

Project ALA - 97/68

**Upland Development Programme in Southern
Mindanao**

(UDP)

**Market and Enterprise component strategies for
Upland Development**

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1. Background

UDP has as one of its major objectives the increase in upland incomes etc. A major and very important thrust to achieve this objective is the introduction of a *market led approach* to a programme of commodity production diversification and enterprise development.

A number of references, including in the UDP Project Preparation Report, are made to commodities which have "proven comparative advantage in the uplands".

It is important at the outset to distinguish between uplands, lowlands, highlands and mountains. The Bureau of Soils and Water give the following classifications

Designation	Elevation (Metres)	Slope	Description
Highlands	> 500	any	Mountains, plateau
Hilly land	100-500	>18%	Steep slopes
Upland	100-500	<18%	Plains, gently sloping
Lowland	<100	<8%	Plains

The areas that this programme is actually working in is either hilly land or steeply sloping highlands.

In many cases I think it is evident that uplands and highlands are often interchanged and are seen as synonymous, which is not the case. When competitive advantage is spoken of what is being referred to is altitude rather than uplands as defined for this programme.

The uplands and upland producers have few comparative advantages in anything. High altitudes have advantages in producing some commodities such as arabica coffee and temperate or semi temperate fruits and vegetables. Areas such as Bukidnon, which have large areas of contiguous, level or rolling land and relatively good road access, do obviously have a clear competitive advantage. At similar elevations upland farmers working in small watersheds on steep slopes and with very poor or no road access clearly are at a considerable competitive disadvantage. There may be some advantage in terms of cheap and

abundant labour or other factors relating to the socio-economic situation in the community. This can change from community to community and over time and has more to do with demographics than it being an upland community per se.

In addition to the physical limitations imposed by the environment, which include difficult terrain, poor access and an uncertain climate there is a low level of technical skills among upland communities and a poorly developed or non-existent extension service in most upland areas.

Tree crops have a long gestating period and require relatively high capital investment. This combined with the constraints outlined above make the development of these crops a high risk venture.

It is against this background that UDP must be implemented. The programme strategies and implementation plans must keep this at the forefront.

2. Introduction

This paper sets out to look at the current situation and to look at the major constraints which will be modifying factors on strategy development. Different sections will deal with:

- SWOT analysis
- marketing
- finance
- infrastructure
- institutional development
- enterprise development
- grower organisations

The paper will refer to some elements at the macro level which are seen to impact on the programme but in many cases UDP will not be in a position to address these issues directly. If it has a function in these areas it is most likely to be as part of advocacy groups or lending its weight in support of such groups.

By way of setting the scene and looking at the context in which the programme operates there will first be a brief SWOT analysis of the current situation in Mindanao/Philippines including the upland areas

3. SWOT analysis

Region XI has a number of marketing strengths but there are also major weaknesses especially in the upland areas which are the main focus of UDP. There are also opportunities but equally there are a number of issues which if not addressed adequately can become serious threats. A SWOT analysis reveals a number of issues.

3.1 Strengths

- good road network connecting the municipal market centres with the main market centres (Davao City & General Santos) and with each other
- continuing investment in road construction and upgrading
- good air and sea connections with Cebu and Manila and regional and world markets
- proximity to major existing and emerging markets in the Pacific region
- improving telecommunications
- increasing levels of economic activity
- increasing population leading to increased demand
- Southern Mindanao is becoming the agri-processing base of Mindanao
- fairly well developed marketing network
- proven demand exists for a number of commodities that are or can be produced in the uplands
- some existing processing facilities
- the presence in the region of major players in the world food industry e.g. Nestle, Dole, Del Monte, Philip Morris, Marsman Drysdale group and others
- the presence of a number of other exporters of fresh and processed produce
- designation by GOP of Mindanao as the major food production area in the Philippines and targeting as a key area for Government investment
- existence of a cold chain for the transport of fresh produce
- ability to produce quality produce on a par or even better than the rest of the world
- natural resource advantages of the region for food production which includes
- year round growing season which allows multiple harvests
- typhoon free - allowing the production of tree fruit crops

- fertile soils
- range of elevations above sea level allowing the production of a broad range of crops

3.2 Weaknesses:

- poor road network between municipal market centres and many of the production areas - especially to the uplands
- poor organisation among upland producers
- poorly developed extension services
- little security of tenure
- poor infrastructure to communicate
 - market demand information
 - improved production technologies to upland communities
- long market chains that seriously depress farm gate prices
- poor post harvest infrastructure and post harvest handling in the uplands
- poor transport facilities in the upland
- little or no access to credit on reasonable terms
- high cost of sea transport between Mindanao and Luzon

3.3 Opportunities

- Considerable investment by international development agencies
- weakening of the Peso against the US dollar and European currencies will increase the comparative advantage for Philippine produce
- investment in fresh produce handling facilities such as VHT plant for disinfecting fruit opens up new international markets
- tropical fruits are becoming year round commodities in an increasingly larger and more affluent market
- Philippine production season for many of these fruits is different from other countries thus presenting market opportunity windows
- extended production season in Mindanao offers a window of opportunity for the main domestic markets of Luzon and Cebu
- ageing of the farmer population in South Korea and Japan will mean changes in cropping patterns in those countries
- liberalisation of trade with China and increasing prosperity of that country opens up a vast regional market

3.4 Threats

- for upland communities the danger that GOP and LGU resources will continue to be concentrated in lowland areas
- declining quality of the coconut production base
- depletion of the natural resource base
- some industries working well below full or optimum capacity resulting in higher costs and uncompetitive position
- traditional markets being taken over by competitor countries e.g. Thailand has overtaken RP as the main exporter of pineapple to Europe.
- produce from other countries will become the standard - this may become a barrier to entry for Philippine produce e.g. supply of carabao mango from RP has been overtaken on the world market by cultivars from other countries. Consumer tastes may eventually favour these other varieties.
- large increase of production in other countries and the possibility of manipulating production seasons - Malaysian production area of fruits other than pineapple is estimated to have increased from 90,000ha in 1980 to 280,000ha in 1995 with considerable further expansion planned
- emotional attachment to traditional varieties and production methods hindering innovative approaches to research and production
- the Philippines is increasingly being viewed as a high cost producer. For example, the price of sugar a major cost in some fruit juice based products and dried fruits etc is now approx. double the world market price. Energy costs are relatively high

4. Marketing

A Marketing system for agricultural commodities already exists in the Philippines. This system does not necessarily benefit all participants in the marketing chain equally. Generally speaking the level of competition within an industry determines to a large extent the efficiency of that industry. In the Philippines a number of factors distort competition & lead to inefficiencies.

The major market for high value commodities produced in Mindanao lies outside of Mindanao. Metro Manila which is located on the Northern island of Luzon is the main population centre & the chief target market for Mindanao produce. Cebu which is located in the Visayas, also an island would rank second in the order of importance. Most fruit processing facilities are located in Cebu. Fresh fruit exports are mainly through Manila.

Shipping charges between Mindanao & Cebu or Manila are generally recognised as being very high. There have been continuous calls by various trade bodies & other organisations in Mindanao to deregulate the domestic shipping industry to allow a greater degree of competition & forces down shipping costs to more reasonable level.

At the other end of the scale and particularly in the less accessible rural areas there tends to be little level of competition between trades & particularly at the sitios or barangay level.

While UDP may be able to do little about shipping costs it should devote attention to improve the competitive position at farm level. Based on an assessment of the programme area, strategies should now be refined to address issues which have been identified that inhibit competition. While it is tempting to go for a macro approach and to address constraints at a provincial or regional level this is usually too far away from the target communities & would only benefit them through a “trickle down” effect. Benefits if any from such an approach usually trickle down very slowly if at all & would be unlikely to trickle as far as upland communities. Some generic strategies have been developed but as implementation proceeds these need to be adapted using a micro-level approach which will be more site specific.

It must always be remembered that a primary objective of the programme is to improve the living standards of the upland population. We must always keep close to them.

Circumstances may warrant downstream activities and programme involvement Cupertino or even support for enterprise in the lowlands. This should only be done where there is a clear & direct benefit for upland communities. For example, in the case of abaca fibre which is produced exclusively at higher altitudes uses other than paper or rope-making have the potential to enhance the value of quality fibre & to provide employment. In order to exploit this opportunity entrepreneurs in the lowlands are investigating markets & technology to improve productivity & add value. There could be a strong case made here for support & Cupertino between the programme & such reputable entrepreneurs to find, introduce or commercialise such technology.

4.1 Market information

Information is power. The provision of information on prices, supplies and demand areas will empower farmers and improve their relative strength in the marketing chain. A separate paper on market information systems outlines some experiences with MIS. And proposes a strategy for UDP to pursue.

The main strategies will focus on:

- identifying market information needs of the target communities
- identifying the areas where this information needs to be collected
- frequency of collection
- most appropriate form for information tabulation and presentation
- most effective means of information dissemination

4.2 Marketing information

Marketing information differs from market information. It encompasses a much broader range of topics. In addition to information on prices, supplies etc. it deals with information on product and quality requirements, packaging, market outlets and many other aspects of marketing. Much of this information is more commodity or even area specific and should be packaged in commodity profile type packages. Some marketing information is only relevant to very specific situations. It is not intended therefore to have this information disseminated in the same manner as market information.

Much of it is included in the market study reports and much of it can only be generated in response to specific requests. Indeed the enterprise development manual and the market training manual gives some guidelines on how to generate this type of information.

4.3The 4 Ps

The 4 Ps and decisions relating to them cover the whole range of marketing activities and are the basis of any marketing programme. They are **P**roduct, **P**rice, **P**lace, **P**romotion.

Briefly, I will describe here the foreseen programme strategy direction with reference to these 4Ps. A holistic approach must be adopted. When making decisions physical, institutional and socio-economic conditions and how they will impact on marketing must be always considered.

Product

Commodities to be promoted by the programme should meet a number of criteria:

1. commodities which can generate cash flows in the short term, enabling farmers to invest in longer gestation crops
2. Substantial market demand and significant opportunities for future market expansion
3. Major scope for affecting large numbers of growers
4. Potential for earning higher profits than those offered by traditional crops which are presently being produced.
5. Products that would be within the capability of the farmers to produce economically
6. Where there are no insurmountable physical barriers to get the product to market or where the product can be converted into a marketable form.
7. Where financing in some form or other can be procured or arranged to make necessary cultural operations possible.
8. Products which are to a large extent independent of temporary barriers.
9. Crops would not have an adverse effect on the environment or on other parts of the cropping system

There may be opportunities to convert products into less perishable forms, such as jam making preserves, etc. Value adding opportunities will also exist by improved harvesting and post harvest handling.

Price

While some marketing activities can influence the price received for agricultural produce by and large prices for such commodities are dictated by world supply and demand. Individual or small numbers of producers have little influence on price. Where there are quality premia or seasonal variations this should be identified by the market information system and conveyed to producers.

This does not say of course that improved bargaining strength of producers can not lead to better farm gate prices. Indeed it can, but this is a price redistribution rather than an overall price increase.

Commodity prices have tended not to rise in line with inflation, whereas production costs have or in some cases even faster. Expansion of cropping areas will continue to put further downward pressure on prices. To survive therefore efficiency and cost control must be rigorous.

Promotion

Again there is little promotion of agricultural produce except at an industry level to improve primary demand. Branding of agricultural products can be problematic and certainly beyond the scope of UDP beneficiaries. Similarly advertising is not a major option. There may be some opportunities for promoting limited quantities of product at local level. Where promotion is required on a wider scale it is likely that this can only be done through linking with downstream institutions or channel members.

Selling is of course part of promotion and product must be sold - it is after all the object of the exercise. Decisions on promotion need to be made bearing in mind the product and the ability of the producers. This is dealt with more fully under market channel decisions.

Place

Getting the produce to market and which distribution channels to use, or developing channels where none existent is in the consultants opinion, the most difficult area and the one which will pose the greatest challenge. Existing channels where they exist in the uplands have developed over time and are part of the culture of the area. To an outsider they may appear almost feudal and there is a natural tendency to try to sweep them away and replace with a new system. Culture develops slowly and because of this resistant to change when

one is dealing with a conservative constituency and with a system of obligations it is even more difficult to change. Culture could be described as “the way we do things around here.”

It is better, therefore to try and effect change from the “inside” and to empower communities with training, information etc. to improve their bargaining strength within the chain. Where good effective co-operatives exist, and I stress the words “good and effective,” they can be tapped to introduce an element of competition. Other organisational models are also possible to give producer some collective power and possible to bypass some of the first links – say product assembly or primary post harvest handling. In the long run traders should realise that it is in their interest to try and develop viable production units.

Physical barriers such as poor or non-existent roads, absence of bridges, etc. can just make it unfeasible to attempt to produce marketable surpluses of highly perishable products or even commodities such as forest products. A good example here of the effect infrastructure can have is to be found in the furniture industry. Rattan has long been a major component in the manufacture of furniture. A side effect of the logging ban is the absence of maintenance on logging roads. This has led to difficulties in harvesting rattan and getting it to market. As a result the furniture industry is now looking to other materials and designs which will reduce the rattan content of furniture.

If upland farmers are to survive in tree crop production they must be enabled to produce high yields of high quality produce at the prices the market is prepared to pay.

Careful planning and preparation can help to reduce the risks involved. A number of questions need to be addressed in this planning process.

5. Finance

Upland farmers costs are further driven and dependence on local suki traders increased by little or no access to affordable credit.

Under Central Bank rules loans taken out to fund agricultural production enterprises must be kept current by the payment of interest on an annual, semi-annual, quarterly, or monthly basis. For selected crops such as rubber, coconut, timber and tree fruits a grace period of up to seven years may be applied to principal repayments. After that principal repayments should commence.

The government has decreed that banks should set aside a percentage of funds for agricultural lending. While this may affect agriculture in general there is no guarantee that upland communities will benefit.

Under Central Bank rules if a farmer obtains credit for the development of a fruit production enterprise s/he must have collateral and an alternative source of income to pay interest and to maintain the venture until cash flow is positive.

Under the proposed UDP credit scheme long-term credit would not be available either. If farmers are to establish long gestating crops they must be able to finance them out of current income.

The strategy therefore should be to generate income from short gestation enterprises and to use some of this income for establishing longer term more permanent crops.

If farmers need credit during the gestation period to purchase inputs such as fungicides, insecticides or fertilisers they should be able to borrow under the UDP credit scheme. This would be repaid during the same year using the income from other enterprises and would therefore be loans to address cash flow considerations.

Some crops, such as forest trees are regarded as long gestation crops, but it may be possible or indeed desirable to use high density planting of species that are suitable for the production of poles or other such products in a relatively short period.

6. Infrastructure

6.1 Water

The climate in Mindanao is generally very favourable for crop production and particularly fruit. There are however periodic droughts varying in severity. Fruit crops represent a considerable investment in capital, time and labour. The occurrence of droughts pose a considerable risk to the establishment of fruit growing enterprises and particularly during the first few years until the roots penetrate deeply enough. It would be very discouraging for farmers to see their trees dying and their investment of money, time and labour going to loss. Under such circumstances it would be very difficult to motivate farmers to replant and it would also be a considerable disincentive to others.

I would strongly recommend that water impoundment be undertaken to provide for such emergencies. Where possible the impoundment should be done upstream of the enterprise in order to allow irrigation by gravity flow. The scale of tree planting should be linked to the potential to irrigate.

The water requirement of crops and the impact of some soil conservation measures on water availability should be considered when planning (hedgerows which might be planted along slopes compete directly for water and during dry periods can have an adverse effect on crop yields). When choosing conservation measures long term considerations should be taken into consideration. For example, suppose a farmer's long term strategy is to establish a permanent cropping system which will in the fullness of time allow for non cultivation and the establishment of suitable cover crops. Then the conservation measures to be adopted immediately can be of a more temporary nature and should not eventually be competitive with the crop to be established.

6.2 Access

Physical access to a farmer's land will be very important. If particular types of machinery such as power sprayers need to be used then it goes to say that there must be suitable access. Similarly if product is to be moved out there must be suitable roads or trails. For highly perishable crops it is important that there is access throughout the harvesting period in particular. For commodities such as timber which can be harvested all year round the importance of all year access is

not as great. However if heavy logs are to be moved there must be access by heavy equipment? Downstream access should also be appropriate.

If suitable access is not available there is always the possibility that it can be developed during the gestation period of a crop. There should be some pretty good guarantees however that the work will be carried out in time.

6.3 Other infrastructure

There are other infrastructure requirements depending on the enterprises to be developed. These should be examined on a case by case basis and always there should be some kind of cost benefit analysis. If the basic infrastructure for access and production is there these other developments can be undertaken. Where infrastructure improvements are to be made the possibility of using as much local material as possible should be studied. If there is scope for developing local enterprises to carry out infrastructure improvement projects then they should be pursued.

7. Institutional development

High value crops and particularly horticultural crops are the most technically demanding to produce and require the highest levels of marketing skills. UDP will be working in areas and with communities who possess the lowest levels of technical and marketing skills. Many of them are also likely to possess a relatively low level of education which will likely impact on their ability to absorb new technology.

If farmers in the target areas are to succeed in these ventures they need a high level of technical support. This can only come through a well trained and committed extension service. If that is not forthcoming then this writer sees no point in attempting to change the traditional farming methods in these communities.

If growers are to become more efficient they must have access to the best and most appropriate technology. Technology has two components, a hardware & a software component. Hardware would consist of such items as variety, quality of planting material, rootstock, chemicals, fertiliser packing material, stores, etc. The software component is knowledge and skill based.

The main transfer point for transfer for skills and knowledge to farmers is the extension offices. Therefore, extension offices must be equipped with the necessary skills & knowledge. This knowledge must be up to date which are applicable and appropriate in the Philippines.

In addition to software, the necessary hardware must also be present. Good quality planting material of the correct variety & on the correct rootstocks is a must for tree crops. For crops grown from seed the right varieties & quality seeds are also a must. Correct chemicals with proper guidelines on their application must be available together with the necessary application equipment.

Information on I.P.M correct cultural practices, organic or locally available insecticides or fungicides should be tested. Biological control measures also offer possibilities.

Just as enterprise specialists develop skills in particular areas, it could be useful for agricultural specialists to take special interest in different commodities and in different aspects such as harvesting post harvest handling etc.

The importance of ongoing extension support for producers of long gestating crops is vitally important. Extension must be seen as an ongoing and continuing activity. Training of extension officers must be continuing after project completion.

8. Enterprise development

There are a number of opportunities for developing enterprises based on commodity that can be produced in the uplands. These may range from:

- the actual production enterprises
- providing services for production
- improved post harvest handling
- primary processing
- small scale production of finished product
- by products
- non farm enterprises

Primary processing would be an intermediate stage in the production of final product. For this primary processing opportunity to be exploited and developed, it would be necessary for the other downstream processes to be in place.

For example, coconut coir fibre could be extracted using small scale technology at local level. That product might then be machine twisted into rope for other uses. This machine twisting would have to be done further downstream because of capital investment necessary and the need to have sufficient quantities of raw fibre. The marketing of this product would also require resources beyond the capacity of upland communities.

On the other hand a small jam making operation producing product for sale locally would be well within the capacity of a small enterprise.

A market opportunity does not mean that it can be successfully exploited. It can be taken that if products are available for sale in shops or sari-sari stores or whatever there is a market for it, the product may be imported or come from

distant part of the country. A local entrepreneur may be able to produce the product more competitively. There may also be a gap in the market for a particular product, again a local entrepreneur may be able to fill the gap. There is a limit to what a consumer will be willing to pay for a product. It may not be possible to produce at the price.

Every case must be taken on its own merits. There is so much more involved in setting of a successful enterprise than just financial calculations. Management is the single most important consideration. If an entrepreneur is to establish an enterprise the impetus really has to come from him/her. There is no point in doing detailed theoretical feasibility studies and then just handing them out for implementation such as an approach will not work.

The Enterprise Development Manual & the Market Training Manual provides a framework for assisting groups or individuals, but the initiative must come from them. There are opportunities but the ability to exploit them can only be assessed when the totality of circumstances are known. This will include management access to capital, cost of inputs, access to market, etc.

There may be a role for the programme to help promote an enterprise at the “macro” or downstream level, but this is more usually the function of “higher” authorities such as industrial development authorities (DTI). We must make sure to stay near the target communities.

UDP enterprise development strategy should concentrate mainly with small scale community based enterprises. There are other agencies for dealing with enterprise development at the macro level. UDP may have a role in linking with them for specific purposes but in general should be careful to keep close to the communities.

Bodies like DTI, DOST, PCA, The Bureau of Post Harvest Technology and others have developed technologies for improved crop handling and small scale processing of agricultural products. These bodies should be tapped and the programme should be catalytic in transferring this technology into the target areas.

Processing will become increasingly important, but again processors must become more competitive. One major cost in processing is the under-utilisation of facilities. Often processing was seen as a by-product of the fresh market

where the main function was to utilise product which was surplus to fresh market requirements. As prices come under pressure producers are more likely to attempt to diversify risk by entering into contract agreements to supply some or all of their product to processors at fixed prices.

While this will benefit growers it will also benefit processors by guaranteeing supply, thus enabling them to enter into contracts to supply processed product. A feature of the Philippine processed industry has been erratic supply & this has negative consequences on international markets. As production increases it will likely that processors will be attracted to invest in Mindanao. This should reduce the cost of raw material (lower transport costs) extend availability & lead to better quality.

Varieties for fresh market are not always the most suitable for processing. There may be opportunities to develop relationships with processors which will be beneficial to both, using dedicated varieties and contract growing arrangements.

9. Grower organisations

A separate paper has been written on producer organisations. It will not be reproduced in full here. It is appropriate however to summarise the strategies which the component proposes.

The individual target watershed based communities in which UDP will operate will consist of no more than 20 to 30 households, all of which may not participate in programme activities. These communities will also be dispersed throughout the uplands in 120 barangays in 30 municipalities in 5 provinces. If association formation and support were confined to these target communities such dispersal would make it difficult to form organisations having the necessary scale to support the required overheads and to assemble the required volumes of product. It is proposed therefore in the case of marketing that the wider community be involved in the formation of producer groups, multi-purpose co-operatives and or marketing associations.

9.1 Proposed strategy and activities

A primary strategy of UDP should be aimed at developing a strong and united coop movement in the municipalities in which it operates. The activities of these coops should not be confined to the UDP target communities in the watersheds

or even confined to the upland areas. Where strong lowland coops are identified they should be encouraged and assisted to extend their activities into the upland areas.

9.2 Activities to be undertaken:

- identify organisations which are active in the target communities
- identify successful co-operatives that are prepared to extend their activities into target communities
- identify other associations which could be developed and transformed into coops or other registered business units
- identify coops and associations which could be combined into larger and stronger units to serve the target communities
- where strong well managed multi purpose single commodity coops exist to encourage them to diversify into other products
- training programme members and potential members in responsibilities of membership to the coop and in the advantages of membership of a strong consolidated coop movement
- ascertain which members are interested in becoming members of the management committee of the main coop or at branch level and conduct training programmes. This training in addition to coop law and organisation should focus on giving the members an understanding and insight into the running of a business so that they can supervise and control the activities of the hired management

Where existing coops are identified as potential anchors for the development of the movement, wide ranging and detailed discussions should take place in order to develop a clear strategy on how to proceed and only when there is full agreement should the next stage of recruitment or amalgamation proceed. It is likely that the anchor organisation will insist on certain conditions being fulfilled before new members or groups of members will be eligible for admission. A major focus of the programme should be to assist in the preparation of these groups. This may include the build up of some capital and savings.

These coops would be encouraged to associate under an umbrella or federation. This federation would promote the aims of the member co-operatives and facilitate the interchange of information and ideas. The federation should aim to identify areas where the member bodies can cooperate and identify cost savings.

Ultimately there should be consolidation of the various coops into even larger units thus providing opportunities for further savings and increased bargaining power on behalf of their membership. Programme support for these activities will be mainly in the areas of training and promoting business development skills of PIs and target communities.

Where existing organisations do not exist or are not prepared to extend their services to the target communities the programme will assist in the organisation of the communities into groups to conduct their business. At the most basic level this organisation may consist of no more than small groups coming together to collectively negotiate the sale of their produce or to buy seeds and fertiliser and may involve little or no formal organisational structure. From this it is expected that more formal organisations will develop covering a range of commodities and functions ranging from input procurement, marketing and possibly some financial transactions. At all times in the organisation and formation of these groups the overall objective of forming larger and stronger institutions involving a much wider community should not be lost sight of.