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Farming dynamics

SHOULD FARMERS' ORGANIZATIONS BE MARKETING THEIR MEMBERS' CROPS?

THE CASE OF FAPAL AND THE PEANUT SECTOR IN SENEGAL

Overview

Introduction

Since privatization has been imposed by the World Bank – WB – and the International Monetary Fund – IMF – the majority of cash crop sectors in Africa have hoped that collecting and marketing of crops would be secured by producers' organizations.

It certainly is the case in Senegal, where chaos broke out after the hurried dissolution of SONAGRAINS, which used to collect and market peanuts for SONACOS (oil producer). A number of farmers' organizations – among which FAPAL (Fédération des Associations Paysannes de LOUGA) – tried to act as crop collectors in order to secure the marketing of their members' crops at advantageous conditions(prices, terms of payments).

This represents a big challenge for organizations which are newcomers in the business of marketing, and whose very nature, as basically popular organizations, might not coincide with the logic of commercial operations.

In this issue of Farming Dynamics, we analyse the FAPAL case. With the help of SOS Faim, they started their first marketing campaign in 2003-2004.

Peanuts: Senegal's "black gold"

Portuguese navigators had brought peanuts to Senegal in the 16th century already, where its production soared after the introduction of railroads at the end of the 19th century. Peanuts again secured the countries economic growth during the first years after independence in 1960. Then this crop gradually lost its predominance as a consequence of a decline of prices on world markets, of droughts, of soil degradation and the implementation of inadequate policies. Despite of all this, peanuts remain the main cash crop of the country as well as the main source of income for several hundred thousands of farming families. Moreover, peanut by-products (oil, peanut butter) have become part of the local diets, especially among farmers, whereas dry peanut cattle cakes are important stock feed for cattle breeders.

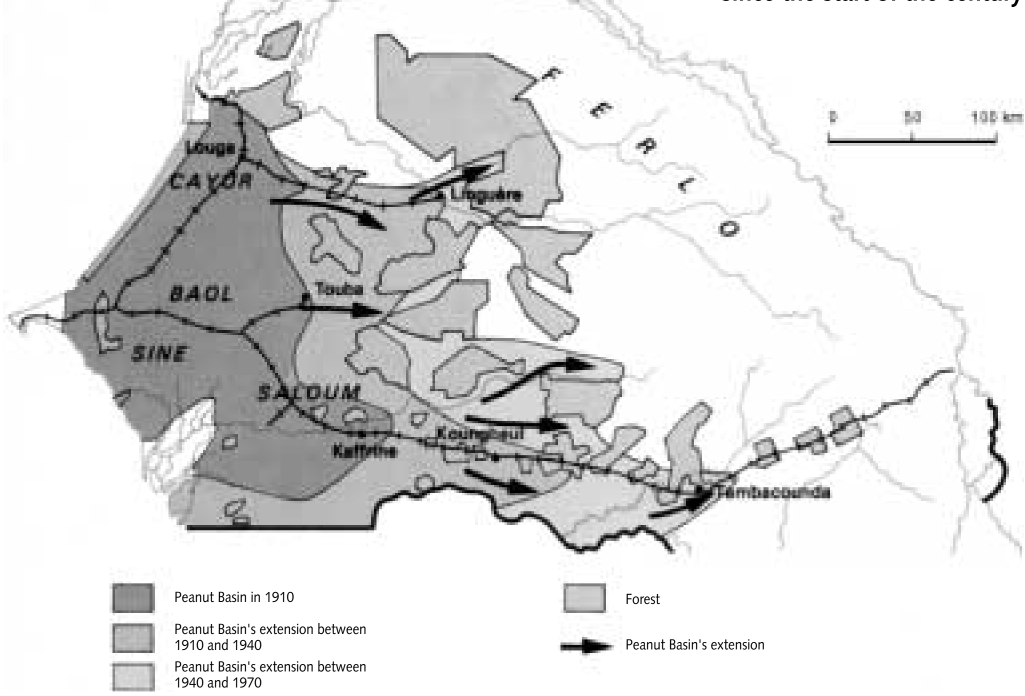
Key figures from Senegal

Population: 9.855.000 inhab. (2002)
Rural Population: 51,8% (2002)
GDP / inhab.: 506 $ U.S. (2002)
Part of agriculture (*):
- in working population: 73% (2001)
- in GDP: 14% (2002)

(*) including cattle breeding, fisheries and forestry

With a fluctuating production, which varies from 500 000 tons to more than 1 000 000 tons (peanuts in their shells), according to the year, Senegal has been, for a few years now, the number 7 producer in the world after China, India, Nigeria, the USA, Indonesia and Sudan. Unlike its major competitors, who produce and sell an important share of their crops as nuts, Senegal's crops are mainly destined for the oil production. From 1999 to 2002, Senegal was the greatest exporter of peanut oil, followed by Argentina, USA and China.

Expansion of the Peanut Basin since the start of the century



Source: www.senegal-onligne.com 2002

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The future of this sector remains uncertain though, as world prices for oil and cakes are on the decline, in the context of growing world production (mainly due to rising outputs in China and USA) (1) and increasing competition from other oilseeds. Although peanuts offer greater economic advantages when sold as nuts, the latter are subject to ever stricter quality norms and sanitary standards imposed by importing countries (as the EU, among others).

Recent trends: liberalization of the sector.

Like most cash crops in West Africa, the peanut sector in Senegal had been nationalized soon after independence in 1960. The state was in charge of all pre- and post-production operations (agricultural consulting, providing credits and farm supplies, crop collecting and oil or cake processing). Dominated by political stakes, the state administration responsible for the sector turned out to be unable to keep Senegal's peanut sector internationally competitive. As a consequence the sector started to decline in l970. This development and the pressure from the World Bank and the EU led the Senegalese government, about 1990, to organise a recovery with the help of the private sector. This reform however was implemented only in 1997, when a system of annual price fixing by an interprofessional committee came into effect.

At the end of 2001 SONAGRAINE, a public company in charge of distributing farm supplies (seeds and fertilizers) to producers, who would pay by instalments, and which also collected crops, was wound up, and a new system ('carreau-usine') introduced: the collection of peanut crops and their transport to oil factories are done by private, competing, intermediaries (traders and farmers' organizations). SONACOS (oil factory) itself has reached the final phase of its own privatization.

With a crushing capacity of 600 000 tons per year, SONACOS certainly is the greatest buyer of peanuts in Senegal. There is one other, private company though, NOVASEN, with a yearly crushing capacity of 100 000 tons.
Additionally, on top of this large scale sector, there is an informal peanut sector, which started to develop about 1970 and which is crushing peanuts into oil for local consumption and neighbouring markets.

Farmers' organizations, which are largely in favour of privatization of the sector, consider the winding up of SONAGRAIN as premature, because private companies had no time to prepare themselves to replace it. The 2001-2002 (2) crop collection campaign has been marked by the "unpaid bills" affair: due to lacking funds, and to protect themselves against major price cuts (3), most of the operators bought the peanuts with a promise to pay later, when they themselves would have been paid by SONACOS. Now, some operators, because they were dishonest, or because they really had cash problems (farmers' organizations among them), did not pay a large number of bills. The government had to intervene; in February 2003 it decided to take over and to refund the farmers concerned.

(1) From 1994 until 2003, world production of groundnuts in shell increased progressively from 28.8 to 35.7 million tons.

(2) Sown in July peanuts ripen around November. During the dry season, crop collecting stretches from December to May.

(3) Penalties imposed by SONACOS on quantities delivered by operators according to impurities (sand etc) found in samples taken on delivery. These penalties are considered excessive by farmers and operators alike, and are supposed to be part of illegal haggling with SONACO executives.

In other cases, farmers were offered (and were forced to accept) a price below the official price. In fact, the system 'carreau-usine' provides each operator with a number of collection points where he enjoys exclusive rights: the only competition would come from the informal sector which offers varying prices, and where operators are not able to sell bigger quantities in a short period of time [4]. This situation worsens when festive days lie ahead, and when farmers, in need of cash, sell large parts of their crops to speculators.

Otherwise, the premature and abrupt SONAGRAINE dissolution seriously limited the access of producers to crop and supply credit facilities (to buy seeds fertilizers). As they came into the sector very recently and are not really certain to have a future there, the new crop collecting operators, with the exception of some farmers' organizations [5] – like FAPAL – have little interest in providing producers with credits or supplies for their next peanut campaign. The shortage of seeds, which worsened during the 2002 drought, is one of the causes which limited the surface of production in 2003. If access to crop and supply credits is limited the immediate consequence is a reduction of income not only of producers but also of other operators in the sector, who have to rely on volumes, either of processing or primary production.

(4) As a matter of fact, liberalization of the sector did not bring competition into the market, as expected: one national public monopoly has been replaced by a multitude of local private monopolies (except for the informal market, which existed before and whose limitations have not changed).

(5) NOVASEN also also provides producers with farm supplies and easy CNCAS credits within a system of deductions on crops delivered.

Granting credits to farmers to buy seeds is an activity with an uncertain profitability, to an extent that private operators show little or no interest. It might be of interest for crop collectors, provided that the combination of crop collecting and granting of credits helps to

1. reduce the risk that producers fail to pay and
2. raise profitability of crop collecting, as collected quantities increase.

These conditions existed within the sort of monopoly of SONAGRAINE, as 'bad payer' producers, who were barred from this company's lists had nobody else to turn to, and the company could be certain to take advantage of the fact that producers would use the supplies it delivered to them (higher yields). In the present context, and despite local monopolies, these conditions no longer exist, as crop collectors – except for some farmers' organizations – do not really know the producers they deal with, and do not necessarily wish to create long term business relations with them.

FAPAL – in a nutshell

Founded in 1990 FAPAL (Fédération des Associations Paysannes de Louga), today consists of 28 village groups in 8 rural communities, which are spread over 4 districts in two departments around the town of Louga. This means 1 700 individual members, the majority being women.

In order to improve living conditions of its members, and more generally of farmer families in the area, FAPAL and its groups have been developing various activities such as creating a network of village supply shops for basic commodities, a private savings and credit system, on credit delivery of high quality seeds, participation in local groups to improve dialogue with authorities, etc.

Since 1991 FAPAL is a member of FONGS (Federation of NGOs in Senegal) covering 32 associations working in all of 11 administrative regions of the country.

FAPAL's implication in the peanut sector in 2003-2004

Despite the degradation of agro-climatic conditions which caused the 'peanut basin' to move south, peanuts remain the most profitable pluvial crops within the Louga area and are of great concern for farmers' families. This is the reason why FAPAL has been involved in the sector for a long time now, especially to secure the supply of seeds.

But before we can speak about FAPAL's implication in crop collecting in 2003-2004 we have to mention the FONGS' initiative, which presented itself as an operator during the 2001-2002 campaign of the recently installed 'carreau-usine' system. During that first campaign put some 1 300 ton of peanuts on the market, which had been collected in 9 different collect centers. Whereas other operators, with better equipments, omitted to pay numbers of bills, FONGS made it possible for producers to take advantage the official price within a few weeks of the collection of crops, and still was able to make a small profit. Apart from these economic advantages, this first operation provided FONGS with an opportunity to get further involved in negotiations about the future of the peanut sector with state authorities and its own backers.

In 2002-2003 FONGS was unable to repeat the operation due to a period of drought in 2002 and dwindling production outputs.

FONGS' members, of course, had been deeply involved in the 2001-2002 operation as far as they had an interest in peanuts – FAPAL had been one of them. For the 2003-2004 campaign FONGS invited these associations to assume a role as operators, with its support if necessary.

That is how FAPAL came to negotiate a deal with SOS Faim, which would allow it to collect about 1 000 tons of peanuts a year from producers in its area. During this first campaign FAPAL was able to sell only 243 tons. While weather conditions in 2003 had been generally good for pluvial crops within the Sahel strip, the Louga area suffered from longer local periods of drought and production was very poor. Even in the rest of the peanut basin, where rainfalls had been more abundant, production had been limited by a shortage of quality seeds as well as by the farmers who had lost courage when they saw their sector being dismantled.

The low production levels nation wide alerted SONACOS, which tried to outdistance the informal sector, and made bank credits available to its operators. And it so happened that it soon became clear that after 3 to 4 months there were no more peanuts to be collected in the area, whereas normally the trading period stretches over a period of 6 months (December to May). Under such conditions FAPALS' performance, although far below expectations, still remains remarkable. FAPAL was able to make a small profit, despite small quantities, and is in a position to reach previously set objectives in future campaigns, provided conditions are favourable. [6] Otherwise, FAPAL's good performance during this campaign strengthened its credibility within SONACOS and opened new opportunities for closer cooperation in future campaigns.

Advantages arising from FAPAL's implication in the sector

As for the operations led by FONGS in 2000-2001, farmers whose crop has been collected by FAPAL in 2003-2004 were paid the official price. It must be said, though, that due to the competition described above, all farmers in the area, who delivered peanuts to SONACOS operators, were paid the official price. And, what is more: with the help of the credits arranged by SONACOS for the operators, the producers were paid 100 % on delivery, a practice which FAPAL had to adopt as well to avoid losses on its own market, whereas in the beginning it had planned, considering its limited funds, to pay 50 % on delivery and the rest after the payments by SONACOS, that is, 3 to 4 weeks later.

What is, under such conditions, the advantage of the implication of an organization like FAPAL in crop collecting operations? Judging the methods of commercial operators during this campaign, one could conclude that the transitional phase is over and that the private(commercial) sector is now ready to organize crop collecting in the best interest of all parties concerned, including farmers, according to the liberal theory.

Even in this context, we think that there are several reasons to encourage farmers' organizations like FAPAL to stay in the peanut sector. Fist, the future of the sector is subject to a number of economic and political factors which could change the attitude of many commercial operators. Only farmers' organizations have long term engagements. This is the reason why they are the only ones to invest in farm supplies and to provide credits. Their existence also introduces "morality" into the business of crop collecting. And one must not forget the profits FOs are able to generate through crop collecting. They may help to strengthen their autonomy when it comes to international cooperation. Finally, when they participate in crop collecting, FOs have an excellent opportunity to improve their knowledge of the sector: they would be in better position to articulate farmers' proposals and to defend them in front of public authorities or backers (fund providers).

(6) Unfortunately this will probably not be the case in 2004-2005: although peanut production seems to be good on a national level , in the LOUGA area it will suffer from a longer period of drought and an invasion of locusts.

Conclusion

FAPAL's results during the 2003-2004 campaign suggest that it is quite possible for a farmers' organization to act as a crop collector on a long term basis in a sector like the peanut sector in Senegal. Such a commitment would be desirable not only because of the revenues which could be obtained by the organization, but above all because of multiple short and long term advantages for the producers: long term price guarantee and terms of payments – compared to rather speculative short term offers of private operators – development of campaign services(crop supplies, credits); greater influence on political decisions concerning the sector's organization. ■

SOS Faim and farmers' organisations

Since 1964, SOS Faim Belgium and 1993 SOS Faim Luxembourg as well, support farmers' organizations and producers in some 15 countries in Africa and Latin America.

Their actions concentrate around three fields: support of institutional and organizational development, support of economic activities, defence of southern producers' interests in Belgium, Luxemburg and on the European level.

Therefore SOS Faim Belgium and Luxemburg have created "Farming Dynamics" a quarterly bulletin in French, Spanish and English.

The objectives of Farming Dynamics are the following:

■ to make known these farmers' and producers' organizations on the largest scale possible: their actions, their experiences. Their problems, their solutions. Their positions and proposals on matters of their concern.

■ Organize debates, exchange of experiences and ideas on subjects like their own development, or the future of agriculture, of the rural world;

■ Inform politicians who have an influence on these organizations activities in the South.

You will find this issue, as well as previous issues, ready for download, in French, English and Spanish on the SOS Faim Belgium internet site www.sosfaim.be and the SOS Faim Luxemburg site www.sosfaim.org

Furthermore, SOS Faim also publishes a newsletter on microfinance: "Zoom Microfinance" which is also available on these internet sites.

This bulletin has been designed by François Vandercam (fva@sosfaim.be) responsible for SOS Faim partner support in Senegal, Burkina Faso and Eritrea.

If you wish to comment on the subject in this issue of F.D., give your opinion, or provide more information etc
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