



FAIR VALUE

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

Summary



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.

This is a summary. The report can be found in full at <http://policy-practice.oxfam.org.uk/publications/fair-value-case-studies-of-business-structures-for-a-more-equitable-distributio-620452>

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

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THE HUNGRY FARMER

Agriculture is a major source of livelihoods globally: more than one billion people are employed in agriculture, representing one in three of all workers.¹ This includes 300–500 million waged workers, many of whom work in plantations growing crops for export.²

Yet the paradox is that the very people who produce food are among the most likely to be going hungry. Fifty percent of the world's undernourished people are smallholders and their families.³

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 for agriculture-based products sold in supermarkets around the world, the value⁴ retained by farmers has declined over the last 20 years, while supermarkets have increased their share.⁵ This trend is forecast to continue.

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.

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. This includes adapting aspects of the terms of trade and other business arrangements, which are often set by businesses further up the chain. 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.

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 examples of effective long-term contracts which producers can use as security to invest in their farms; guaranteed fair prices (case study 1);⁶ 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.

Table 1: Case studies 1–3

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. Provides 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

A GREATER SHARE OF VALUE FOR WOMEN

Women make up approximately 43% of the agricultural labour force in developing countries.⁷ 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),⁸ are de facto excluded from decision making and leadership roles,⁹ and rural development strategies often underinvest in the types of services and infrastructure that would alleviate women's time poverty.¹⁰ Women small-scale farmers also 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.¹¹

Case studies 4 and 5 connect work at the levels of households and producer organizations with market opportunities to incentivize greater gender justice. The 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.¹²

Table 2: Case studies 4 and 5

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

RETHINKING BUSINESS STRUCTURES

So far, the business arrangements examined in the report tend to rely on an approach that creates mutual benefit. Where there is a trade-off and it is hard to demonstrate mutual benefit, these arrangements 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.

Yet in global supply chains and across the food system, there has been little focus on the diversity of ownership and governance structures that can drive more equitable outcomes.

The large companies in agricultural supply chains – buyers, manufacturers and supermarkets – are predominately publicly listed or owned by private equity. These models typically mean that the structures of the business are shaped to maximize the power and priority given to shareholders over other stakeholders.

There are, however, many businesses which distribute power and priority among a broader range of stakeholders. These companies 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.

A more equitable business structure is not in itself a guarantee of fair value for producers in the supply chain; there are many factors at play. 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.

FARMER COOPERATIVES

Farmer-owned cooperatives are perhaps the best-known alternative business structures. 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).¹³ In India alone, there are an estimated 230 million cooperative members; around 7% of Africans are estimated to be cooperative members, and this number is increasing rapidly.¹⁴ There is evidence that cooperative membership can be beneficial to farmers’ incomes, savings, reduced input cost, innovation, productivity, and may be more resilient to shocks than conventional businesses.¹⁵

Table 3: Case studies 6 and 7

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

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. 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.

Table 4: Case studies 8–10

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 provides 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 three categories: a producer member, consumer or a capital investor.	Combination of charitable trust and private limited companies

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. In the full report, six examples are given (case study 11) 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.¹⁶ The evidence is clear that alternatives to shareholder-owned companies include well-established and large businesses.

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.¹⁷ 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.

Table 5: Case study 12

<p>Case Study 12: Kate Spade and Abahizi Dushyigikirane (ADC), Rwanda</p>	<p>ADC is 100% owned by a Rwandan cooperative of the artisans employed by ADC. The cooperative elects the ADC board.</p> <p>An advisory board has representatives from the local community, Kate Spade and a Kigali-based consultancy.</p> <p>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.</p>	<p>Private limited company owned by cooperative</p>
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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, industrial, corporate governance, tax, public procurement and agricultural policy to progress an economic vision of an economy where such business structures are the norm.

Investors can also 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.¹⁸ 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 to increase the flow of funds to more equitable businesses.

CONCLUSION

There is no guarantee that the diverse range of alternatives 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 is also limited rigorous research with which to directly compare the impact of different business structures 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. 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.

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.

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.

NOTES

- 1 International Labour Organization (n.d.). Agriculture; plantations; other rural sectors. Last accessed 12 January 2018. Available at: <http://ilo.org/global/industries-and-sectors/agriculture-plantations-other-rural-sectors/lang-en/index.htm>
- 2 Ibid.
- 3 UN Millennium Project (2005). Halving Hunger: It Can be Done. Summary version of the Report of the Task Force on Hunger. New York: The Earth Institute at Columbia University.
- 4 While 'value' can be defined in a number of ways, this report predominantly focused on financial value.
- 5 BASIC (Bureau d'Analyse Sociétale pour une Information Citoyenne) (2014). Who's got the power? Tackling imbalances in agricultural supply chains. Available at www.fairtrade-advocacy.org/power
- 6 The case studies covered in this paper rely on information available on the enterprises' websites, or interviews with people associated with the enterprise or relevant project (sometimes based on a single interview).
- 7 Food and Agriculture Organization (2011). The State of Food and Agriculture 2010–11. Women in Agriculture: Closing the gender gap for development. <http://www.fao.org/docrep/013/i2050e/i2050e.pdf>
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- 15 See full report for more details: <http://policy-practice.oxfam.org.uk/publications/fair-value-case-studies-of-business-structures-for-a-more-equitable-distributio-620452>
- 16 ICA (2011). Global300 Report 2010. International Cooperative Alliance, Switzerland.
- 17 Based on discussions Oxfam staff have had with several brands and retailers.
- 18 Oxfam and Sumerian Partners (2017). Impact Investing: Who Are We Serving? A case of mismatch between supply and demand. Retrieved April 2018 from <https://policy-practice.oxfam.org.uk/publications/impact-investing-who-are-we-serving-a-case-of-mismatch-between-supply-and-demand-620240>

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