Turkey
A win-win relationship between a producers’ union and a supermarket chain in the Turkish fresh fruit and vegetables sector

Sylvaine Lemeilleur and Selma Tozanli
UMR MOISA
CIHEAM-IAMM
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_Sylvaine Lemeilleur_
UMR MOISA, Montpellier

_Selma Tozanli_
CIHEAM-IAMM, UMR MOISA, Montpellier

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The case studies were coordinated by:
Julio Berdegué, RIMISP - Latin American Centre for Rural Development, Chile (contact: jberdegue@rimisp.org)
Lucian Peppelenbos, Royal Tropical Institute (KIT), Netherlands (contact: l.peppelenbos@kit.nl)
Estelle Biénabe, Centre de Coopération Internationale en Recherche Agronomique pour le Développement (CIRAD), France (contact: estelle.bienabe@cirad.fr).

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Authors
Sylvaine Lemeilleur (Ph.D student):
UMR MOISA Montpellier, 2 Place Viala. Bât 26. 34 060 Montpellier Cedex 1.
Tel: +33 (0) 4 99 61 29 43 Fax: +33 (0) 67 63 54 09.
Web: http://www.montpellier.inra.fr/moisa
Email: lemeille@ensam.inra.fr

Selma Tozanli (Senior Researcher):
UMR MOISA Montpellier / CIHEAM-Institut Agronomique Méditerranéen de Montpellier
3191, route de Mende, 34093 – Montpellier, France
Web: http://www.iamm.fr

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1 Abstract

The rapid growth of the supermarket sector in Turkey during recent years could offer new marketing opportunities for producers, and in particular those supplying fresh fruit and vegetables (produce for which a closer proximity between supplier and buyer will generally result in improved freshness and quality) (Dries and al. 2004). Moreover fresh fruit and vegetable (FFV) growing could significantly increase farmers’ income through intensive production systems since a majority of producers in Turkey are very small-scale landholders. Thus, the FFV sector is a highly relevant one to study as the paper focuses specifically on market access of small-scale producers.

However, FFV marketing in Turkey is highly regulated. Since 1995, a market regulation law has obliged all FFV to pass through wholesale markets under commissioners’ control. Alternatively, the law allows “producers’ unions” to market their produce without it passing through wholesale markets.

In this research work, which is part of the international project ‘Regoverning Markets’, the main assumption of the authors is that both supermarkets and producers in Turkey have an interest in contracting with each other through producers’ unions, because they can then reduce their marketing costs related to transaction fees. Actually, it can be observed that supermarket chains seem to be exploring this kind of direct linkage. Most of the difficulties come from the producers, who have been unable to organize themselves around unions.

The present paper focuses on the success story of a village development cooperative that has been a producers’ union since 1995, and contracts directly with a supermarket. This case illustrates a “win-win” relationship between producers and buyers.
2 Introduction

The fast growth of urban populations in emerging countries induced a large increase in the end-consumer food demand in urban centres. This expansion of urban markets was accompanied by an extended process of liberalization of national economies and international trade, and involved a rapid and deep transformation process within agrifood systems – particularly characterized by the key place that supermarkets gained (Reardon and Berdegué 2002; Weatherspoon and Reardon 2003). These new dominant players have a specific requirement for high and regular volumes of quality products, a fact that modifies greatly the governance systems of the agrifood chains and motivates for new governance patterns wholly different from those observed in traditional food marketing systems.

This new pattern of urban food supply pushes local agricultural producers towards new challenges in terms of production and marketing. However, small-scale agriculture – main income source for the livelihood of the majority of rural poor – is poorly prepared for these changes, which bring new opportunities but also set up high entry barriers concerning these new marketing channels. It therefore becomes urgent to explore anticipatory policy responses to agrifood restructuring, with a special focus on inclusion of small-scale producers in dynamic markets.

In recent years the rise of supermarkets in developing countries and the impact of the large-scale retail sector on small producers have formed the focus of numerous research studies in the area of economic development in a number of southern hemisphere countries (in Latin America and South-East Asia, for example). Indeed there is an increasing demand to deepen the research on implications and opportunities of large-scale retailing for small-scale producers, to understand what constitutes best practice in connecting small-scale producers to dynamic markets, and to bring these findings into the wider policy arena.

An intensive two-year programme (2005-2007) of collaborative research and policy support entitled ‘Regoverning Markets’ has been planned, built around a global consortium of southern and northern hemisphere institutions. Within this project, Turkey was selected as one of the countries that will be covered by the research work. Characterized by a long history of state intervention, the Turkish case study could bring new understanding of the role of public authorities in market regulation and their impact on producers’ organizations and urban food security.
3 Turkish background

3.1. Evolution of the Turkish retail sector in favour of large retailers

Turkey, with 65 percent of its total population settled in urban areas and several
metropolises (Istanbul, Ankara, Izmir etc.), illustrates well the agrifood restructuring
phenomenon.

The development of the supermarket sector started quite early in Turkey, driven by state
initiatives. At the beginning of the 1950s, the Turkish State created self-service retailer
chains, initially under the brand ‘Sümerbank’, a state-owned enterprise. Then in 1954
the first large, modern store was set up in Istanbul under the joint initiative of the
Swiss Migros Cooperatives Union and the Istanbul Municipality. This then became
fully domestic in 1975, when its majority shares were transferred to Koç, a major
Turkish conglomerate. In 1956, ‘Gima A.S.’ was established in Ankara, as a Turkish
para-public initiative serving as a multistore and including food products and
beverages. During the 1960s, the state continued to regulate food retailing by
insisting on the creation and development of consumer cooperatives by city
municipalities or public administration (the army had a large chain of self-service
outlets called ‘Ordu Pazari’, and Izmir Municipality founded a consumer cooperative
under the name of ‘Tansaş’).

However, the true take-off of supermarkets in Turkey took place only in the 1980s, as
local investors developed small- and medium-sized stores, aiming at high income
consumers in large urban centres. During the 1990s, the liberalization of foreign
direct investments (FDI) encouraged the arrival of large European retailers to the
Turkish domestic market (‘Metro’ in 1991, ‘Carrefour’ in 1993), and simultaneously
stimulated the growth and extension of domestic chains. Today, large retailers target
all income classes and have spread to medium and small-sized cities. Recently, the arrival
of the hypermarket format, as well as “hard discounters”, has emerged as a key
investment within the Turkish retailing sector.

Thus, while the supermarket concept developed very early in the country, the
consolidation and multi-nationalisation process inherent in large-scale distribution
expansion started just recently in Turkey (Reardon and Berdegué 2002). For
example, the cumulated market shares of the three market leaders represented only
eight percent of the Turkish food retail market until recently (ME and SIMSEK 2003).
Nonetheless, an important consolidation process, which significantly restructured
Turkish retailing, took place during the summer of 2005 whereby ‘Carrefour’ (which
entered the Turkish market in 1993 and had formed a joint venture with Sabancı in
1995) bought out the ‘Gima’ supermarket chains, and ‘Migros’ acquired ‘Tansaş’
supermarkets (Kobifinans 2005). So, by the autumn of 2005, ‘Migros’ had become the
leading group of the Turkish retailing sector, with an estimated turnover of more than
two billion US dollars while ‘Carrefour’, with a cumulated turnover of 1.5 billion US dollars, became the challenger ahead of the hard discounter ‘BIM’ and the cash and carry leader ‘Metro’ (Kobifinans 2005).

3.2. Fresh fruit and vegetables’ procurement patterns of large retailers

Today, supermarkets account for 45 percent of total market shares in Turkey (ME & SIMSEK 2003). Fresh fruit and vegetables (hereafter FFV) form the basis of Turkish food consumption at 100 kg and 230 kg per person per year respectively (Saunier-Nebioglu 2000) but when marketed through supermarket chains are estimated to account for only about ten percent of the total FFV marketed volume (Coudel 2003). In fact, FFV are mostly marketed through open street markets as the price-sensitive Turkish consumer continues to purchase his/her fresh produce through shorter marketing channels.

There is still a large potential to increase FFV sales in supermarkets since their market share is low. Therefore modern retailers place a high priority on the FFV sections and try to increase FFV sales by the introduction of larger volumes of standardized products with high quality, and by packaging differentiation.

3.3. New opportunities for local small-scale producers

Sourcing patterns of large retailers could provide new marketing opportunities (sustainable markets with high volume requirements) for local producers. This is especially true because of the perishable nature of FFV products, for which suppliers’ proximity to buyers may be an important factor influencing quality and freshness (Dries, Reardon and Swinnen 2004).

There is evidence that large-scale retailers prefer to procure their fresh produce from large-scale producers who have the necessary capacity to offer substantial volumes of high quality produce regularly (Weatherspoon and Reardon 2003). However, in Turkey like in many emerging economies, large producers are export-oriented because of the better value that they can procure in international markets (mainly in Eastern European markets as well as in the EU). Therefore, the main suppliers in domestic markets happen to be a large number of small-scale producers (possessing less than 0.1 hectare of horticultural production under protected cover, or about 10 hectares for open field production).

Large-scale retailers’ procurement systems could thus provide new marketing opportunities for these small-scale producers. On the one hand, horticulture as a high value sector underlines the diversification strategies of farmers. On the other hand, FFV cultivation could significantly increase farmers’ income with intensive production
systems applied to very small farms. This issue is particularly important in the context of Turkish agriculture, where the largest constraint is linked to the fragmented land tenure system created by the inheritance rules prevailing in the country. Therefore large-scale retailers, in order to identify and to source produce from this highly fragmented supply structure, prefer to rely on intermediary agents such as wholesalers, brokers, or producers’ organizations.

3.4. Turkish marketing regulations

FFV marketing in Turkey is highly regulated. Indeed since 1995, a new law on wholesale markets has demanded that all FFV pass through wholesale market halls under commissioners’ control. In fact, farmers deliver their fresh produce to commissioners registered at the wholesale market hall, who endorse the price at which it is sold to wholesalers or retailers, after fixing the minimum selling price and the level of the commissioner fee. According to the law, this commissioner fee cannot exceed eight percent of the selling price. Thus the commission level is often established at eight percent because of a lack of competition amid the commissioners. The main reason for this situation lies in the fact that the city municipalities, according to the law, determine which commissioners may rent wholesale market hall offices as soon as construction is completed, and therefore there is actually no room for new entries. This situation leads to a kind of tacit agreement amid the already established commissioners and blocks any outside competition.

In this marketing system, the state and the city municipalities deduct taxes and fees that, when added to the commissioner fees, represent about 14 percent of the total value of the marketed produce.

<table>
<thead>
<tr>
<th>Tax</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commissioner fee</td>
<td>8% (15% for income taxes and 0.1% for retirement funds)</td>
</tr>
<tr>
<td>Municipality tax</td>
<td>2%</td>
</tr>
<tr>
<td>Excise tax (stoppage tax on benefits)</td>
<td>2%</td>
</tr>
<tr>
<td>Social insurance fund</td>
<td>0.1%</td>
</tr>
<tr>
<td>VAT</td>
<td>2%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>14.1%</td>
</tr>
</tbody>
</table>

Retailers have an obligation to show to controlling officers the invoices for each item that they purchase indicating these different taxes and fees. The state as well as the city municipalities, aside from collecting additional revenues for their functioning, aim to control and regulate selling prices and to protect the farmers’ rights as the commissioners’ fees are supposed to ensure better selling conditions for producers.
3.5 Producers’ unions as an alternative to the existing system

Beyond export-oriented or industry-oriented produce, which is exempt from the wholesale market regulation, the wholesale market law legislates for some other exceptions. First of all, it allows direct procurement from individual producers as long as buyers agree to pay a municipality tax representing 13 percent of the total value of the marketed produce.

Alternatively, in order to encourage the foundation and functioning of producers’ cooperatives, the law stipulates, in Article 6, that growers who are organized in a “producers’ union” (comprising at least 50 members) and “taxable retailers” (including the supermarket chains) can contract directly without passing through wholesale markets. So they benefit from tax-free transactions, as they pay neither municipality taxes nor the commissioners’ fees. In this manner, producers’ unions act as intermediary agents, providing an alternative to commissioners.

A comparison between the figures presented previously and the figures below, presenting the total taxes and fees that the buyers pay in the event that they contract the farmers via a producers’ union, shows that there is up to a two-fold difference between commissioners’ services compared with dealing directly with producers’ unions.

<table>
<thead>
<tr>
<th>Tax</th>
<th>Percentage</th>
</tr>
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<tbody>
<tr>
<td>Cooperative’s fees</td>
<td>3-6%*</td>
</tr>
<tr>
<td>Commissioner’s fees</td>
<td>-</td>
</tr>
<tr>
<td>Municipality tax</td>
<td>(2%)**</td>
</tr>
<tr>
<td>Excise tax (stoppage tax on benefits)</td>
<td>2%</td>
</tr>
<tr>
<td>Social insurance fund</td>
<td>0.1%</td>
</tr>
<tr>
<td>VAT</td>
<td>2%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>7.1 to 12.1%</td>
</tr>
</tbody>
</table>

*Each cooperative is free to fix this commission fee, which helps the cooperative to cover its running costs. Generally, it is fixed at between three and six percent of the total value of the marketed produce.

**For agricultural cooperatives there is no legal obligation to pay this tax, but actually they pay it if they rent an office within the wholesale market hall.
4 Presentation of the field study

4.1 Working hypothesis

In our research work, our main assumption is that both supermarkets and producers in Turkey have an interest in contracting with each other through producers’ unions, because by doing so they reduce their marketing costs relating to transaction fees. Moreover, producers’ unions can play a significant role in helping small FFV growers who cannot otherwise afford the investments necessary for the standardization process required by supermarket chains.

Furthermore, collective organization should be a relevant structure for technical diffusion, quality improvement, production planning, and achievement of economies of scale. Supermarkets should gain by contracting with producers’ unions, since the law supports the emergence of collective initiatives.

4.2 Methodology

The methodology was based on secondary data, a literature review, and a large number of surveys to identify and to get a better understanding of conditions that drive producers’ unions to create successful linkages with supermarket chains. These were employed to analyse why and how large retailers seek to establish business relationships with producers’ unions and to determine the role of the public sector in promoting small-scale producers in dynamic supply markets. The surveys were carried out during the period from October to December, 2005.

Semi-structured interviews were conducted with a large number of stakeholders in the FFV marketing channels: top managers of large retailers; managers working in regional supplying units of these large retailers; wholesalers (dedicated or not); directors of wholesale market hall; farmers and members of producers’ cooperatives, as well as officers working at governmental institutions at national and local levels.

This methodology provided the qualitative information necessary before the implementation of quantitative tools as a next step of our research project.

4.3 Results: a win-win relationship between a cooperative and a supermarket supply unit

There has been no remarkable change in the overall behaviour of the stakeholders of the Turkish agrifood system. According to E. Coudel (Coudel 2003; Codron et al. 2004) and in the light of our recent data, the direct sourcing of fresh produce from producers’
unions is not a compelling issue for supermarkets. Success stories concerning the direct linkages between supermarket chains and producers’ unions are quite scarce. While supermarket chains seem interested in this kind of direct linkage, they meet considerable challenges stemming from the difficulties of small producers in organising themselves into producers’ unions (coordination problems, lack of skill, financial problems, and interlinked transactions with commissioners).

We present in this paper one of the success stories, focusing on a village development cooperative that has been a producers’ union since 1995 and that has direct contractual linkages with a supermarket. It furnishes us with a good example to illustrate the emergence of a new “win-win” relationship between producers and buyers; but it also highlights the failures of the institutional environment to scale up and to extend this kind of innovative institutional arrangement.
5 Case study: Narlõdere Village Development Cooperative

Before analyzing the precise factors that contributed to the rise of a successful contractual arrangement between a producers’ union and a supermarket, this paper first presents information on the Narlõdere Village Development Cooperative, its history and functioning.

5.1 Historical background and objectives

The Narlõdere Village Development Cooperative, established according to Law 1163 on cooperatives (Ministry of Agriculture and Rural Affairs 1969), is located in Bursa Province. It was registered in 1967 by the Ministry of Agriculture and the Ministry of Forests. It reflects the general trend of cooperative development between 1967 and 1976 when 5,811 village development cooperatives were founded following the promulgation of the law 1163 regulating the establishment of agricultural cooperatives and coordinating their functioning. At the beginning of 1980s there were 7,626 village development cooperatives (Akyar 1984) of which the total number decreased to 5,200 by the beginning of the 2000s (data communicated by senior officials of the Ministry of Agriculture and Rural Affairs during interviews, November 2005).

With regard to their total numbers, village development cooperatives form by far the most important organizational structures at the village level. The reason for this proliferation – in spite of the severe lack of state funding – rests with the fact that these cooperatives facilitated the passage of Turkish peasants to European countries as migrant workers (Akyar 1984). As this activity slowed down suddenly after the 1973 oil crisis, the tremendous increase in their number also slowed and then their numbers started to decline.

The original main activity of the Narlõdere Village Development Cooperative was to provide modern inputs to its members and this continued more or less regularly until 1995. At that time, the total number of members of the cooperative did not exceeded hundred farmers.

According to the cooperative law 1163, only farmers living in a village or within its close neighbourhood can join a cooperative. Members must participate in the annual general assembly and vote according to the democratic rule of one member/one vote. The general assembly needs a quorum of at least \( \frac{2}{3} \) of the total number of members and a decision is reached when more than 51 percent of voters agree. There is no proxy system. The members elect a Board of Directors and a Board of Supervisors, which coordinate the cooperative’s activities and supervise different stakeholders. Any member who is absent from 3 consecutive annual general assemblies can be excluded from the cooperative. Beyond these rules, entry to and exit from the cooperative are free.
5.2 Interactions between public and private initiatives and the structure of the Narlődere Village Development Cooperative

The big change in the cooperative’s activities took place in 1995, as a response to the FFV market regulation law. The initiative came from a downstream player, the regional supplying unit of the ‘Migros’ supermarket chain, situated in Bursa.

This supermarket chain coordinates various regional units for FFV sourcing, established mainly in high production zones of the country. Migros has been active in Bursa Province since 1969 because of the significant fruit production of this area, and in particular in Narlődere. Open field vegetables from Bursa Province are also in high demand during the summer season while Antalya Province, situated on the southern coast of Turkey, supplies greenhouse produce during the autumn and winter seasons. The Migros-Bursa Unit accounts for ten percent of the supermarket chain’s total FFV supply at national level. Up to 1995, the Migros-Bursa Unit carried out direct procurement from producers. But as a result of the promulgation of the 1995 market regulation law on FFV, this sourcing pattern became fee and tax expensive. The Migros-Bursa Unit manager, a native of the region who had been working at the Migros-Bursa Unit since 1969, saw that there was a possibility, according to the Article 6 of the 1995 law, to contract directly with producers’ unions without paying commissioner fees. His local knowledge helped him to make contact with various cooperatives in Bursa Province and finally he chose the one that offered the highest production volume potential, i.e., the Narlődere Village Development Cooperative, comprising some hundred producers with holding sizes between 30-50 decares. This holding sizes reflects quite closely the general land tenure system of Bursa Province as 42 percent of the farmers have holdings ranging from 20 to 49 decars and 28 percent of them have fewer than 20 decars (DIE 2005).

Narlődere distinguishes itself from the rest of the villages of Bursa Province by its high specialisation in the production of fruits such as peaches, cherries, strawberries, apples and pears, and in the production of some vegetables like open field tomatoes (around 700 tons per year) and cucumbers (around 500-600 tons per year). In winter, vegetable production moves over to red cabbages, cabbages, eggplants and spinach.

After 1995, Narlődere Village Development Cooperative refocused its activities on FFV marketing, and particularly on creating a regular supply for its main client, ‘Migros’, as well as for other clients. The fact that it bypasses the commissioner intermediary helped to raise the value that the producers got for their fresh produce.

There is no written contract between the Narlődere cooperative and ‘Migros’ but their oral agreement is based on mutual benefits arising from their transaction. Moreover,

1 Ten decares = one hectare.
the Migros-Bursa Unit helps the cooperative in the task of filling in different administrative forms. In order to enforce and improve this specific linkage, the cooperative obtained a ‘Producers’ Union’ certificate of from the Ministry of Industry and Commerce and also hired an office in the Bursa Wholesale Market City Hall.

Ten years later, this non-written agreement is still valid and the absence of a written contract on FFV transactions is now resolved by the signature of a ten-year formal renting contract by Migros to share the new platform of the cooperative. These developments appealed to newcomers and today the cooperative has 241 farmer members.

5.3 Contractual arrangements

5.3.1 Product attributes
Initially, the marketing agreement between ‘Migros’ and the cooperative did not result in radical changes in the production pattern: quality standards were not yet well developed in the domestic market and post-harvest activities such as sorting, grading and packing remained the responsibility of the Migros-Bursa Unit. It was only after the fulfilment of successive transactions and the development of trust between the cooperative and ‘Migros’ that the producers gradually improved the quality of their products. More recently, the Migros-Bursa Unit asked the cooperative to gradually integrate these post-harvest activities. Consequently, the cooperative obtained governmental credit funding to build a warehouse including a packing platform of 11,000m² and a cold storage room with a stocking capacity of about 2,400 tons. The whole project cost some 2.3 million YTL and required financial contributions from members.

5.3.2 Transaction attributes
Transaction attributes of the marketing activities of the cooperative with regard to this specific agreement brought along some radical changes in the cooperative’s organization with regard to regularly shipping normalized volumes of fresh produce to the Migros-Bursa Unit. The manager of the Migros-Bursa Unit got directly involved in the production schedule of the cooperative’s members. He guides the individual farmers and members of the Cooperative, according to the needs of the supermarket as ‘Migros’ realises product forecasts at national level.

In respect to terms of payment, contractual agreements with supermarkets normally include a delay so that payment is eventually made only 45 days after delivery.
5.3.3 Enforcement

‘Migros’ changes its sourcing order with regard to the volumes demanded on a daily basis, and there are great fluctuations concerning the FFV market prices. These factors mean that there needs to be a highly flexible relationship between the contracting parties. This is the main reason behind the absence of written contract concerning the agreement between the Narlödere Village Development Cooperative and the Migros-Bursa Unit.

Each contracting party gets information about the wholesale and retail prices of the fresh produce in Bursa in order to fix their own prices, which avoids long bargaining hours. Further, ‘Migros’ pays higher prices than the prices set on the regional market. Firstly, the fact that the two partners share the value of the commission fees from which they are exempted increases the price paid to member farmers of the cooperative. In addition, Migros pays a premium for homogeneous and high quality fresh produce. Indeed, the free choice system that benefits the Turkish consumers in supermarkets calls for homogeneous produce so as to avoid losses and wastage of unsold goods. The manager of the Migros-Bursa Unit claims that he is “not rich enough to buy bad quality products!” Finally, as there is no exclusivity clause concerning both parties and no specific assets engaged by the cooperative, the Migros-Bursa Unit is obliged to offer better prices in order to keep a continuous relationship with the farmer members of the cooperative.
6  Spillover effects of the relationship between the Migros-Bursa Unit and the Narlõdere Village Development Cooperative

6.1 Changes in the cooperative’s organisation induced by the contractual arrangement with ‘Migros’: towards a better coordination of activities

6.1.1 Activities of the Narlõdere Village Development Cooperative
Collective marketing and endorsing post-harvest activities brought along organizational changes within the structure of the cooperative.

1. Firstly, farmer members are informed about the procurement planning of ‘Migros’ at the beginning of the production cycle. Of course, final decisions depend on the approval of the farmer members, but advice from ‘Migros’ is rather welcome because of the guarantees that they bring about concerning the outlets and price levels of the marketed produce.

2. The cooperative ceased to furnish modern inputs on credit to its members because of the important refunding problems that these advances raised. However, the cooperative continued to advance money on credit to its members in need of cash. This entailed a written agreement by the borrower, but there is no interest payable by him/her. In fact, only the few producers who have cash flow problems have recourse to this kind of service (approximately 15 to 20 members). Producers pay back in kind according to a fixed payment plan.

3. Producers bring their fresh produce to the warehouse immediately after harvest time. Vegetables are shipped on a daily base because of their highly perishable nature, while fruits can be stored in the cooling room (for a low rent) by the growers before being sold to the cooperative. This rent, which amounts to about 4,000 YTL per year, is registered as a part of the total income of the cooperative.

4. For the moment, it is still ‘Migros’ that organizes the sorting and packing activities and pays the producers for these services. It also takes responsibility for the transportation costs from the warehouse to its own national depot. With regard to other customers of the cooperative, the cooperative transports the sold produce in its own van for prices that have been negotiated at a higher rate.

6.1.2 Internal functioning and arrangements with members
According to the cooperative’s rules, there is no exclusive contract between the farmer members and the cooperative. Thus, each member is free to sell his/her produce where he/she wants and the cooperative has no obligation to buy the produce of its members.
The cooperative accepts only those deliveries which meet a certain quality and does not base its procurements on a price range. Furthermore, it sometimes happens that the cooperative buys produce from non-member producers. In general, the cooperative prioritises its members but nobody protests if the cooperative prefers to buy from non-member producers because the farmer members know that the benefit to the cooperative will return to them thereafter.

In the same way, members are not obliged to sell their produce exclusively to the cooperative. Therefore, the cooperative must create additional incentives to secure its sourcing, for example by paying higher prices, or by advancing money on credit, or by renting its cooling room. With regard to vegetable marketing, producers are quickly attracted by the higher prices offered by middlemen or wholesalers. Nonetheless, a long-term relationship with the cooperative offers a greater guarantee to the producers of the village. Currently, 70 percent of the total production of farmer members is shipped through the cooperative.

Finally, since the village platform has been built, the cooperative scarcely uses its office in the wholesale market hall anymore, even though all the transactions are carried out within this hall.

6.1.3 The cooperative’s earnings
The cooperative takes a commission fee of three percent of the total sales in order to cover different running costs and wages. The profits of the cooperative are solely based on this gain. 15 to 20 percent of this profit comprises the social capital of the cooperative. According to a decision of the annual general assembly this profit has not yet been distributed. Earnings are distributed among the farmer members only according to their deliveries to the cooperative.

6.2 Arrival of new rules
Changes in the cooperative’s organization have been accompanied by some modifications in the cooperative’s rules.

6.2.1 Closed membership
In 1995, the cooperative opened its ownership to "Member Non-Users", who must be inhabitants of the village. There are seven of these member non-users, who are civil servants or work in non-agricultural sectors. They have a share in the cooperative’s capital, which allows them to take part in the cooperative’s decisions. However, they cannot currently benefit from any financial profit-sharing. Member non-users are involved in the growth of the cooperative and therefore in the development of their village.
Beyond these few member non-users, the farmer members have quite homogeneous production patterns, a characteristic that is largely maintained by the Board of Directors of the cooperative. This is the main reason that the cooperative functions with a closed membership. In this manner it protects its current members and can keep a collective cohesion within the cooperative structure.

6.2.2 Exclusion of a member
Among new operation rules, it was established that any member who refused to contribute financially to any new project proposed by the cooperative Board of Directors and voted for in one of the annual general assemblies, could be excluded from the cooperative and be replaced by a new member. For example, some producers had to leave the cooperative before the construction of the warehouse because they refused to contribute financially towards this project. The cooperative manager believes that they were afraid of making too high an investment.

Thanks to member homogeneity, this kind of situation is not common in the cooperative. Moreover, there is little difference in interest between young and old producers in terms of investments, because there is a smooth transition of the farm from the elder to the younger.

6.3 Figures and facts: the cooperative’s current agreements
The cooperative’s total sales are approximately 6.5 million YTL per year. It has been working with ‘Migros’ for ten years now, and sells ⅔ of its produce (4.5 million YTL) to ‘Migros’, which represents 60-70 percent of its total sales in volume. It has also been selling its produce to ‘Özdilek’, a regional supermarket chain, for the past four years and to ‘Metro’, the cash and carry leader, for the past two years. In addition, it works with wholesalers, in particular those from the Antalya Province, who purchase produce for export as well as for mini-markets.

Thus far the cooperative has prioritised ‘Migros’ over its other customers, as it has been a partner with ‘Migros’ for a long time. Even in the absence of a written contract, the cooperative has maintained a loyal relationship with ‘Migros’ over the years.

6.4 The cooperative’s projects
Currently, the cooperative is trying to establish its own peach export supply to Russia and it plans to found its own supermarket in the city of Bursa. For the past two years, the cooperative has been part of a new regional union of cooperatives. This covers 32 cooperatives that operate in a large range of agricultural activities. Some of them have petrol stations, others have mini-markets that they run as a service for their farmer members. Certain of these occupy offices in the Bursa Wholesale
Market Hall. The Narlõdere Village Development Cooperative is the only one that acts as direct supplier to Migros though some others supply fresh produce to ‘Metro’ or ‘Özdilek’. This union but some of the others work also with METRO and OZDILEK. This regional union of cooperatives is still young and is still gradually developing its direct trade with buyers.
7 Scope and advantages of the win-win relationship

7.1 Advantages for small-scale producers of Narlødere village

This continuous relationship with ‘Migros’ is a considerable source of income for villagers, who state that their incomes have increased by 30 percent since the beginning of this direct marketing pattern. For some of the villagers, it means a return to employment. It is also important to note that in Turkey, subsistence agriculture is considered as an unemployment buffer. Furthermore, this relationship enhances village development as in this past decade villagers have constructed a new school, a mosque, a petrol-oil station for farmers, a mini-market, and a warehouse.

Beyond this income increase and the improvement in village life, the partnership with ‘Migros’ also brought with it technical assistance, particularly for the improvement of tomato production techniques, as well as for the development of the cultivation of some varieties of cabbage. It has become common for farmers ask to the Migros-Bursa Unit for technical advice.

7.2 Advantages for ‘Migros’

Thirty-five percent of the FFV procurement of the Migros-Bursa Unit is supplied by two or three cooperatives. However, it is only with Narlødere Village Development Cooperative that the relationship is really formalized. Other cooperatives are smaller in size (with approximately 50 farmer members) and bring their produce to the depot at Narlødere.

According to the manager of the Migros-Bursa Unit, there are great advantages to working with the cooperatives of the region:

- It has only to deal with one supplier in terms of negotiating – especially important in the context of small-scale farming.
- It gets regular deliveries of produce of sufficient volume and homogeneous quality.
- It has one fixed place for deliveries as other cooperatives deliver their produce to the Narlødere platform.
Nonetheless, the other 65 percent of its procurement comes from wholesalers, other tradesmen, or private companies. The main reasons for this are noted below.

- Cooperatives cannot supply the necessary volume to meet the entire sourcing needs of the Migros-Bursa Unit, because the numbers of farmer members of the cooperatives are not sufficient and/or they do not have appropriate agronomic conditions to realise considerable yield increases.

- Only a few private companies have conditioning material sophisticated enough for processed food and for packaging. The Migros-Bursa Unit would like its partner cooperatives to integrate these conditioning activities into their own activities during the next two or three years.
8 Lessons from the case study

The Narlòdere Village Development Cooperative gains a number of different advantages which have led to its success:

1. First, it offers a good territorial anchoring case, as Turkey’s first producers’ union (dating from 1967). In 1995, when there was an important institutional change, it already had around 100 farmer members with a potential to supply homogeneous quality and volumes of FFV.

2. The cooperative displays a financial independency. Transactions with supermarkets induce long terms of repayment, which are generally made around 45 days after delivery; this delay often represents the most important constraint to the inclusion of small-scale landholders in the supply chain of large retailers. Producers of Narlòdere Village Development Cooperative seem able to bypass this cash constraint thanks to their diversified production pattern, which helps them to expand and increase their sources and level of income. Furthermore, fruit production is also a high value-creating activity, and the village has considerable comparable advantages in Bursa Province concerning fruit production. Cash availability therefore permits the cooperative to deal with supermarkets that never offer advance payments to producers.

3. Today, the cooperative tries to preserve its financial independency by deducting three percent of commission on the volumes of the fresh produce marketed by its members, in order to have the funding necessary for its own functioning. It must be remarked that this ratio is much less than the fees charged by wholesale markets.

4. Market demand adjustment: the cooperative generates income and gains profits by renting its cold storage capacity to its members, as well as to other non-member farmers or and to other cooperatives. This cold storage facility also allows the cooperative to satisfy the requirements of the supermarket chain (i.e., procurement regularity, ability to supply minimum volumes required, homogeneity in quality of the shipped produce, and meeting terms of payments). Simultaneously, it wins a certain bargaining power with supermarkets. “Since government credits for such investments have been severely cut, the Cooperative’s collaboration with Migros in the last ten years is a priceless advantage with regard to obtaining such investments” says the accounting agent of the Narlòdere Village Development Cooperative.
5. Organisational adjustment: in order to protect its current members and prevent discrepancies in their benefits, the cooperative established new rules such as closed membership or exclusion of members who do not invest in collective projects.

6. Finally, this is a real supermarket/cooperative collaboration that has emerged thanks to the advanced organization and permanent adaptability of the cooperative to the specific demands of the Migros-Bursa Unit.
9 Discussion and conclusion

Given the difficulties faced by producers in organizing themselves, the few examples of direct relationships between supermarkets and producers’ unions that can be observed are those largely implemented and promoted by supermarkets. ‘Migros’ invests in capacity-building in its local staff and production management by working within the cooperatives, thus going far beyond the mere incentives contained within formal contracts.

It can be assumed that, as these kinds of investments are quite costly for private players who might try to address the gap created by public intervention failures, only a few supermarkets involved in the FFV business will take these kinds of initiatives. In fact, ‘Migros’ could undertake this kind of direct sourcing because of its historical background and its anchoring within the Turkish agrifood chain. For example, the manager of the Antalya procurement unit of ‘Metro’ told us that it was much more difficult for them to reach such agreements with producers’ cooperatives or unions.

Furthermore, ‘Migros’ wanted to extend this kind of arrangement between its supplying units and producers’ unions in different production areas all over Turkey. However, it is clear that the number of dynamic and proactive cooperatives is very small. In the case of Narlıdere, the personal involvement of the manager of the Migros-Bursa Unit was the most important driver for the achievement of the agreement with this particular producers’ union.

However, this type of case remains rare in Turkey in terms of village development cooperatives. It is not certain that the replication of this kind of win-win relationship can be carried out rapidly and extensively in the near future. Also there are a number of questions that arise:

• Will small farmers lose out by dealing directly with large retailers once they get organised within producers’ unions, because they will gradually become responsible for most (or all) the post-harvest activities?

• Can the organization of smallholdings into producers’ unions result in the investments necessary for the implementation of post-harvest activities (grading, sorting, and transportation)? Can these investments bring about a competitive advantage over other players in the sector?

• Can these producers’ unions accrue the necessary financial strength to counteract the long delays in payment that the supermarkets impose?

According to the recent law promulgated in 2004, agricultural credit cooperatives appear as entrants to develop direct linkages between small producers and supermarket
chains; indeed, according to this new legislation, agricultural credit cooperatives
gain the right to market the produce of their farmer members. Administered for a long
time by the state, agricultural credit cooperatives can bypass a number of
organizational problems because of the inclusion of an agricultural engineer in the
structure of each cooperative. They are also able to circumvent problems related to
advance payments because of their capacity to obtain cash credits from banks. By 2005
almost 300 credit cooperatives were already certified as “Producers’ Unions” in this
way, able to market their products outside wholesale markets, even if only a few of
them had actually started to do so.

In this paper, we observed how Turkish public intervention has an impact on
cooperative strategies and, therefore, supports inclusion of small farmers into the
growing modern market.

However the difficulties identified in extending this innovative arrangement
between cooperatives and supermarkets highlight the various constraints currently
limiting practical inclusion of cooperatives in Turkey into this market at present.
10 References


Kobifinans (2005).


Regoverning Markets

Regoverning Markets is a multi-partner collaborative research programme analysing the growing concentration in the processing and retail sectors of national and regional agrifood systems and its impacts on rural livelihoods and communities in middle- and low-income countries. The aim of the programme is to provide strategic advice and guidance to the public sector, agrifood chain actors, civil society organizations and development agencies on approaches that can anticipate and manage the impacts of the dynamic changes in local and regional markets. The programme is funded by the UK Department for International Development (DFID), the International Development Research Centre (IDRC), ICCO, Cordaid, the Canadian International Development Agency (CIDA), and the US Agency for International Development (USAID).

Innovative Practice

Innovative Practice is a series of case studies from the Regoverning Markets programme providing examples of specific innovation in connecting small-scale producers with dynamic markets at local or regional level. Based on significant fieldwork activities, the studies focus on four drivers of innovation: public policy principles, private business models, collective action strategies by small-scale farmers, and intervention strategies and methods of development agencies. The studies highlight policy lessons and suggest working methods to guide public and private actors.

The case studies were coordinated by:
Julio Berdegué, RIMISP - Latin American Centre for Rural Development, Chile
Lucian Peppelenbos, Royal Tropical Institute (KIT), Netherlands
Estelle Biénabe, University of Pretoria, South Africa and Centre de Coopération Internationale en Recherche Agronomique pour le Développement (CIRAD), France

www.regoverningmarkets.org