



Tropentag 2016, Vienna, Austria
September 18-21, 2016

Conference on International Research on Food Security, Natural Resource
Management and Rural Development
organised by the University of Natural Resources and Life Sciences
(BOKU Vienna), Austria

Transaction costs in an association of organic farmers in Goiania, GO, Brazil

Leite de Souza^a, Marta Clauzet and Alcido Elenor Wander^{a,b,c,*}

a Universidade Federal de Goiás (UFG), Goiânia, GO, Brazil.

b Embrapa Arroz e Feijão, Rodovia GO-462, Km 12, CEP 75375-000 Santo Antônio de Goiás, GO, Brazil.

c Faculdades Alves Faria (ALFA), Av. Perimetral Norte, 4129 - Vila João Vaz, CEP 74445-190 Goiânia, GO, Brazil.

* Corresponding author Email: alcido.wander@embrapa.br

Abstract

This study aimed to analyse the transaction costs of an association of organic farmers located in Goiania, Goiás state, Brazil. We analysed the marketing and organisation relations based on data collected at the Association for the Development of Organic Farming in Goiás state (ADAO/GO). This association exists since 2000. It brings together small farmers, technicians and consumers who practice organic farming and are organised to improve marketing, disseminating production techniques and encourage the consumption of organic products. Information were obtained through interviews with association leaders. The ADAO/GO association provides public places for direct to consumer marketing. Marketing through supermarkets and other retailers is discouraged because of their predatory pricing policy. Since the attribute of being organic is invisible to the consumer, to establish and to sustain a lasting relationship between farmers and consumers is a challenging issue. Certification is one possible strategy to reduce information asymmetry and overcome distrust of consumers regarding organic products. However, certification cost may be high and will only pay off if the costs of measuring an invisible trait, e.g. as being organic, are high enough. A label of the association exists and is used by all member farms. As long as all farmers follow the rules, the label will get stronger and its reputation may improve. If, for any reason, a member farmer decides to break rules of the certification scheme, the whole association will suffer the consequences. This is the main transaction cost related to the collective action of the association and its common certified marketing label.

Key words: collective action, certification, direct marketing, organic farming

Introduction

Organic agriculture seeks alternative production techniques which increase soil fertility without harming the environment, watercourses and biodiversity of farms and their surroundings. Produces food without the use of pesticides, synthetic fertilizers, hormones or antibiotics.

In Brazil, organic agriculture is officially defined by Federal Law 10,831 (Brazil, 2003) as follows: "It is considered an organic system of agricultural production all that in which adopt specific techniques by optimizing the use of natural and socioeconomic resources available and respect for cultural integrity of rural communities, with the objective of economic and ecological sustainability, maximizing social benefits, minimizing non-renewable energy dependence, using, where possible, cultural, biological and mechanical methods, as opposed to using synthetic materials, eliminating the use of genetically modified organisms and ionizing radiation, at any stage of production process, processing, storage, distribution and marketing, and environmental protection".

Since 2003, Brazilian organic farmers are officially recognised for their production. As many farms are small producers (Darolt, 2002), chain organisation remains challenging (Machado & Corazza, 2004). Several farmer associations and cooperatives were established in order to promote production and marketing of organic products (Padua et al., 2015). However, some associations

became unviable soon, since collective action of farmers showed to be more transaction cost intensive than expected (da Cunha et al., 2013; Ostrom, 2014). Therefore, this study aimed to analyse the transaction costs of an association of organic farmers located in Goiania, Goiás state, Brazil.

Material and Methods

We analysed the marketing and organisation relations based on data collected at the Association for the Development of Organic Farming in Goiás state (ADAO/GO). This association exists since 2000. It brings together small farmers, technicians and consumers who practice organic farming and are organised to improve marketing, disseminating production techniques and encourage the consumption of organic products. Information on the association, number of associates, meetings, decision process etc. were obtained through interviews with association leaders.

Results and Discussion

Advantages and disadvantages of being part of ADAO/GO association

Advantages

The main advantages for farmers to be part of the ADAO/GO association include:

- The possibility of direct marketing in organic fairs;
- Lower certification costs;
- Higher visibility of products;
- Independence from supermarkets;
- Knowledge sharing among farmers and technicians;
- Diversified production and offer (overcome asset specificity).

Disadvantages

Some identified disadvantages of being part of ADAO/GO association are:

- Requires time due to frequent meetings;
- Participation in all decision making and voting (too time spending);
- Risk of potential losses if the association suffers any kind of image damage;
- Slow decision making process;
- Dependence on voluntary work of its members.

Transaction costs

In the past, baskets of organic food were sold and delivered directly the demanding households. Currently, the ADAO/GO association provides public places for direct to consumer marketing to its members, in two open fairs, each twice a week. Marketing through supermarkets and other retailers is discouraged because of their predatory pricing policy and conditions of negotiations (da Cunha et al, 2013).

To be a member of the ADAO/GO association requires investment in meetings (mandatory twice a year for all associated farmers + twice a year for only for association leaders). Additionally, farmers participating in fairs meet voluntarily once a month, after selling their products, to discuss contemporary issues. The investment in meetings represent a considerable transaction cost of acting collectively, especially since many farmers live 50 or more Km away of the city of Goiânia, where meetings take place. Time and cost of dislocation (mobility) represent relevant transaction costs in this context.

Beside of the regular (mandatory and non-mandatory) meetings, the ADAO/GO association also offers field days, courses and meetings to promote organic agriculture and technology transfer. These meetings encourage the exchange of experience of its members, facilitating the improvement of the quality of its products and reducing the difficulty with production. Direct contact with consumers fosters the exchange of experiences between producers and consumers. These consumers can be associated or not, which further strengthens the bonds of this relationship.

Since the attribute of being organic is invisible to the consumer, to establish and to sustain a lasting relationship between farmers and consumers is a challenging issue. Certification is one possible strategy to reduce information asymmetry and overcome distrust of consumers regarding organic products. However, certification cost may be high and will only pay off if the costs of measuring an invisible trait, e.g. as being organic, are high enough.

Certification is done collectively by an external accreditation body. All associated certified farms pay collectively and use the same label. As long as all farmers follow the rules, the label will get stronger and its reputation may improve. A sign that reputation is improving is that local government already offered two subsidized places to establish fairs of organic products.

The certification scheme requires regularly analysis for residues. These costs are randomly paid by an associated farmer.

If, however, for any reason, a member farmer decides to break rules of the certification scheme, the whole association will suffer the consequences of reputation loss. This is the main transaction cost related to the collective action of the association and its common certified marketing label.

Farmers do also experience asset specificity. Since their farms are too small, they are not able to produce all types and amounts of products consumers want to buy. Therefore, some farmers produce more vegetables (lettuce, cabbage, arugula, parsley and chives), while others produce dried fruit compote and fruit, the other produces bread, another produces tomatoes. A fair, selling together in the same market place, can overcome this specificity and offer a wider range of options to consumers.

Conclusions and Outlook

The main transaction costs for organic farmers being members of ADAO/GO association are related to:

- Spending in time and dislocation for meetings;
- Potential losses due to potential opportunistic behaviour of members (loss of reputation) in collective action; and
- Asset specificity related to small scale and its limitations in terms of product diversity and quantity (specialization and organisation in fairs contribute for its reduction).

References

- Brazil. (2014). Law nr. 10,831 (23 December 2003). It provides for organic farming and other measures.
- da Cunha, C. F., Saes, M. S. M., & Mainville, D. Y. (2013). Análise da complexidade nas estruturas de governança entre supermercados e produtores agrícolas convencionais e orgânicos no Brasil e nos Estados Unidos: a influência do custo de transação e de mensuração. *Revista de Administração*, 48(2), 341.
- Darolt, M. R. (2002). *Agricultura orgânica: inventando o futuro*. IAPAR.
- Machado, F., & Corazza, R. (2004). Desafios tecnológicos, organizacionais e financeiros da agricultura orgânica no Brasil. *Aportes*, 9(26), 21-40.
- Ostrom, E. (2014). Collective action and the evolution of social norms. *Journal of Natural Resources Policy Research*, 6(4), 235-252.

Padua, J. B., Schlindwein, M. M., & Gomes, E. P. (2015). Agricultura Familiar e Produção Orgânica: uma análise comparativa considerando os dados dos censos de 1996 e 2006. *Interações* (Campo Grande), 14(2).

Acknowledgement

This research is supported by *Brot für die Welt* and *Fundação de Amparo à Pesquisa do Estado de Goiás (FAPEG)*.