditional rural producer organizations that are operating in the world of political decision-makers and state agencies. With a focus on West Africa, the authors discuss the challenges of POs when faced with a changing policy environment and a more demanding market. The life of POs seems to have become more difficult over the last few decades, as they have to deal with their own structuration and capacity building and at the same time need to make their voice heard on a wide range of challenging issues ranging from coordination in the value chain to pressures on land and natural resources and regional and international trade negotiations.

The chapter by Hanisch (Chapter 3) discusses the position and functions of rural cooperatives for pro-poor agricultural transformation and poverty reduction. Differentiating between types of farmer-based organization, concepts of rural transformation, determinants for successful collective action and dimensions of poverty, the chapter seeks to conceptually contribute towards explaining why cooperatives are often presented as tools for poverty alleviation although the results of analysing their effectiveness in alleviating poverty are rather mixed. The chapter draws conclusions for future research on the subject and for drafting group-based development policies.

While traditionally cooperatives have been considered as the most appropriate organizational (or legal) form for joint marketing of agricultural products, farmers and their supporters (for example Non-governmental Organizations (NGOs)) are increasingly acknowledging the limitation of this model. Different countries are now experimenting with new types
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of farmer-owned business. Singh (Chapter 4) presents and discusses new farmer companies in Sri Lanka and new producer companies in India. The author analyses how these new POs differ from traditional cooperatives, and reflects on their activities and their performance. The chapter draws conclusions on how to strengthen the organization and management of these new types of farmer-owned marketing companies.

The second part of the book deals with the issue of economic democratization, inclusiveness and social capital. Shiferaw, Hellin and Muricho (Chapter 5) review the empirical literature on the impact of POs on smallholder agriculture. The authors emphasize the role of the PO in providing access to input and output markets and to technologies for productivity growth. Based on studies from all around the world, the authors conclude that POs have great potential in strengthening farmer positions in value chains. This chapter also deals with the question of who are members and whether the poorest are included.

Groot Kormelinck, Plaisier, Muradian and Ruben (Chapter 6) address the relation between the performance of agricultural cooperatives and indicators of trust, reciprocity and cooperativeness. On the basis of empirical research among coffee cooperatives in Ethiopia, the authors find significant higher levels of stated trust, behaviour of trust, reciprocity and cooperativeness among members of high-performing cooperatives as compared to members of low-performing cooperatives. In addition, gender comparisons show that female members have a higher propensity to adopt pro-social behaviour than their male counterparts.

However, Wedig (Chapter 7) shows that the distribution of social capital in rural societies is decisive. Poor rural communities are heterogeneous, with strong socio-economic inequalities that shape the patterns of access to the benefits of cooperatives. The author discusses the organizational characteristics that strengthen the capacity of POs to achieve inclusive development goals, on the basis of evidence from Uganda’s coffee sector, and explains the mixed effect of POs on economic equality in poor and heterogeneous rural societies. The results caution against the claim that community-based organizations are particularly successful instruments for inclusive rural development. While the existence of social capital is conducive to the functionality of POs, extensive control by local elites of core governance bodies tends to weaken the basis for equitable organizational development.

Pascucci and Duncan (Chapter 8) discuss the relationship between formal POs and informal forms of collective action among agricultural producers. The authors use the case of pastoralists in India, where public policies aiming at the modernization of production and distribution systems have strengthened the position of formal POs of dairy farmers,
while at the same time these policies have endangered the existence of informal collective action among pastoralists. The authors suggest that more attention should be paid to the informally organized dairy producers when developing dairy support policies.

The third part of the book deals with internal governance and member commitment. Whether POs are able to provide the necessary services to their members depends on their organizational resources and capabilities, as well as the decision-making structures and processes. Two contributions to the book deal with the challenges of internal governance in relation to the market access and value chain coordination functions of the PO. Jia, Hu and Hendrikse (Chapter 9) discuss the rapid rise of new cooperatives in China, particularly in the marketing of farm products. The authors study internal governance structures and show how these differ from traditional governance models of cooperatives. They analyse the shift of decision-making power from the members to the cooperative business. This shift is not only the result of the need to give managers more decision-making power on issues of marketing and quality control, but is also a result of the regulation of Chinese cooperatives, which, compared to European and American cooperatives, allows a large differentiation in voting power, often related to investments in the cooperative business. Thus, the core members have substantially more income rights (based on their initial investments) and decision rights compared to common members.

O’Brien and Cook (Chapter 10) discuss the organizational strengths and weaknesses of dairy cooperatives in East Africa. They describe the organizational and operational characteristics of the cooperatives as well as the characteristics of members and non-members. In addition, the authors discuss why smallholder households remain members of their cooperatives when they have the option of selling their milk elsewhere. The chapter projects the readiness of each cooperative in the study to have sustainable growth through assessments of their current challenges at the meso- and micro-levels.

The final part of the book consists of two chapters. The wider impact of POs on development, that is, beyond providing market access and strengthening market position, is discussed by Blokland and Schuurman (Chapter 11). These authors, both working for a development NGO specialized in supporting cooperatives and farmer organizations, present and discuss the claim that ‘strong membership-based rural organizations make development more equitable and democratic’. On the basis of a theory of change these authors provide arguments as to why POs make a society more egalitarian, more democratic and support economic growth.

The academic questions that arise from the chapters in this book are presented in the final chapter by the editors (Chapter 12). These questions
focus on three key issues of the transformation process. The first issue is inclusiveness: which producers can benefit from PO membership? The second issue is about the structural tensions that POs face, for instance between equity and efficiency, or between autonomy and external support. What is the impact of the transformation process on these tensions, or, alternatively, how do these tensions affect the transformation process? The third issue is about impact of the changing political and market environment. How are rural membership organizations, which require time to build trust and legitimacy, faring in an increasingly volatile and uncertain environment?

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