



Tropentag, September 14-16, 2010, Zurich

“World Food System —
A Contribution from Europe”

Linking Smallholder Farmers to High-value Markets – Impacts of Producer Group Participation in Rural Kenya

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Abstract

Improving market access for smallholder farmers is widely recognised as one of the key strategies to promote rural development and poverty reduction. However, high transactions costs have been identified as one of the major constraints for smallholder market participation. Today, changes in domestic and global supply chains associated with the rise of high-value agricultural markets introduce a new set of transaction costs. In particular, rising quality and procurement requirements further increase barriers of market entry for resource-poor farmers. Collective action in producer groups (PGs) is an institutional innovation to potentially reduce such barriers and increase smallholder competitiveness. The objective of this paper is to quantify production and marketing effects of PG participation, using the example of smallholder banana farmers in the central highlands of Kenya, where PGs are currently being established with NGO support. A probit model of PG participation shows that wealthier farmers are more likely to become members. Members have more land, as well as better access to investment capital and information technology. Employing a propensity score matching approach to control for self-selection bias, we find that members selling through the group benefit from 24 % higher banana prices than members selling outside the group and non-members. However, despite higher prices, no significant differences in banana gross margins are observed. This might be due to higher input costs and somewhat lower yields, since the majority of the PG members selling through the group have adopted improved, tissue culture planting material, which is higher yielding under favourable conditions but greatly suffered from the ongoing drought in 2007/2008. Overall, the findings suggest that PG participation improves access to input and output markets. Since many of the banana PGs investigated have just recently started to collectively sell bananas, positive effects on household welfare and food security may be expected in the future.

Keywords: Collective action, high value markets, smallholders