



Workers process cassava leaves at the Oxfam-supported enterprise Shekina in Rwanda's Rulindo district. Photo: Eleanor Farmer/Oxfam.

FAIR VALUE

Case studies of business structures for a more equitable distribution of value in food supply chains

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The share of value that many farmers receive for the food they produce is insufficient to help them move out of poverty. Among the reasons for this are the business arrangements and structures in the food system. Alternative business structures and ways of doing business exist within the food sector, and may prove better at sharing value. The examples and case studies in this report demonstrate that equitable business structures such as farmer-owned cooperatives, and business arrangements including long-term and transparent contracts, profit sharing and producer participation in pricing committees, can result in farmers receiving a greater share of the value of the food they produce.

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SUMMARY

The businesses that make up the global food system are diverse in their structures and models – encompassing different goals, priorities and power structures. In some places, they have driven a fairer distribution of value and power, while in other places they have entrenched poverty, hunger and inequality. There is an opportunity to create a fairer and more sustainable food system through innovative approaches to procurement and promoting businesses that produce more equitable outcomes for their stakeholders.

This report uses case studies to illustrate the range of business arrangements, and the diversity of ownership and governance structures, that can drive more equitable outcomes across the food system and global supply chains. Such models can be innovative, they can occupy various positions across a value chain, and they can share a larger part of the end-value of goods with producers and workers in agricultural supply chains.

The report begins to identify key structural aspects of such equitable business models, focusing on their governance and ownership. This draws on and contributes to a range of themes including: social economy, corporate governance, impact investing, enterprise development and the cooperative movements, all of which are asking similar questions about what kinds of businesses are more sustainable and equitable.

There is no guarantee that the diverse range of alternatives described and illustrated in this report consistently result in producers receiving a greater share of the value of the final product. Many other factors, such as market conditions, will play a key role in that. There are also caveats that all businesses can fail, whatever their structure, and that there is limited rigorous research with which to directly compare the impact of different business structures and arrangements on producer income and wellbeing. Notwithstanding these caveats, it is possible to conclude that:

Alternative models do not need to be niche. The food sector includes some large and well-established companies which are owned by producers or by employees. Cooperatives are the most ubiquitous form: for example, they are responsible for 45% of Kenya's GDP.¹ International development actors – and the corporate social responsibility projects of larger companies – have typically focused their attentions on primary-level cooperatives, on the ground, in communities. Could we be doing more to support the creation of farmer-owned and employee-owned businesses, and hybrids, with this scale and ambition?

Fair pricing can be good for everyone's business. One striking feature of several of the case studies is that there can be benefits to all actors in the supply chain by guaranteeing a fairer share of value for producers. Case study 1 perhaps best exemplifies this, where a supermarket paid producers a price above the cost of production and itself made savings through greater efficiency and quality.

Overcoming gender-specific barriers means women having a say in how businesses are run. Women face gender-specific, in addition to more general, obstacles to benefiting from markets. Collective action, whether as a women-only cooperative or as part of a mixed cooperative, can make a significant difference to women's income, particularly in sectors that are high-value and allow for flexible work. However, simply involving women in alternative business models is not enough – women must also have an equal say in how the business is run. It is also probably unwise to expect involvement in business alone to resolve all the aspects of life in which women are unfairly disadvantaged. A similar emphasis is needed on issues such as gender-based violence, women's unpaid care responsibilities, access to education and healthcare, and the promotion of positive social norms, for women to have the opportunity to have more say over their lives and assets.

Upward vertical integration can help producers capture more value. Some of the most striking examples of producers increasing their share of value have been when they take ownership of downstream processing or manufacturing. Through the Kenya Tea Development Agency, farmers have ownership in the processing factories, earning them 75% of the tea price, compared with 40% in neighbouring Rwanda. Etico (case study 9) provides a Northern-based trading arm to the cooperatives which supply and part-own the enterprise, preventing

value being extracted by profit-maximizing intermediaries. Divine and Cafédirect (case study 11) are part-owned by producer organizations which receive a share of the brands' profit.

Lead firms, investors and governments can all shape businesses to be structured more equitably. By recognizing the potential of equitable businesses to make agriculture more sustainable and fair, companies can try to source more from equitable business structures, and can support suppliers to move to more equitable structures through collaboration and investment. Governments, along with industry groups and investors, play a key role in creating an enabling environment that fosters the growth and success of equitable business structures. Governments can use the levers of trade policy, industrial policy, corporate governance policy, tax, public procurement and agricultural policy to progress an economic vision of an economy where such business structures are the norm. Meanwhile, investors can play a catalyzing role in financing equitable business structures. Collectively fostering a business ecosystem that helps equitable business structures to emerge and thrive makes for economies, investments and supply chains that are more stable and sustainable over the long term.

Brands and retailers, investors and governments all have a choice about the kinds of businesses they favour. And there is great diversity and potential for innovation in shaping the businesses that populate the world food system. The time is ripe for driving a transformation of these business structures to ensure that power, value and risk are shared more equitably – and that the 'hungry farmer' is a thing of the past.

SUMMARY OF CASE STUDIES

Case study	Governance and ownership characteristics	Legal form
Case study 1: Sainsbury's Dairy Development Group	Farmers have full membership within the group and have equal votes in decision making on milk price.	Publicly listed company
Case study 2: Apicultura Lilian, Honduras	Sourcing strategy focused on establishing a direct link with honey producers. Distributes 10% of its profits to supplier network. Provide technical support and inputs to increase yields.	Private limited company
Case study 3: Shekina Enterprises, Rwanda	Farmers are present on the pricing committee. Works mainly with women farmers to enable economic empowerment.	Private limited company
Case study 4: Twin Women's Coffee	Produces coffee traceable to women farmers who receive a price premium. Producer organizations have considerable freedom in how they operate and how they use the premium. Depending on the producer's governance structure, there may include a requirement for a minimum number of women on the producer's board. Where producers are cooperatives, there is a programme of investment around gender justice.	Twin is a registered charity in the UK and is the sole owner of Twin Trading, a limited guarantee company.
Case study 5: Dadeldhura Farmers' Cooperative Society, Nepal	Cooperative provides inputs and markets produce. Increases value retained by women farmers through involvement in the seed value chain. Women are represented on the board and in senior management roles within the cooperative.	Cooperative
Case study 6: Phata Sugarcane Outgrowers Cooperative, Malawi	Cooperative formed to pool land to provide the necessary production volumes and infrastructure to meet a long-term supply contract. Board consists of farmer representatives and independent directors. Executive committee and various sub-committees are elected and appointed by the smallholder farmer members.	Cooperative

Case study 7: Alaznistavi cheese cooperative, Georgia	Members receive a higher share of value by producing a niche product and marketing branded product. Each member receives equal share of profit.	Cooperative
Case study 8: Muhanga Food Processing Industries, Rwanda	A food processing company, majority owned by COCOF, a women-only cooperative, which ensures that farmers' interests are represented on the enterprise's board and in executive committee.	Private limited company
Case study 9: Etico	Etico is 100% owned by a charity and the cooperatives which supply it. They consider themselves to be a 'third-level' cooperative, as they work closely with federations of farmer cooperatives, and in effect enable them to have a Northern-based trading arm without value being extracted by profit-maximizing intermediaries. An advisory board consisting of 12 farmers and experts in youth, development and gender provide representation and strategic support to the business.	Private limited company
Case study 10: Just Change, India	An agricultural trading company based in southern India. Uses a multi-stakeholder model of ownership and governance which embodies the principles of the multi-stakeholder cooperative model. Each member of Just Change must be in at least two of the three categories: a producer member, consumer or a capital investor.	Combination of charitable trust and private limited companies
Case study 11: Alternatives are not niche	Examples of four large, established companies in the food sector that are owned by employees or by farmers.	
Case study 12: Kate Spade and Abahizi Dushyigikirane (ADC), Rwanda	ADC is 100% owned by a cooperative of the artisans employed by ADC. The cooperative elects the ADC board. An advisory board has representatives from the local community, Kate Spade and a Kigali-based consultancy. While the enterprise is growing, profits are reinvested back into the business. Once it has reached a size where it is securely capitalized, there is a commitment that the profits will be equally shared between the local community, a cooperative which assists widows of the 1994 genocide, and the employees.	Private limited company owned by cooperative

1 INTRODUCTION

THE HUNGRY FARMER

There are approximately 570 million farms globally, 84% of which are 2 hectares or smaller in size;² of these, 87% are in Asia and the Pacific.³ These smallholdings support around 1.5 billion people, who produce more than their fair share of crops.⁴ For example, Indian smallholders cultivate 44% of the farmed land but contribute over 50% of the country's total farm output.⁵ They manage this predominantly through higher use of labour, and despite low capital inputs.

In addition to providing food, agriculture is a major source of livelihoods globally: more than one billion people are employed in agriculture, representing one in three of all workers.⁶ This includes 300–500 million waged workers, many of whom work in plantations growing crops for export.⁷ For example, 2.5 million people work in oil palm estates in Indonesia and Malaysia, producing palm oil that is predominantly exported to the EU, China and India.⁸ India has an estimated one million people working on plantations year round, and double that number of seasonal tea labourers.⁹

Yet the paradox is that the very people who produce food are among the most likely to be going hungry. Most undernourished people in the world live in developing countries, in rural areas, and depend on agriculture directly or indirectly for their livelihoods.¹⁰ Fifty percent of the world's undernourished people are smallholders and their families.¹¹

AN UNFAIR SHARE

Trading, manufacturing and retail in global food chains are dominated by a small number of large multinational corporations. One of the impacts of the dominance of these powerful actors is that farmers and smallholders have limited influence when negotiating terms of trade. This lack of power contributes to farmers and workers in supply chains receiving an ever-diminishing share of the fruits of their labour.

Research increasingly shows that in agriculture-based products sold in supermarkets around the world, the value¹² retained by farmers has declined over the last 20 years, while supermarkets have increased their share.¹³ This trend is forecast to continue.

Disparity of power disproportionately impacts women, who face entrenched social norms. Wage discrimination and an unbalanced responsibility for unpaid care work results in women receiving the lowest share of value in many supply chains. In fact, according to recent Oxfam research, it is the crops for which women provide the majority of cheap labour where the gap is greatest between wages and what is required for a decent standard of living.¹⁴

This problem has grown to the extent that many food producers struggle to break even, let alone make a profit. An analysis of the profitability of agriculture and fisheries by the International Sustainability Unit showed that few producers in the food system are able to make a profit. The analysis considered maize farms in the USA, all farms in the UK, Brazilian beef, Indian wheat, Ethiopian smallholder agriculture, Northeast Atlantic bluefin tuna fisheries, Thai shrimp farming and Senegalese coastal fisheries. Once subsidies were taken into account, only Thai shrimp farming was profitable.¹⁵

The paradox of the hungry farmer has many causes, including climate change; limited access to and increasing competition for land and water; lack of investment in rural infrastructure, education and healthcare; and declining state investment in agriculture, among others. There is another dimension to add to this list: how the value chains in the food system fail to share sufficient profit with the producers.

OXFAM'S ROLE IN SUPPORTING EQUITABLE BUSINESSES

Since it was established in 1942, Oxfam has worked across the world to address issues of food and hunger. It has supported cooperatives and equitable businesses such as Amul, Cafédirect and Just Change, and continues to support such models by selling the products of Fair Trade businesses across its network of shops. Oxfam also supports enterprises that have the potential to deliver social benefits through its Enterprise Development Programme (EDP). EDP provides technical assistance, loans and grants to small businesses in developing countries and is increasingly working with enterprises to explore different ways of encouraging more equitable governance and ownership structures. Many of the case studies in this paper draw on Oxfam's experience of working with EDP businesses.

Oxfam's support to different models of business has hinged on a desire to create market opportunities for farmers and communities, while ensuring that power, value and risk are distributed equitably among people impacted by businesses. This approach has made Oxfam one of the voices calling for a food system future that entails a more deliberate vision for the kinds of businesses that grow, process, trade and retail our food.

This report aims to provide some analytical framing and some case studies for what the future food system could look like. These case studies do not depict a perfect scenario. Nor do we cover the broader complexities of and possible negative impacts that any of the examples may encompass. They are presented as enterprise-level examples of business models that are alternatives to those that provide exclusive power and priority to investors, and serve to broaden the horizons of what supplier models could entail.

2 CHANGING THE TERMS OF TRADE

Many brands and retailers are currently taking steps to ensure that a greater share of value along their supply chains goes to farmers and workers (as explained below). This includes adapting aspects of the terms of trade and other business arrangements, which are often set by businesses further up the chain.

A critical point here is that business arrangements should go beyond allowing better market access to producers if they are to share value more successfully. Merely providing access to markets will not be enough to tackle poverty and hunger: the business arrangement must contribute to those markets sharing value more equitably.

BUSINESS ARRANGEMENTS FOR SHARING VALUE

Here we focus on two business arrangements that Oxfam's research has uncovered as key to sharing more value with workers and farmers in supply chains: contractual (purchasing) arrangements, and farmers' participation in pricing committees.

There are effective examples of long-term contracts which producers can use as security to invest in their farms; guaranteed fair prices (case study 1);¹⁶ or agreements to distribute a proportion of profits back down to producers (case study 2). Typically, these approaches can drive more sustainable supply chains and be beneficial for farmers and workers as well as for the lead firm deploying these approaches, and there is increasing recognition of the business case for improved supply chain relationships.

Another type of business arrangement that can share value more equitably concerns how prices are decided (case study 3). Producers are typically 'price takers', with little power to determine the price they are paid for the produce they sell. Including producers in pricing committees can begin to rectify this power imbalance and drive more secure and sustainable supply chain partnerships. For businesses which are sourcing these products (e.g. retailers or brands), the resulting improvements in stability and productivity can justify the more equitable sharing of value and begin to challenge the traditional power dynamics of value chains.

Such arrangements are not uncommon. For example, through its 'Milk Pledge Plus' initiative, Marks & Spencer in the UK has a long-term relationship with 40 dairy farms, which it pays based on the cost of production and the achievement of farm, animal health and welfare standards.¹⁷ Tesco claims to pay dairy farmers a market-leading price, set for three months at a time, ensuring they have a stable income; since November 2007 it has paid £270m over market prices to its milk farmers.¹⁸ It is no coincidence that these examples (and case study 1) are from the UK dairy sector, because the practice of paying farmers less than the price of production in this sector has received widespread press coverage.

If business arrangements can be modified to the benefit of UK farmers and supermarkets, it may also be the case that such practices could be applied more broadly.

In common with the approaches explored in the rest of the document, there are no guarantees that these measures will always lead to a greater share of value for producers and workers. For example, profit sharing can be misleading if it leads to hiding profits.

Case study 1: Sainsbury's Dairy Development Group

Introduction

Sainsbury's is the UK's second largest supermarket (by market share).¹⁹ The Sainsbury's Dairy Development Group (SDDG) was formed in 2007, with the goal of working in partnership with the dairy farmers who supplied it with fresh liquid milk, 'to deliver a sustainable sourcing model that drives production efficiencies through improved animal welfare and reduced environmental impact'.²⁰ The wider context within which the SDDG began was one of a long-term decline in the price of milk, to the point that it fell below the price of bottled water, with farmers receiving less for their milk than it cost them to produce it. This contributed to a halving of the number of UK dairy farmers in the last decade.²¹

The SDDG is currently composed of 260 farmers in Great Britain and 9 in Northern Ireland.²² Almost all (97%) of Sainsbury's 'By Sainsbury's' fresh milk comes from the farmers in the SDDG. Occasionally, short-term imbalances in production and demand will require Sainsbury's to buy milk from other farms.²³ The main elements of the SDDG highlighted here are its pricing mechanism, which guarantees group members a price that at least covers the cost of production, and farmers' engagement in the pricing committee.

Description of the business arrangement

All SDDG farmers have full membership within the group and have equal votes in decision making on price models. A steering group, composed of a smaller number of SDDG farmers, meets more regularly to represent the group in discussions on challenges they are facing within the industry.²⁴

When the SDDG was first formed, the farmers were simply paid a premium for their milk. However, this did not always cover production costs. In 2012 they came up with the Cost of Production model, which was agreed on by the farmers in a majority vote.²⁵ This means that farmers receive a guaranteed fair price for milk that will cover the costs of production.

Milk prices are determined through a multi-step process. First, independent consultants visit every farmer in the group between May and August each year. During these visits, the consultants check each farm's finances, including data on inputs and yield. The data from all of the SDDG's farms is then aggregated, and an average cost per litre of milk for the group is determined. To this figure, the SDDG adds some profit, which is decided on by the SDDG as a group. Farmers are also given an additional bonus for looking after herds well ('going above and beyond national standards').²⁶

The milk price is set in this way each year, but Sainsbury's also checks the cost of feed, fuel and fertilizer every three months. If the cost of these inputs goes up, the price Sainsbury's pays goes up, and vice versa. (Note that the Northern Ireland farmers are part of a cooperative and have a different pricing structure.) Sainsbury's reports the current price it is paying for milk on its website, making the system more transparent.

In addition to guaranteeing the Cost of Production price, the SDDG pays for annual vet visits from the independent Veterinary Consultants, The Evidence Group. It also offers funding for milk recording so farmers can monitor the quality of their milk, farmer development opportunities (e.g. funding farmers to attend Business Improvement Groups), funding for research and development projects (e.g. a study into fertility and heat detection), quarterly meetings with steering group farmers, and an annual meeting with all farmers.

The retail price of milk is separate from the price the farmers receive, which means that farmers' income is not tied to the retail price of milk, and that Sainsbury's shares in some of the risk if milk prices dip. In two years (ending 2011), Sainsbury's had saved £127,000 through the development model, due to greater efficiency and quality. The average cost-saving per farmer in the SDDG in 2011 was £5,000 per annum, which is the equivalent of £1.66m in additional milk sales for the whole group.²⁷

Case study 2: Apicultura Lilian, Honduras²⁸

Introduction

Apicultura Lilian is a private company owned by a single entrepreneur, founded in 2000 and located in Honduras. The company produces its own honey from 400 beehives, and in addition has a network of 25 brokers, located in 10 departments/regions in Honduras, that collect honey from 125 small and medium producers. It has a small processing plant where honey is bottled and transformed. The company markets 16 different varieties of its six main products – including pure honey, Royal Jelly, Propolis (bee glue) and bee venom – through distributors and supermarket chains. Its 'Apis Lilian' brand is well known to consumers in Honduras.

In the past, the company has imported cheaper honey from Nicaragua and El Salvador, which avoided the high intermediary costs on domestic supply during the off season. By developing stronger links with domestic beekeepers and consolidating their supply, the enterprise secured better prices and quality while at the same time increasing the share of value for smallholder farmers.

Apicultura Lilian, which recently joined Oxfam's EDP,²⁹ currently has sales of \$285,000 which it intends to increase to \$434,000 with EDP's support, while growing its network of suppliers from 125 to 180. The main aspects of the company–supplier relationship highlighted here are the company's commitment on the redistribution of the profits to producers as a price premium, and its support for women in the local community.

Description of the business arrangement

With the support of EDP, the company will develop a sourcing strategy focused on establishing a direct link with producers. The aim is to work with 150 small producers (over 50% women) and their organizations; 15 medium producers; and 15 large, independent producers.

There are three key mechanisms through which Apicultura Lilian aims to share value with these suppliers. First, the company is committed to distributing 10% of its profits to the supplier network in the form of a price premium. Second, it aims to provide technical support and inputs to increase the yields of small-scale producers (many of whom are women) from 10kg to 25kg per hive. Finally, it aims to increase the average number of beehives of small producers from 10 to at least 20.

The proposal to distribute 10% of profits to the supplier network, combined with increased production volumes, is expected to result in an increase in annual income for producers from \$205 (today) to \$964 by 2020, with the number of women smallholders up from 5% to 46%.

Beekeeping is an activity with high potential for women's increased participation and economic empowerment, as it requires a relatively low and flexible time commitment. However, women's participation in the sector in Honduras is traditionally low (5%, according to a recent census³⁰). This is largely due to cultural norms that prevent women from developing economic agricultural activities, women's lack of self-confidence to take on new challenges, and limited opportunities for entrepreneurship.

With EDP's support, Apicultura Lilian will include at least 82 women in its supply chain by the end of 2019, support women to increase their productive assets and access to credit, and influence local government's increased investment in technical, financial and infrastructural support for women.

Case study 3: Shekina Enterprises, Rwanda³¹

Introduction

Shekina Enterprises, a flour and cassava leaf product processor and distributor located in the Rulindo District of Rwanda, is supplied by a network of 1,440 smallholder farmers (1,150 of whom are women), and employs a further 127 (116 women) in distribution and processing. It was established in 2007, and in 2016 its turnover totalled £54,000. The main focus of this case study is on producers' engagement in pricing committees.

Description of the business model or structure

Shekina Enterprises sells a range of blended flours and cassava leaf products. The growers are typically smallholders who are organized into cooperatives which hold contracts with Shekina Enterprises. Shekina Enterprises manages five collection centres, to which farmers deliver their produce. At the collection centres the produce is sorted and the farmers are paid. The crops are then transported to a central processing facility, where the grains and roots are turned into flour and the cassava leaves are dried. While the finished products are packed and sold locally, the primary market is export to the African diaspora in Europe and North America.

Women smallholders are the primary growers. The processing plant employs 27 people, and the enterprise is training 50 more young women to form a marketing company.

Shekina is part of Oxfam's EDP beneficiaries; a condition of joining was payment of fair prices to farmers, resulting in a 100% price increase for farmers. Farmers are present on the pricing committee, and Oxfam continues to raise farmers' issues, including prices, with the enterprise. It is likely that further increases in the prices paid to farmers will be required for future EDP support.

A GREATER SHARE OF VALUE FOR WOMEN

Women make up approximately 43% of the agricultural labour force in developing countries.³² Yet in comparison with their male counterparts, women often form a low proportion of the membership of producer organizations (at least in sub-Saharan Africa),³³ are *de facto* excluded from decision making and leadership roles,³⁴ and rural development strategies often underinvest in the types of services and infrastructure that would alleviate women's time poverty.³⁵ Women's ability to gain from buying and selling in agricultural value chains is often also reduced by their limited rights to inheritance and land, and by social norms that restrict their mobility and right to control income and finance.³⁶ Thus, women small-scale farmers face gender-specific as well as more general barriers to engaging in markets.

Research by Oxfam in Mali, Tanzania and Ethiopia showed that women working together in agriculture-based enterprises typically earned 70–80% more than their counterparts working alone, and had increased access to credit and market information. In Tanzania and Mali, women group members benefited from increased freedom of movement, and in Ethiopia from increased control of household expenditure. In Mali, group members had increased decision making power over the use of agricultural income.³⁷

This research also revealed that the type of organization that women belong to also affects the benefits they receive from working with others. In large and often mixed cooperatives, women are more likely to gain access to inputs, services and government support, but often have a limited role in decision making. Small, informal women-only groups typically allow members to build confidence, leadership skills and savings.³⁸

However, engaging in markets does not necessarily result in the increased income, control over assets and agency that many women need to transform their lives. The opportunity to participate in a business – even one that is better at sharing the value of goods sold – does not in itself overcome all of the obstacles that many women face, particularly those from rural households in developed countries. Gender-based violence, social,

cultural and legal norms, and limited access to education and healthcare can all reduce women's agency, even if their income has increased.

Case studies 4 and 5 illustrate some of these opportunities and challenges. Twin Women's Coffee (case study 4) was born from the realization of the disparity between the work that women producers do and the recognition they receive for it. Twin purchases coffee from cooperatives that is segregated at production, so that consumers can choose to support these women producers directly. The DAFACOS cooperative in Nepal (case study 5) is a mixed-gender organization, from which women members gain increased access to inputs and services, and an increased income. Both these case studies connect work at household and producer organization level with market opportunities to incentivize greater gender justice. In both cases, it is probably too early to say whether the women producers have seen a significant increase in other forms of empowerment, such as decision making and freedom of movement. For example, where Twin has been working on gender justice with producer groups in the Maanda Comic-Relief funded programme in East Africa, all cooperatives now have at least one female board member. However, both examples illustrate the importance of focusing on high-value products and women-friendly sub-sectors and technologies as a means of increasing women's economic empowerment.³⁹

Case study 4: Twin Women's Coffee⁴⁰

Introduction

Twin is a 'development through trade' NGO working with 59 producer organizations representing 400,000 coffee, cocoa and nut smallholders in 17 countries across Latin America, Africa and Asia. It has a trading company, Twin Trading. Women's Coffee is segregated at production level, meaning that Twin's customers can market their product as traceable to the women farmers, who receive a premium.⁴¹ From 2014, Women's Coffee has been sold through the UK supermarket Sainsbury's as part of the 'Taste the Difference' range and the internet-based Equal Exchange's 'Grown by Women' coffee range. The coffee is produced by six producer organizations in Peru, Malawi, Rwanda, Democratic Republic of the Congo and Uganda.

Description of the business model or structure

Women's Coffee is produced by and fully traceable to women farmers, and the women producers receive a premium that they use in projects to promote gender justice.⁴²

Twin uses a traceability system in which the Women's Coffee is fully segregated. The coffee is produced by individual farmers, who are members of producer organizations (often mixed-gender). It is then brought to a central station to be washed, sorted and packed, etc. Physical segregation is typically maintained by the station receiving Women's Coffee on one specified day of the week.

Within the framework of traceability and work on gender justice, the producer organizations have considerable freedom in how they operate and how they use the premium. Producer organizations were at different stages of maturity when they started working with Women's Coffee, but the decision is always informed by market demand. Twin was already working with some of the organizations on marketing strategies, and for these groups, Women's Coffee was seen as a product they might be able to sell. Others started for their own particular reasons: the cooperative Kopakama decided to give some land to women to grow coffee after the Rwandan genocide and Twin helped them to commercialize it; for the Mzuzu cooperative in Malawi, working with Women's Coffee was a business decision to increase volume and membership.

Beyond the requirements for traceability and quality, joining Women's Coffee can (but does not always, depending on the governance structure) include a requirement for a minimum number of women on the board of the producer organizations. Where Twin works with cooperatives on Women's Coffee, there is also a programme of investment around gender justice; for example, gender policy at producer organization level, GALS (Gender Action Learning Systems) training at household level with men and women to together recognize the changes needed for greater equality. These programmes can also offer training in gender justice and governance for elected farmer delegates, putting an emphasis on opportunities for women in non-executive and executive positions. Because traceability and high quality are essential for Women's Coffee, making training accessible to women to ensure quality has been a crucial part of the programme.

Twin sees room for the expansion of Women's Coffee, and is currently investigating opportunities to include further producer organizations from Rwanda and Burundi. However, the decision to expand is also a strategic one, based on an assessment of the volumes that can be sold.

How it came about

A 2013 report by Twin revealed that in some coffee-producing areas women were doing 70% of the work in the coffee supply chain, but only 15% of the coffee grown was sold in their name.⁴³ It also highlighted the barriers women face in land ownership and decision making, both in the home and within producer organizations. Women's Coffee was established as part of addressing these issues and to promote gender justice and women's empowerment in the coffee supply chain.

Impact

Women's Coffee helps to increase the visibility of female farmers and demonstrates commitment to improving gender justice in the coffee industry. Through its pilot programmes, it has also highlighted the barriers women face to market entry.⁴⁴

Women's Coffee is a relatively recent development, with the longest-participating organizations having just three to four years of production. It is regarded as an interesting proposition by producer organizations because of the business case for having another product to sell, and because Women's Coffee is very high-quality coffee.

In producer organizations that are not women-only, Women's Coffee has helped to significantly increase female membership and to raise women's voice within decision making.⁴⁵ Because registered membership often requires land and/or tree ownership, Women's Coffee also promotes gender justice in land ownership.⁴⁶ At the individual level, Twin has seen an increase in women's income.

'My husband was a member of the cooperative and so the coffee cherries were delivered to Kopakama in his name. Every year when we got paid we would fight – I didn't know how much money we got or how it got spent. So I decided to become a member myself, in my own right. Things are much better now – having control over the income is a big improvement for me and the family.'

—Leonille Mukankwiro, member of the Kopakama cooperative, which participates in Women's Coffee⁴⁷

In early 2016, Twin, in collaboration with Atlas Coffee Importers, surveyed more than 100 industry contacts (primarily US and European) that were already engaging with and committed to ethical supply chains.⁴⁸ Ninety-five percent of survey respondents saw quality as the key factor in their decision to buy Women's Coffee, and 85% believed that lack of consumer awareness is the main challenge for Women's Coffee. Eighty percent of respondents wanted more support to market Women's Coffee through stories, information on gender justice work and impact data, suggesting that there is scope for Twin to provide this type of data, either through its own impact evaluations or by commissioning them.

Case study 5: Dadeldhura Farmers' Cooperative Society (DAFACOS), Nepal⁴⁹

Introduction

Dadeldhura district in the far west of Nepal is one of the remotest and poorest regions of the country, with high rates of unemployment and seasonal migration to India. However, the area has good conditions for agriculture. The Dadeldhura Farmers' Cooperative Society (DAFACOS) was established in 1998. It currently has 1,898 farmer members, 65% of whom are women.

Description of the business model or structure

DAFACOS buys inputs for its members, and then markets the vegetables and seeds they produce. Over time, vegetable sales have become less important and there has been more emphasis on seeds. Seeds are processed by the enterprise and sold both in bulk and in smaller packets to seed companies in Nepal.

DAFACOS has increased women's participation in the seed value chain by supporting them with inputs (seeds, fertilizer, pesticide, agricultural tools) for the production of vegetable and grain seeds (pea, radish, bean, cress, cucumber, coriander, Swiss chard, tomato, okra, onion, broad leaf, cauliflower, broad bean and corn); providing technical backstopping to farmers throughout the year; buying back the farmers' produce at a guaranteed fair price; and marketing the products in local, regional and national markets through establishing two-way linkages of producer farmers.

The enterprise works with smallholder farmers, members and non-members. The majority of both members and suppliers are women. Women are represented on the board and in senior management roles within the cooperative.

How it came about

DAFACOS was established in 1998 with the support of the Centre for International Studies and Cooperation (CECI), from the initial phase of cooperative formation, infrastructure development, farmers' group formation and their capacity development in agriculture and building small irrigation systems. Seeing the potential of seed and vegetables in the highlands of Dadeldhura, DAFACOS started to work on the seed value chain.

However, in the early years, the actors involved in the seed value chain were not organized and the business was fragmented. At the time, not all of the 613 members were active farmers who supplied seed. DAFACOS realized the need to increase its share members (and therefore increase its capital) as well as to strengthen the seed supply base. The board believed that DAFACOS could establish itself as a strong actor in seed sector while improving the economic status of rural poor farmers, especially women. Moreover, small-scale seed production is a high-value activity which requires relatively low (and flexible) time inputs that can be managed around women's other responsibilities, and as such conforms to local cultural norms.

In 2012, Oxfam's EDP began to support DAFACOS by building its management and operational capacity, assisting the development and implementation of new business and marketing plans, and facilitating access to bank loans.

Impact

DAFACOS has increased seed production from 30 tonnes in 2012 to 120 tonnes in 2016. The enterprise increased the value of its sales five-fold, reaching £85,803 by the 2015/16 financial year. It has expanded to include farmers of three neighbouring districts, and has established relationships with five seed companies and twelve wholesale vegetable vendors.

As an enterprise, DAFACOS has provided an alternative farming system that has substantially improved the livelihoods of the farmers who supply it. It has increased women farmers' involvement in the seed value chain and provided them with an income for the first time of up to £510 per year per farmer. A small sample household survey conducted in one municipality of Dadeldhura showed that all of the farmers have increased their income because of seed farming, with an average increase in incomes of 45% in comparison with the baseline year.

The enterprise provides full-time jobs for 14 people, 8 of whom are women, and women hold 6 of the 15 board seats and account for 65% of active suppliers.

‘Dadeldhura district is a major producer of maize seeds, potato and others. DAFACOS has been right in attracting farmers towards seed production and linking them with the markets. The cooperative has helped improve the economic status of people not only from Dadeldhura district but also from neighbouring districts. The good thing about this cooperative is that it coordinates very well with us.’

—Dinesh Prasad Sapkota, Senior Agriculture Officer, District Agriculture Development Program

THE POTENTIAL OF SHORT SUPPLY CHAINS

This report is focused on business structures and business arrangements within existing supply chains. A complementary approach to sharing value is to create alternative value chains, which could also be populated by equitable business structures. A huge number of value chains have been created with the purpose of getting a greater share of the value to producers, particularly in the food sector. These are often ‘short’ supply chains, so called because they reduce the number of actors that food goes through on its journey from farm to fork. Many short supply chains have been created around the world, linking to major urban centres in recent years, including in Italy,⁵⁰ France,⁵¹ the USA,⁵² China⁵³ and Colombia,⁵⁴ among many others. As well as allowing producers a greater share of the final value of their goods, many have an additional aim of creating relationships between producers and consumers.⁵⁵

Most of these modern short supply chains remain small scale, often because they are unable to ensure produce consistently and because of the difficulty of establishing a reliable and accessible retail outlet without significant up-front investment. It should also be noted that ‘short’ supply chains are often – though not always – concerned with supplying locally produced food. Local supply chains can be subject to considerable volatility, meaning that producers receive inconsistent prices for their goods;⁵⁶ they also exhibit increased potential for market inefficiencies, monopolies and corruption. There is mixed evidence for their impact on producers.⁵⁷

3 RETHINKING BUSINESS STRUCTURES

In section 2, the report examined approaches and interventions that companies can take to improve the value share of farmers and producers. However, these tend to rely on an approach that creates mutual benefit. Where there is a trade-off and it is hard to demonstrate mutual benefit, the mechanisms discussed in section 2 will be difficult to deploy. Business structures can be a key driver of whether businesses across a supply chain prioritize the interests of workers, farmers or communities, even where there is no clear business case for doing so. This section highlights business structures that embody governance and ownership mechanisms that consider a broader range of stakeholder interests, driving more equitable outcomes.

WHY BUSINESS STRUCTURES MATTER

Companies' governance and ownership structures vary significantly. Yet in global supply chains and across the food system, there has been little focus on promoting models that are better geared to drive equitable outcomes. There is a need to consider a broad and innovative range of models and structures that take a balanced approach to how they distribute power and prioritize issues.

The large companies in agricultural supply chains – buyers, manufacturers and supermarkets – are predominately publicly listed or owned by private equity. Shareholders in these forms of business buy a claim to a company's assets and earnings, known as a share. Among other rights, shareholders have the power to elect directors, and shareholders' interests become the main concern for the running of the company. The model typically means that the structures of the business are shaped to maximize the power and priority given to shareholders over other stakeholders.

There are many businesses which are succeeding in lifting workers out of poverty, providing equal opportunities for women and men, sharing value more equally, and giving voice and power to the most vulnerable and marginalized communities. The case studies in this paper suggest that among the most important factors in determining the outcome for stakeholders are who owns the business, and in whose interest it is run.

Across the broader spectrum of business structures, there are those which distribute power and priority among a broader range of stakeholders. Employee-owned and farmer-owned companies, for instance, have a significant track record within many sectors, including food and agriculture.

However, a more equitable business structure is not in itself a guarantee of fair value for producers in the supply chain. For instance, it matters who the farmers and employees are, and what roles they play: social and cultural norms can result in women's exclusion from ownership of and decision making within farmer and employee-owned businesses.⁵⁸ Meanwhile, other market and regulatory factors such as industry standards, regulations and trading terms will also drive the way value and risk are shared across a sector and along supply chains. Nonetheless, structuring the businesses that make up those sectors and supply chains to give greater power and priority to the workers, farmers and communities they affect, will be an important part of achieving a more equitable food system.

UNDERSTANDING EQUITABLE BUSINESS STRUCTURES

Ownership and governance dictate how power, risk and reward are distributed in an organization. Ownership is understood as the person or group who can claim a right of control in the enterprise, while governance is understood as 'the systems and processes concerned with ensuring the overall direction, control and accountability of an organization'.⁵⁹

Ownership structure

In the context of the food and agriculture sectors, four specific ownership models are relatively well established:

- **Employee-owned:** The form of ownership varies, and includes shares owned in trust for workers, shares owned directly by employees, and sometimes a combination of both. A study in the USA found that employee-owners have higher wages, better employee benefits and more job security.⁶⁰ Examples include Waitrose (case study 11). A key point to note is that while this form of company structure may pay its workers better, it does not necessarily result in more value being shared down the supply chain.
- **Farmer-owned:** These companies are structured to benefit the people who grow the produce. They do this by providing farmers with equity holdings and giving them representation on the board. Examples include Divine Chocolate and Amul (case study 11).
- **Consumer-owned:** Many cooperatives are owned by the consumers of the products or services the business sells. One of the world's largest consumers' cooperatives is the UK's Co-operative Group, which has a variety of retail and financial services, including supermarkets, and has a 5.8% market share of UK grocery sales.⁶¹ As the focus of this paper is on producers and workers, the discussion of consumer-owned businesses will be limited.
- **Multi-stakeholder owned:** Hybrid models of ownership provide the opportunity for multiple stakeholders to own a stake in the business. Typically, these are worker–consumer hybrids, with the supermarket Eroski, part of the Mondragon Group, perhaps the best-known example. There is enormous potential for hybrid ownership to bring multiple stakeholders together to share in the firm's prosperity.

Bridging ownership and governance is the important question of how profits are spent – how much is retained to be invested in the people, equipment, and research and development; how much is saved for a rainy day; and how much is distributed to shareholders. When there is a concentration of power with shareholders, there tends to be pressure to prioritize returning cash to them above other investments. When profit maximization is not the primary focus, there is often (but not always) more of an emphasis on investment in the business and its stakeholders.

Governance mechanisms

Governance involves both internal processes – such as oversight by a board of directors or regular audits – and external pressures from the market, customers, the media or regulators. The prevailing approach, enshrined in the laws of many Western countries, is to monitor and control professional managers so that they act in the interests of the shareholders.

Given that there is a wide range of stakeholders who affect, or are affected by a company's actions, there is increasing advocacy for a stakeholder approach to governance. In these governance structures, multiple stakeholders, including employees and local communities, can hold management to account and be party to decision making.

Key stakeholder governance mechanisms include:

- **Stakeholder representation on boards:** Employee representation on boards is perhaps the most common form of giving a voice to stakeholders, and is commonplace in Europe. Often within a two-tier board structure, a supervisory board consisting of employees and investors oversees management and makes long-term decisions.
- **Democratic governance:** Most commonly found in many cooperatives and social enterprises, this approach assigns voting rights on a one-member-one-vote basis, and in its most common form holds an annual meeting of members where key decisions are approved. Polycentric or multi-level mechanisms, where committees or bodies have specific responsibilities, are common tools to ensure accountability and representation.
- **Stakeholder advisory panels:** With a degree of efficacy that depends on their power and composition, advisory panels can help provide input into a company's decision making.

A business's legal form, business model, values and culture can help reinforce a stakeholder approach to governance. Over the last decade, there has been a rise in the number of social enterprises, 'B Corps'⁶² and other mission-led business models, which incorporate social and/or environmental performance alongside financial performance.

Table 1: Characteristics of equitable business structures

This table is an evolving framework, intended to promote conversation about how an enterprise's business model, ownership and governance relate to how value is shared. The authors will continue to develop and test this framework and welcome readers' feedback.

Equitability 				
Ownership	Fragmented shareholding with short-term investment horizon. Members focused on short-term financial performance. One share one vote.	Steps taken to promote long-term ownership or investment horizon. (e.g. employee stock ownership plan, family ownership, anchor shareholder, industrial foundation, differential voting rights.)	<p>Cooperative: One member one vote with open membership to a single stakeholder group.</p> <p>Private: Either wholly or in-part owned by or for the benefit of single stakeholder group who are not solely capital providers (e.g. employee, community, in-trust, foundation or charity owned).</p>	<p>Cooperative: One member one vote with open membership to more than one stakeholder group.</p> <p>Private: Owned by or for the benefit of more than one stakeholder group.</p>
Stakeholder governance	Ad-hoc/informal stakeholder dialogue with no accountability mechanism.	Formal stakeholder dialogue (e.g. advisory panel or employee forum, but no decision making power.)	Formal governance structures that meaningfully enable salient (based on legitimacy and urgency) stakeholders to make decisions and hold management to account.	Democratic multi-stakeholder governance, structured to recognise social norms and overcome imbalances of power among stakeholders.
Allocation of earnings	Returning profit to owners is prioritised ahead of re-investment in people and the business.	Policy that seeks to balance returning profit to owners and long-term investments in the business.	Re-investment in the business, people and supply chain and; profit sharing with stakeholders is prioritised above returning profits to capital providers.	As previous, but residual profits may be used to expand stakeholder equity. OR Preferred dividend may be paid to marginalised stakeholder groups.
Model and mission	Short-term profit maximization approach.	Social mission is reflected in the business philosophy and environmental and social reporting.	Mission creates a social benefit which is reflected in the business model.	Mission creates a specific social benefit which (a) is embedded into charter, articles of association or legal form AND (b) reflected in values or reporting framework

4 EXAMPLES OF EQUITABLE BUSINESS STRUCTURES

In this section, we provide case studies of the diverse business structures described above, which demonstrate how value is shared more equitably within value chains.

FARMER COOPERATIVES

Farmer-owned cooperatives are perhaps the best-known alternative business models. Nonetheless, their role in economic development is often under-appreciated.⁶³ They often arise to address market failure, allowing farmers 'vertical integration' where stages of production are combined, into the market chain (purchasing and/or marketing).⁶⁴ In India alone, there are an estimated 230 million cooperative members, and cooperatives form more than one-third of some of the country's key agricultural services (including agricultural credit), inputs (including fertilizers and animal feed) and production (including sugar and rubber).⁶⁵ Around 7% of Africans are estimated to be cooperative members, and this number is increasing rapidly.⁶⁶

There are indications that cooperative membership can be beneficial to farmers. According to research, farmer cooperative members in Ethiopia had higher incomes, more savings and reduced input costs compared with non-members;⁶⁷ in Kenya cooperative members had greater income and levels of innovation;⁶⁸ while dairy cooperative members in Bangladesh had higher incomes than non-members (though in this study, it was not clear whether greater wealth made membership more likely).⁶⁹ Worker-owned (including farming) cooperatives appear to have increased – or at least not to have reduced – firm productivity relative to comparable firms without employee ownership,⁷⁰ and evidence has been emerging that cooperatively owned companies may be more resilient to shocks than conventional businesses.⁷¹

Case studies 6 and 7 are two interesting examples of the myriad of farmer-owned cooperatives, which illustrate contrasting models and motivations for producers working together. In Malawi, smallholder members of the Phata cooperative pooled land to produce a commercial volume of sugarcane (case study 6). In Georgia, families in a remote mountainous area formed a cooperative to add value to their milk production by processing cheese, and in doing so they take pride in maintaining a traditional local product (case study 7).

Just as with other business structures, there are, of course, many examples of cooperatives failing or being ineffective due to poor infrastructure, poor management, over-dependence on government or NGOs, dormant membership and an absence of professionals in skilled roles.⁷² Nonetheless, cooperatives are an enduring alternative structure for sharing financial and non-financial values. As the Nobel laureate Joseph Stiglitz put it, 'the first reason for the success of cooperatives is that democracy, just ordinary democracy, is a value in itself'.⁷³

Case study 6: Phata Sugarcane Outgrowers Cooperative, Malawi

Introduction

The Phata Sugarcane Outgrowers Cooperative is a smallholder farmer-owned organization that produces sugarcane commercially in Malawi. It was formed by cotton and sorghum farmers in 2011 in partnership with Agricane, an agriculture development and management company which provides technical and administrative support.⁷⁴ The cooperative is made up of 436 farmers whose respective ownership share in the cooperative is derived from their original landholding in the area developed for sugarcane. The cooperative is managed centrally by a small team of staff supported by a management contract with Agricane.

Description of the business model or structure

The key to forming this business was farmers agreeing to pool their land so that they would be able to provide the necessary production volumes and infrastructure to meet Agricane's long-term supply contract with Illovo Malawi, a subsidiary of Associated British Foods (ABF).

Supported by Illovo to obtain Fairtrade certification in January 2015, Phata farmers are able to benefit from higher premiums for their sugarcane and also from agricultural inputs such as fertilizer and seed cane provided by the company at cost. The cooperative also benefits from Illovo's economies of scale on the purchase of equipment and supplies.⁷⁵

From their Fairtrade premiums, members of the cooperative have been able to develop a maize mill for community use. Maize is an important dietary staple and without the mill, community members would have to travel long distances to gain access to other mills.

The cooperative is debt-free and thriving. Through their partnership, Phata and Agricane have secured additional funding from the Scottish Government International Development Fund/Malawi Development Programme, allowing them to diversify their activities and income from sugarcane. In addition to sugarcane they now produce:

- Food crops such as maize and kidney beans under sprinkler irrigation (24ha);
- 10 fish ponds (1,2ha);
- Mangoes, bananas and oranges under irrigation (2ha);
- Wood for fuel and construction (6ha).

Phata has a board of directors with five farmer representatives and the balance made up of independent directors.⁷⁶ It also has an executive committee and various sub-committees, all of whose members are elected and appointed by the smallholder farmer members.⁷⁷ The cooperative employs more than 150 people from local communities and encourages the farmer members to take on full-time positions of employment.

The cooperative has a financial model through which 60% of the profits are paid out to the farmers while with the remaining 40% is retained for operational expenses and capital loan repayment.⁷⁸ The cooperative has also set up a revolving fund for members to access for short-term credit to assist with establishing other income generating activities.

How it came about

Before the formation of the cooperative, the participating smallholder farmers had informal land titles from the local chief and authorities. These land titles were used to form the cooperative; each farmer had their land measured and mapped. This effort was supported by Agricane and local authorities, which verified the land claims. The smallholders then pooled their land, consolidating it into one unit, which was to be governed by an agreed legal constitution through the cooperative.⁷⁹ This process took around 12 months to complete. The cooperative is now in the process of formalizing the commercial title deed through the Department of Lands, to which the cooperative will then pay an annual, long-term land lease.

In 2012, the cooperative and Agricane secured a €2.4m grant from the EU to develop 300 hectares of commercial sugarcane and an additional 10 hectares of food crops to provide food security for members. A capital loan of €380,000 from AgDevCo, a social impact investor and agribusiness project developer, provided some additional financing.⁸⁰

AgDevCo has continued to provide funding for the cooperative, as despite early successes, Phata was unable to attract medium-term development investment from local commercial banks, in part due to a difficult sugar market worldwide.⁸¹ Further funding from Scottish Aid has allowed the cooperative to diversify into smaller-scale production of food crops and 10 fish ponds, improving the food security of members.

In addition to developing the physical infrastructure for the cooperative, there is also a focus on building members' capacity in business and organizational skills; to this end, the cooperative has developed modular training courses.⁸²

Impact

Each farmer member's share in the cooperative is determined by the size of the parcel of his or her land; this determines the size of each farmer's annual dividend, which is paid in cash.⁸³ The 2015 dividend was significantly higher than in 2014, at around \$750. Total revenue in the first year of production was \$1.27m.⁸⁴

Case study 7: Alaznistavi cheese cooperative, Georgia⁸⁵

Introduction

The Alaznistavi cheese cooperative is located in the village of Qvemo Alvani in the Kakheti region of Georgia. This is a remote, mountainous area with poor transport links. Alaznistavi produces Tushuri Guda cheese, a traditional regional speciality with protected status. The cooperative produces four types of branded Tushuri Guda cheese: sheep's milk cheese; cow's milk cheese; mixed (sheep and cow's milk cheese); and melted Guda cheese.

The cooperative was founded in 2015, and the construction of a modernized cheese production unit was completed in October 2016.

Description of the business model or structure

The cooperative is comprised of eleven members from four families, who are experienced in traditional Tushuri sheep management. Members' responsibilities are distributed among veterinary and lamb care, cheese making and vacuum packaging, cheese distribution and sales, accounting and financial management, and wool processing. The cooperative also employs around five agricultural workers each season.

The cooperative's products are sold on supermarket shelves in the capital, Tbilisi, and are also exported to the USA. Once the cooperative had established food safety standards and the use of modern equipment, initial marketing occurred through word of mouth and through the Georgian Farmers Association. The cooperative plans to increase the volume of production to 15 tonnes in the coming years, and to introduce new standards in the production process.

Alaznistavi cooperative also sells live sheep to individuals and abattoirs, and wool. Its farm is on a tourist trail and offers travellers a camping site.

How it came about

Before the cooperative was formed, the families had worked together informally for eight years on sheep and milk production, to help reduce their production, distribution and marketing costs. Eventually they decided to expand their business and give it legal status, bringing their professional expertise and resources together within a cooperative. The main motivation for establishing the Alaznistavi cooperative was to promote traditional Tushuri Guda cheese, produced according to Georgian and international food safety standards so that it could be sold in mainstream supermarket chains. As well as adding value through cheese making, the members also sought to diversify their income by promoting the area for tourism.

The cooperative's combined resources include: 100 hectares of winter pasture, 500 hectares of summer pasture, a 1,000m² milking parlour and cheese warehouse, 500 sheep, 10 horses, personal savings for donor project co-financing, and existing established networks with supermarkets.

The cooperative secured a grant from the European Neighbourhood Programme for Agriculture and Rural Development (ENPARD), signing a contract in September 2015. It received 98,590 Georgian Lari (GEL) (approx. \$40,400) from the EU, and members themselves co-financed 25% of the upfront costs (GEL 34,011, approx. \$13,900). These funds enabled the cooperative to construct a modern cheese-processing plant and receive business planning and organizational development training, so it could position itself in the market with its branded Guda cheese. The cooperative also received support from the government, which helped it to meet the requirements of the national forest park regulations to construct the cheese-processing facility.

In 2016, Alaznistavi produced three tonnes of sheep milk cheese, and one tonne each of cow's milk, and mixed sheep/cow's milk cheese.

Impact

The cooperative's structure and shared resources enable its members to get a higher share of value by producing a niche product instead of just supplying sheep and milk for local use. The cooperative gained additional value by making a branded Guda cheese from the traditional place of origin in its modernized processing facility, and distributing it to Tbilisi supermarkets which is helping to fill a gap in the market.

Each member of the cooperative receives an equal share of the profit. The cooperative has generated extra income for the families and allowed them to remain where they are rather than having to move to bigger towns to find work. Women members take on skilled roles including finance, accounting and marketing.

As the demand for traditional Guda cheese increases, the cooperative sees the opportunity for a stable supply that meets international food safety standards, produced in a modernized production facility using indigenous processing methods. The cooperative plans to update and improve the packaging in order to capture a higher share of value.

HYBRID MODELS AND COOPERATIVES AS SHAREHOLDERS

A slightly different formulation of business ownership is when cooperatives own or are shareholders in processing and/or trading companies. Divine Chocolate (see case study 11) is an example of this, and further examples are given in case studies 8, 9 and 10. By maintaining sole or a major shareholding, producer cooperatives can ensure that farmers' interests are represented by the company's activities. At the same time, the model allows for a clear separation of the roles, responsibilities and skills needed to perform value addition, marketing and trading – skills that few small-scale producers possess.

Another example of hybrid and multi-stakeholder models is France's Bio Coop, a joint venture between small shop owners and farmer cooperatives. This chain was able to innovate to work in the interests of these two key stakeholders at different ends of the supply chain. In a similar way, Just Change created a multi-stakeholder model in which producers, consumers and investors of capital all have a stake in the running and success of the company (case study 10).

Case study 8: Muhanga Food Processing Industries, Rwanda⁸⁶

Introduction

Muhanga Food Processing Industries (MFPI) was established in 2004 in the Muhanga District of Rwanda. It is supplied by five cooperatives with 2,805 farmers, 2,344 (83.5%) of whom are women. Six local suppliers are used when the cooperatives cannot supply sufficient raw material.

Description of the business model or structure

MFPI was established by COCOF, a women-only cooperative. It is a private enterprise, and the shares are owned by farmers, with COCOF as the majority shareholder.

MFPI buys soya, maize, sorghum and wheat from a network of smallholder farmers who are organized into cooperatives. It then processes these grains into blended flour, soya flour, a soya beverage and tofu. The products are sold in the domestic market to supermarkets, nutritional centres, schools and refugee camps, and there are longer term plans for regional exports.

How it came about

MFPI was established by COCOF, with help from USAID to set up a processing plant. COCOF members grew soya, which was sold to the Rwandan Agricultural Board.

COCOF wanted to diversify and increase the profits of MFPI by increasing the customer base, adding value to the raw material, and running the enterprise in a more business-like way. This was in response to persistent late payments from the Rwandan Agricultural Board and the desire to reduce reliance on donor funds.

As a consequence, COCOF sold 46% of its shareholding to farmers to raise capital for the enterprise. A transfer in ownership of the land, buildings and processing plant from COCOF to MFPI funded COCOF's 54% stake. By maintaining a majority shareholding, COCOF can ensure that farmers' interests are represented.

Impact

MFPI directly supports 18 full-time jobs; this is expected to increase to 124 with support from Oxfam's EDP funding. COCOF manages farmer contracts on behalf of MFPI, arranges training of farmers and access to inputs, and will negotiate a fair price for farmers when the enterprise moves to buying pre-sorted soya and maize (at the moment, MFPI sorts the maize and soya, which is very time-consuming and offers farmers little incentive to provide a higher quality product).

An example of personal impact comes from Zainab Uwizeye of the Nyampinga cooperative. Before becoming an MFPI supplier, her maize yield was 1.2 tonnes per hectare. Now, she is achieving 2 tonnes per hectare as well as receiving a higher price per kilo from MFPI: 400 Rwandan francs (Rwfs) (\$0.48) instead of 180 Rwfs (\$0.22). As a result of her increased income, she has been able to have electricity connected to her house.

Similarly, Therese Musabyemariya, a member of the IMBEREHEZA cooperative, used to sell maize to traders for 180–200 Rwfs per kilo (\$0.22–0.24 per kilo), but now sells to MFPI at 450 Rwfs per kilo (\$0.54), and her yield has increased from 1 to 2.5 tonnes per hectare. Members of the cooperative report that they are now able to pay for health insurance for their families, and that their household nutrition has improved.

Case study 9: Etico – a business structured to promote farmers’ interests⁸⁷

Introduction

Etico is a trading company founded in 2004, which exports coffee, sesame oil and seeds, honey and nuts from Latin America, Africa and Asia to North America, Europe and Japan.

Description of the business model or structure

Etico is 100% owned by a charity and the cooperatives which supply it; it creates a bridge between producers and markets in a way that works in the interests of everyone in the value chain. Etico is proud to put as much emphasis on stakeholder value as most companies put on shareholder value.

The company considers itself to be a ‘third-level’ cooperative, as it works closely with federations of farmer cooperatives and in effect, enables them to have a Northern-based trading arm, without value being extracted by profit-maximizing intermediaries. Its board is small, with just three directors; however, it has an engaged advisory board consisting of (12) farmers and experts in youth, development and gender, whose members provide representation and strategic support to the business.

The Social Business Network (SBN), a registered UK charity in which the Etico CEO and chairman are also trustees, holds 760 shares and a majority stake in the business. Four cooperatives own one share each, and there are 236 shares issued and ready for cooperative and charitable stakeholders. The majority SBN shareholding helps provide long-term stability and, due to requirements of lenders, enables Etico to access capital more easily. It is an unusual governance arrangement, as ‘golden shares’ (i.e. shares that give their holder special voting or veto rights) are usually held by independent organizations. However, a ‘chameleon structure’ – as Etico’s CEO describes it – was needed to meet both the requirements of mainstream finance institutions and the needs of the producers the business exists to serve. Importantly, there is no relationship between capital provision and size of equity holdings.

Profits from the business are either reinvested back into the business or distributed, via the charity or cooperatives, to the stakeholders who need this support most. Etico’s partnership with its suppliers and customers goes beyond a commercial relationship. In addition to the shared ownership, it provides logistical, financial and development support to both the farmers and consumer companies that share its social and environmental vision. An example of this was its support for an innovative partnership between its sesame producers (Cooperativa Juan Francisco Paz Silva) and The Body Shop to incorporate a pricing model that recognized the unpaid care work of women.

Case study 10: Just Change, India⁸⁸

Introduction

Just Change is an agricultural trading company based in southern India. It has a multi-stakeholder model of ownership and governance, and embodies principles of the multi-stakeholder cooperative model as well as the principles of Fair Trade. It is a trading business that is structured to make producers, consumers and capital investors all members with a real stake in the running and benefits of the enterprise.

Description of the business model or structure

Just Change India Producer Company was launched in Gudalur, India in January 2006. Four community groups (each of more than 500 households) are formally the shareholders of the producer company.⁸⁹ However, the model of Just Change is based around a broader definition of investment, with producers, consumers and providers of capital all seen as investing to make the business a success. Each member of Just Change must be in at least two of the three categories (e.g. a producer member must also be a consumer or a capital investor).

Just Change tries to embody Fair Trade principles. All payments to producers are 10% above the market price. This 10% premium is not distributed immediately however, and is paid when the trade is complete. Meanwhile, the consumers get the product for 5–10% below the market price. The enterprise is currently turning a profit, and has distributed some modest bonuses to members. Profits are distributed to members at the end of the financial year based on their contribution as producers, consumers or capital investors. Three percent of profit is kept as a reserve for reinvestment into the business, and for managing risk.

How it came about

The enterprise builds on decades of work with communities by the social activists and entrepreneurs Mari and Stan Thekaekara, who began mobilizing Adivasi communities in the 1970s to sell their produce collectively. The motivation at that time was to bypass traders to gain higher prices for producers. Later, when community groups started to reclaim their ancestral lands in the 1990s, they began planting tea, but soon afterwards were hit by a drop in global tea prices. The experience highlighted the need to explore other markets, including the growing Fair Trade market in Europe as well as local markets in India. With the support of Oxfam and others in the 2000s, the enterprise also began selling directly to communities in the UK (through the support of the UK cooperative movement).

In India, through the help of the Sir Ratan Tata Trust, there was an effort to sell to more communities directly. However, the experience of attempting to do so demonstrated the need to offer more than just tea in order to sell directly to consumers in different communities. This led to a business plan to set up a trading company that would develop a retail marketing system that would reach Indian consumers. As a response, four community groups jointly invested to set up the Just Change India Producer Company in January 2006.

Impact

The Just Change network has spread well beyond the original four community groups that set up the producer company; a number of groups, representing around two million people, have interacted with it. However, compared with larger trading operations, trading at Just Change is still small-scale. The company seeks to ensure that producers not only get at least 10% surplus, in keeping with Fair Trade principles, but should also be able to sell at least 75% of their produce through the company network. At the other end of the chain, consumers should be able to buy their products for at least 5% less than market prices. Consumers benefit through a discount, and producers benefit through a premium.

Furthermore, all members benefit through distribution of profits, and communities benefit through projects that are funded by the enterprise. The company has been very cautious in its growth, as it is dealing in products that are controlled by intergenerational businesses owned by trading communities. Even with the current scale of operations, the company does claim significant impact. However, the model has been tested thoroughly. Innumerable pitfalls and blocks have been identified and overcome, and the company is now on the brink of scaling up its operations.

5 EQUITABLE BUSINESS STRUCTURES AT SCALE

A common – and understandable – concern when talking about alternatives to established norms is whether the alternatives actually work. There are several well-known examples of companies in the food sector that are owned by employees or by farmers. Case study 11 gives four examples of food companies that have been established for decades and that have a combined annual turnover in excess of \$36bn; this is by any measure a group of large, successful businesses.

More broadly, and across all economic sectors, the largest 300 cooperatives in the world had a combined revenue of \$1.6 trillion in 2011, which was comparable to the GDP of the world's ninth largest economy, Spain.⁹⁰ The evidence is clear that alternatives to shareholder-owned companies include well-established and large businesses.

Case study 11: Alternatives are not niche

Amul

Established 1948. Sales turnover in 2015/16: \$736m⁹¹

The Kaira District Cooperative Milk Producers' Union (also known as Amul, the brand under which it sells) has its headquarters in Anand, Gujarat, India.⁹² It was formed in 1946 out of farmers' struggle to get paid a fair price for the milk they produced. It is managed by a cooperative body, the Gujarat Cooperative Milk Marketing Federation Ltd (GCMMF), which today is jointly owned by 3.6 million milk producers in Gujarat.⁹³ GCMMF is bound by a mandate to buy all the milk that farmers bring to them, and farmers are paid for their milk on delivery.⁹⁴ GCMMF markets and sells the Amul products. Farmers are organized into producer cooperative societies which are open to anyone in the state of Gujarat who owns at least one cow.

Divine Chocolate

Established 1998. Turnover in 2015/16: £12m⁹⁵

Divine Chocolate produces and markets chocolate in the USA and the UK. It is 44% owned by the 85,000 farmer members of the Kuapa Kokoo cooperative in Ghana, which supplies the cocoa that is used to produce its chocolate bars. Divine Chocolate was originally set up under the name The Day Chocolate Company by Kuapa Kokoo and Twin, with support from The Body Shop, Christian Aid and Comic Relief.⁹⁶ In 2015/2016, Divine had a turnover of £12.062m, a gross profit of £4.2m and a net profit of £443,000.⁹⁷ Divine is Fairtrade-certified and works closely with the Fairtrade Foundation; a priority is women's empowerment, through women's training programmes.

Cafédirect

Established 1991. Turnover in 2016: £12.4m⁹⁸

Cafédirect is a UK-based hot drinks trading company. A guardian share, designed to help protect the company's mission, is held by a separate company which Oxfam, Cafédirect Producers and Oikocredit are members of.⁹⁹ The company is committed to reinvesting at least one-third of its profits into the cooperatives and communities of its farmers; to date it has invested over 50% of its profits via the Cafédirect Producers' Foundation. Cafédirect is 100% Fairtrade-certified and has accreditation from the Ethical Company Organization.

Waitrose

Established 1904, joined John Lewis to form the John Lewis Partnership in 1937. Turnover 2015/16: \$8.1bn¹⁰⁰

Waitrose is the food retail division of Britain's largest employee-owned retailer, the John Lewis Partnership. It has a 4.4% share of the UK market,¹⁰¹ making it the sixth largest grocery retailer in the UK. The John Lewis Partnership is owned by a Trust on behalf of all its 86,700 employees – known as Partners – who have a say in the running of the business and receive a share of annual profits, which is usually a significant addition to their salary.¹⁰²

6 TRANSFORMING SUPPLY CHAINS

A small number of multinationals are beginning to recognize that by actively investing in and encouraging more equitably structured supply chains, they can promote sustainable livelihoods for workers and farmers, which will drive more secure and resilient supply chains.¹⁰³

From 2018, Oxfam GB, in partnership with the Fairtrade Foundation and Forum for the Future, will be establishing the Fair Value Club (FVC). This platform will develop and share practical approaches to transforming business and contract structures in supply chains.

In the first (research) phase, the FVC will build on the cases identified in this paper and explore the enabling conditions for supply chains to have adopted strategies that favour more equitable models. The research will identify business arrangements and the key features of equitably structured businesses across value chains, their success factors, and how they can be promoted through changes to procurement practices, policies and the broader ecosystem. The findings will be published in a report alongside insights and guidance for companies so they can identify and support supplier models that embody ownership and governance structures that favour more equitable outcomes. This will include a toolkit for identifying opportunities to change procurement approaches in order to incorporate this approach.

In the second stage of the project, we will aim to draw together a larger group of companies and work with them to develop tailored recommendations and action plans. The platform will catalyse collaborative action and partnerships between brands, suppliers and financial institutions to develop and promote sourcing practices that favour equitable business or contracting structures in supply chains.

Case study 12 provides proof of concept for a new approach to creating equitably structured supply chains, which the FVC will draw inspiration from.

For more information about the FVC, please contact the authors of this paper.

Case study 12: Kate Spade and Abahizi Dushyigikirane, supporting worker ownership transition in Rwanda¹⁰⁴

Introduction

A partnership between Kate Spade – a luxury New York fashion brand – and a Rwandan employee-owned company Abahizi Dushyigikirane (ADC) gives a glimpse of how equitable business structures can be linked into global value chains. In a small remote village in Rwanda, where the electricity supply is intermittent and water is only available through standpipes, the company funded the creation of a handbag factory that is fully owned and governed by the women who work for it.

Description of the business model or structure

ADC is 100% owned by a cooperative, the Masoro Community Vendor Facility Cooperative (MCVFC), whose members are the artisans employed by ADC. MCVFC follows a typical cooperative governance structure, where the members elect a board of directors. This board then elects the board of ADC, whose members provide oversight and control of the firm. In addition, an advisory board helps to compensate for the lack of business expertise among the members, but without undermining their agency. This advisory board has representatives from the local community, Kate Spade and a Kigali-based consultancy. The advisory board does not have any legal authority, but the board is required by charter to be consulted before decisions are made.

ADC has a clear approach to residual earnings. While the enterprise is growing, profits are reinvested back into the business. Once it has reached a size where it is securely capitalized, there is a commitment that the profits will be equally shared between: the local community, a cooperative which assists widows of the 1994 genocide in Rwanda, and the employees.

How it came about

Kate Spade funded ADC in Rwanda as a pilot for a commercially viable social enterprise supplier model. Its explicit purpose is to empower female employees using a commercially viable business model. The long-term commitments between Kate Spade and ADC means that workers are guaranteed a living wage with decent employment policies.

Impact

A study of the pilot by Georgetown University shows early signs of positive social and economic empowerment for the workforce, and that the governance is working effectively. The study found that while the pilot was unavoidably expensive and time-consuming, it estimated that 'ADC-like entities can be brought on stream for investments in the range of \$500,000 to \$1.5 million. Kate Spade deliberately chose the most unlikely location for the pilot because 'we wanted to do this someplace really hard, that's how we were going to learn how to do it'.¹⁰⁵

The pilot is an example of what could be achieved if multinationals take a hands-on role and put equitable value distribution at the heart of their procurement policy.

GOVERNMENT'S ROLE IN PROMOTING EQUITABLE BUSINESS STRUCTURES

Government has a key role to play in driving a vision of an economy populated by such enterprises. Some governments are beginning to show that they can favour such models. South Korea,¹⁰⁶ Singapore,¹⁰⁷ Vietnam,¹⁰⁸ Thailand¹⁰⁹ and the UK¹¹⁰ all have laws that favour social enterprises in areas such as public procurement, licensing and even tax. Employee-ownership has in some cases received favourable tax treatment.¹¹¹ Meanwhile, Liberia has instituted a special economic zone for social enterprises,¹¹² and the Philippines is considering a broad-ranging bill that would give significant support to social enterprises that focus on the interests of people living in poverty.¹¹³ All this demonstrates a growing interest by some governments in shaping policies to favour equitable business structures.

Investors can also play a key role in supporting the growth of equitable business structures. At privatization, The Wood Foundation Africa and The Gatsby Charitable Foundation invested in two majority smallholder-supplied tea factories in Rwanda to demonstrate that farmer-owned factories can be efficient in the field and factory and produce high quality tea. Working initially with the farmers, once the initial investment is repaid and governance conditions met, the ownership of the factories will be handed to the farmers at nil-return, leaving in place the first smallholder-owned factories in Rwanda. In Rwanda, smallholders currently earn 40% of the made tea price, compared with 75% by farmers who are part of the farmer-owned enterprise, the Kenya Tea Development Agency, where the farmers own the processing facilities. Research suggests this is largely because Kenyan farmers own their own processing factories and have developed greater efficiency and quality on farms and in factories.¹¹⁴ Other investors, such as Baxendale, have shown it is possible to convert enterprises into employee-ownership.¹¹⁵ Impact investors in particular could play a similar role in helping to transition business structures of agricultural value chains around the world.

CONCLUSION

At a time when the global food system faces multiple and interlocking challenges, examining the business arrangements and structures that can lead to a more equitable distribution of value in food supply chains has never been more important.

Through 12 case studies, this paper demonstrates the range of business arrangements and the diversity of ownership and governance structures that can drive more equitable outcomes.

While business arrangements, such as contracting arrangements can improve value share with farmers and producers, they tend to rely on an approach that creates mutual benefit. Where there are trade-offs between stakeholders in value chains, it can be hard to demonstrate mutual benefit, making these mechanisms difficult to deploy.

Business structures that seek to balance the interests and trade-offs of different stakeholder groups offer an alternative to shareholder-based models. These models can drastically improve the livelihoods of the most marginalized women and men in the global food system.

As well as providing case studies of the broad spectrum of more equitable structure, this report begins to identify key structural characteristics of such business models, focusing on their governance and ownership.

From the case studies presented in this report we conclude that:

- Alternative models do not need to be niche. The food sector includes some large and well-established companies that are owned by producers and employees. There is an opportunity to learn from these examples and support the creation of more equitable businesses at scale.
- Fair pricing can be good for everyone's business. While trade-offs do exist along value chains, innovative thinking can help identify opportunities that improve both the competitiveness of firms and outcomes for stakeholders.
- Overcoming gender-specific barriers means women having a say in how businesses are run. Women face gender-specific obstacles to benefiting from markets. Collective action and women's equal participation in organizational governance and ownership can make a significant difference to women's income and livelihoods.
- Upward vertical integration can help producers capture more value. Some of the most striking examples of where producers increase their share of value has been when they take ownership of downstream processing or manufacturing.

Lead firms, investors and governments can all play a role in shaping businesses to be structured more equitably:

- Brands and retailers can recognize the potential for equitable businesses to make value chains more sustainable and fair. Suppliers can be supported to transition into more equitable structures and procurement strategies can favour equitable businesses. The partnership between Kate Spade and Abahizi Dushyigikirane (Case study 12) exemplifies the potential for a new supplier model. Oxfam's Fair Value Club will support companies wanting to explore opportunities for adopting pro-equitable business strategies.
- Governments, along with industry groups, play a key role in creating an enabling environment that fosters the growth and success of equitable business structures. Governments can use the levers of trade policy, industrial policy, corporate governance policy, tax, public procurement and agricultural policy to progress an economic vision of an economy where such business structures are the norm.
- Investors can play a catalytic role in financing equitable business structures where access to finance is a major barrier to commercial viability. Impact investing offers an opportunity to harness private investment, but unrealistic expectations about financial returns risks discrediting the sector.¹¹⁶ The challenge for impact investors is to ensure that they remain primarily focused on achieving impact. Paying attention to the governance and ownership of enterprises and using innovative financing approaches could help increase the flow of funds to more equitable businesses.

APPENDIX: RESEARCH NEEDS

The findings of these case studies inevitably raise further questions to which the wider literature does not necessarily provide answers. Some of the key questions and issues that require further research include:

What are the best ways of sharing value? There is a gap in the evidence regarding which types of models might share the most value over a sustained period of time. Future research into increasing value for farmers and workers should take this into consideration.

Making the business case for mutual benefits. This report suggests that in some cases, sharing more value can benefit both producers and retailers. More research is needed to understand the specific circumstances in which this is likely to hold true, to help build the case for investment from lead companies.

Where in the supply chain should the alternatives lie? This report has compiled case studies that include producers, manufacturers and traders. It has not assessed whether alternative business models or ownership models have a greater impact on producers depending on where they are located in different parts of the supply chain.

Under what conditions are equitable business structures likely to be successful? While the cases in this report provide anecdotal evidence of some factors of success, research targeted at more systematically understanding the enabling conditions for equitable business structures is needed.

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