Promoting Cooperative-to-cooperative trade for sustainable development

WTO 5th Global Review of Aid for Trade

1 July 2015

Dalberg

Intra-cooperative trade (focusing on agricultural products) represents ~$10bn, and could rise by $10-15bn

- **We have focused on agricultural trade between cooperatives, as a promising starting point to drive greater intra-coop trade**

- **Value of agricultural production by cooperatives was ~$600bn in 2012; retailer and wholesale cooperatives sold ~$560bn in the same year, representing $100-130bn in agricultural procurement at farmgate prices**

- **However, intra-coop trade was ~$10bn in the same year; and was mostly made up of competitively priced, fresh, low value-add goods traded nationally and intra-regionally**

- **Targeted efforts could substantially increase trade flows, both between cooperatives, and from cooperatives to the rest of the world – raising intra-cooperative trade by $10-15bn could be achievable**
  - Specific growth opportunities appear to lie in fresh food purchases by developed markets; Europe and Asia are particularly attractive regions, housing the largest coop retailers and the most intensive intraregional agricultural trade

Intra-cooperative trade (focusing on agricultural products) represents ~$10bn, and could rise by $10-15bn

- **Producer cooperatives will have to prove that they can be reliable, competitive, and high-quality trade partners in order to grow**
  - Few consumer cooperatives interviewed indicated an explicit commitment to sourcing from cooperatives; increasing trade volumes will require that there is a clear value proposition for them in seeking out cooperative suppliers
  - Consumers that are willing and able to pay a premium for cooperative-produced goods is relatively small; therefore cooperatives must ‘at least’ be competitive with non-cooperative producers – e.g. the Cooperative Group in UK has ~$10bn sales, Fairtrade grocery sales across total UK are <$0.5bn

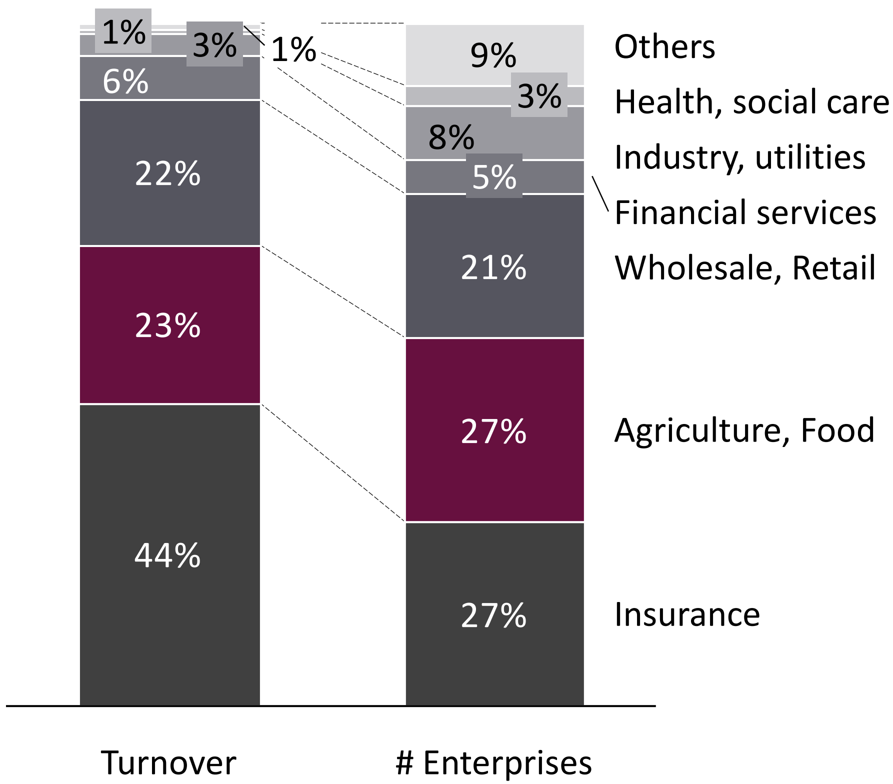
- **This will require overcoming multiple impediments throughout the value chain identified by interviewees; many of these barriers are rooted in capacity gaps of producer cooperatives**
  - Constraints on trade include cooperative suppliers’ often uncompetitive pricing in an international context, understanding of market demands, lack of processing capacity, pace of decision making, and difficulties in managing shipping and logistics

Current State of Coop-to-Coop Trade

We focused on agriculture and food-centric cooperative trade, which in principle represents a good starting point to drive up coop-to-coop trade

Cooperatives by Activity

%, Based on 300 largest cooperatives, 2012



Agriculture represents one of the largest areas of activity for cooperatives by turnover

Nature of trade in agricultural goods makes it a relatively good starting point to drive up intra-coop trade:

- Trade regulations tend to be less restrictive on agriculture than other sectors involving cooperatives, e.g. insurance, banking
- Goods, unlike many services, are mobile across borders
- Agricultural commodities (and to a lesser extent processed agricultural goods) are not subject to significant variation in specifications by market

SOURCE: World Cooperative Monitor, 2014; Dalberg analysis

Retail and wholesale cooperatives represent a small share of global retail, but are still a material opportunity for producer cooperatives

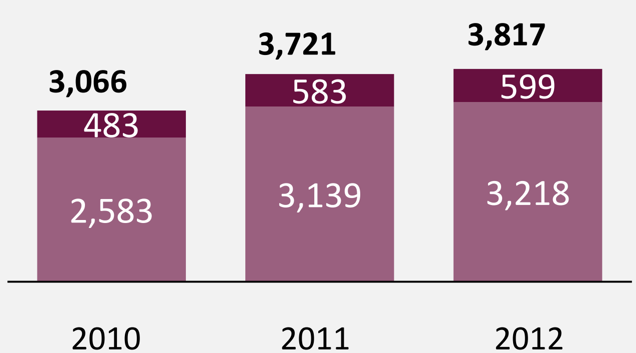
Cooperative-produced agricultural products represent a sizeable opportunity…

…but with the share of coops in global retail shrinking, producers are likely to pursue a diversified client base

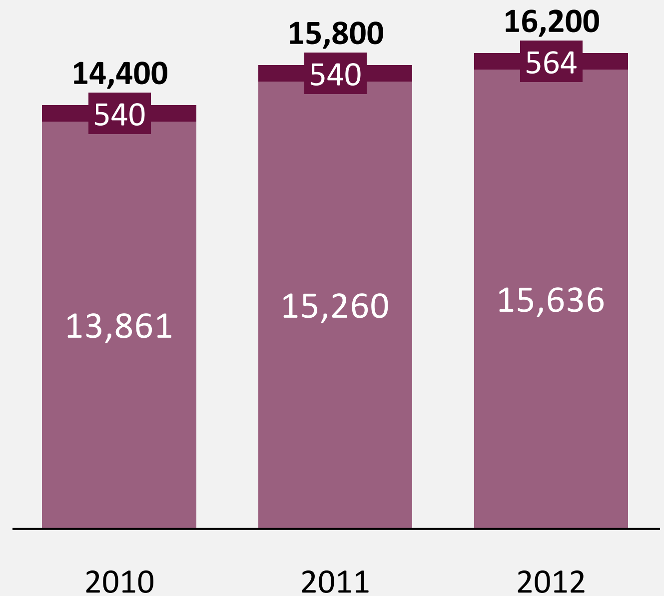
Cooperative enterprises[1]

Other enterprises

Global agricultural turnover
US$ billions



Global retail and wholesale turnover
US$ billions



Global cooperative turnover
Proportion of total industry turnover

	2010	2011	2012
Global agricultural turnover	16%	16%	16%
Global retail and wholesale turnover	4%	3%	3%

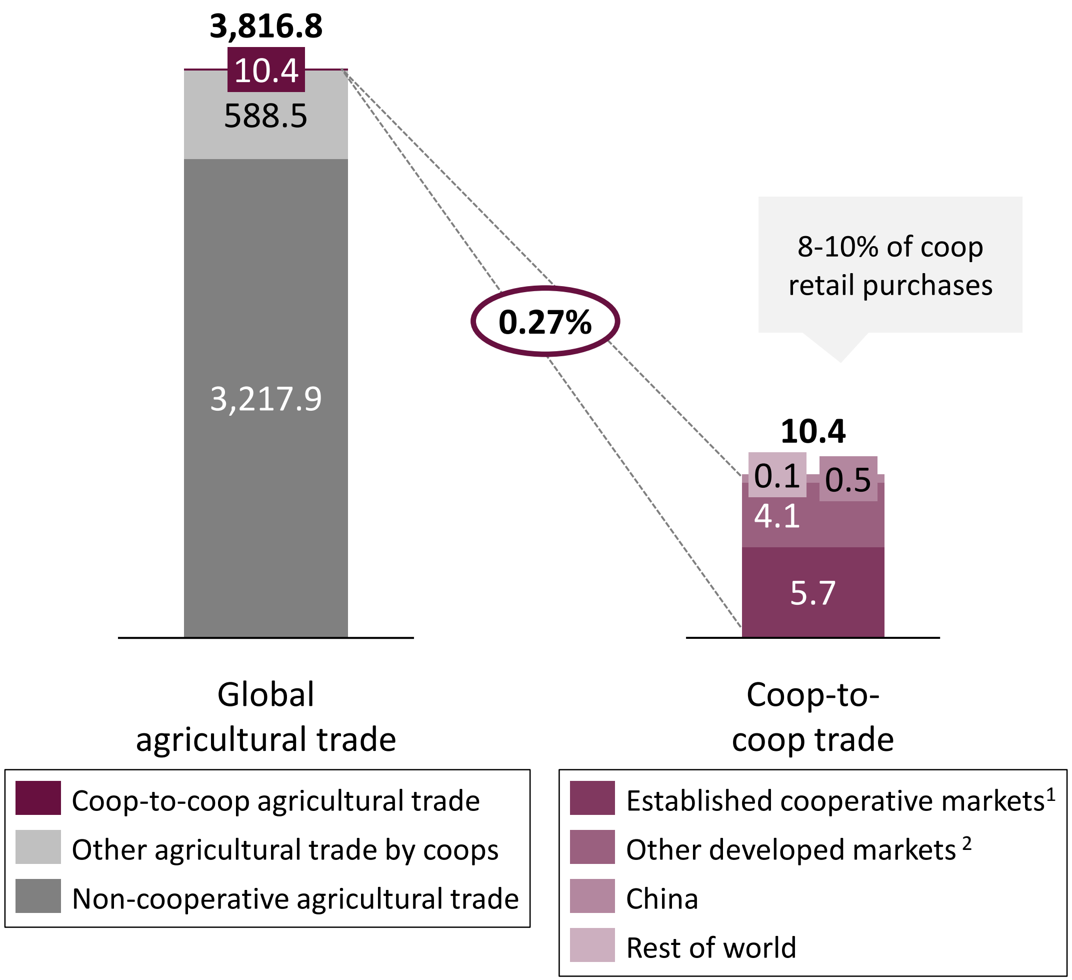
1 Data on total cooperative turnover is taken from the World Cooperative Monitor 2014, a survey of 1,926 cooperatives, and is likely to understate total turnover

2 Average turnover of Top 300 largest cooperatives by revenue according to ICA World Cooperative Monitor 2014; likely to understate average turnover

SOURCE: FAOStat; Economist Intelligence Unit; ICA, World Cooperative Monitor 2014

We estimate that trade in agricultural goods between cooperatives is roughly $10 billion a year; this represents less than 1% of global agricultural trade

Estimated value of agricultural trade, 2012-13
US$ billion



- Based on interview feedback, turnover data, and a set of underlying assumptions, Dalberg has estimated value of coop-to-coop trade in 2013 was approximately **$10 billion**
- This level of trade between cooperatives would account for **one quarter of one percent** of global agricultural trade.
- However, cooperatives trading with other kinds of enterprises are well represented in global agricultural trade with a **15% share of the total**

There is an opportunity to grow both of these shares

1 Italy, Japan, Spain, United Kingdom, United States; 2 Estimate assumptions are available in Annex 2

SOURCES: Dalberg analysis, interviews, National Retail Federation, JCCU profiles on Asia-Pacific cooperative sectors, Fairtrade International, Consumer cooperatives' annual reports

At present, low value-add goods, a focus on intraregional trade, and a search for competitive pricing are the norm in cooperative trade

Products	• **For fresh food**, **local cooperatives tend to be default suppliers,** accounting for ~30% to ~50% of food retail purchases in major markets • There are few cooperative suppliers of high-quality processed food or non-food items
Stage of value chain	• Cooperatives supply predominantly **commodities or products that have undergone very basic processing** (e.g. seaweed, green coffee) • There are few coop-owned intermediaries, so non-cooperative intermediaries, such as processors, capture a large portion of the value in agricultural supply chains
Geography	• Most **imports are intraregional**, due to: – Similar tastes among consumers – Lower shipping costs – Ease of compliance with local business practices and regulations • Consumer cooperatives are **increasingly looking to source goods from abroad** as price competition intensifies (e.g. Italy, Israel)
Consumer tastes	• Currently consumer demand for cooperative produce is driven by sophisticated consumers demanding high quality produce • There is **low awareness and appreciation for cooperative-produced goods**, but higher appreciation of the cooperative retail model, driven by this model's ability to provide good value for money

SOURCE: Dalberg interviews

Most retail cooperatives do not have explicit policies targeting cooperatives as suppliers – therefore suppliers need to be competitive

- Most retail cooperatives do not have explicit procurement policies targeting coop suppliers
- Some producers favour cooperatives when choosing between otherwise equivalent suppliers, **but only when other prerequisites are met**
  - **Quality must be comparable** to leading brands and consistent order-to-order
  - Suppliers must be able to **regularly supply minimum quantities** that meet sourcing and shipping needs, e.g. a container full
  - **Price point must be competitive**, especially as there is no explicit end-consumer demand for coop-sourced goods*
  - Supplies must be able to **comply with at least basic labour, social, and environmental standards**

(*) That would allow retailers to charge a premium for coop products.

SOURCE: Dalberg interviews

There are multiple barriers that inhibit coop-to-coop trade

Barriers to cooperative-to-cooperative trade by value chain stage

Production, harvesting and aggregation	Sorting, processing and merchandising	Trade and wholesale distribution	Retail and consumption
• Insufficient quantity / unreliable supply • Limited access to information on consumer preferences and market needs • Small scale production makes it difficult to offer competitive pricing	• Inadequate/inconsistent product quality • Inability to comply with safety regulations and social standards • Lack of marketing capacity	• Inability to navigate trade regulations • Complex and inefficient decision making • Difficulty organizing logistical services, e.g. packing, shipping	• Retailers lack resources to build relationships with coop suppliers • Retailers not always aware that a supplier is a coop/sources from coops • Low consumer awareness or willingness to pay for coop-sourced products

Cross-cutting issues

- Managerial capacity
- Capital constraints
- Variable contract enforcement

Most of these barriers affect coop producers, making it difficult for them to trade not just with other cooperatives, but with many (international) buyers

Some comments from interviews…

Production, harvesting and aggregation

Product quality

"When producer organizations are starting, they lack an understanding of market requirements and may not have capacity to separate the qualities appropriately." ***Facilitating platform***

Understanding of market demands

"Getting it right is working out the product they have that has value in a global economy – which is not the things that they are counselled on with most technical assistance. [One success story] didn't worry about policy or supply chain, just producing great coffee." ***Facilitating platform***

Sorting, processing and merchandising

Limited managerial capacity

"We build up management functions and improve cooperatives' ability to work with other entities through marketing, merchandising, advice on packaging etc." ***Facilitating platform***

Regulatory compliance

"We source very little from cooperatives. They are not competitive on pricing, and they cannot comply with safety regulations and social standards." ***Consumer cooperative***

There can be quality problems with regulatory requirements, packaging, and shipping." ***Consumer cooperative***

Trade and wholesale distribution

Logistics management

"Projects had problems with brokers in markets where they weren't present." ***Regional cooperative organization***

Lack of intermediation skills

"The problem is all of the logistics, whether figuring out how to get a container or find a distributor. Producers don't have the time or money for these, so they need somebody in an intermediary role." ***Facilitating platform***

"The challenges [a product-specific organization] faces would be compounded if you had direct trade. At the moment there are intermediaries carrying the can." ***Facilitating platform***

Retail and consumption

Low commitment from consumer cooperatives

"We just have 2-3 cooperative companies as suppliers but we source on the market so there is no preference for cooperatives." ***Consumer cooperative***

Low demand from end consumer

"I'm not sure in most cases that the consumer really cares, in the same way that I or the manager of a store might." ***Consumer cooperative organization***

"Evidence suggests that very few people will pay." ***Facilitating platform***

A number of initiatives are focused on helping cooperatives overcome these barriers to trade; most focus on connecting cooperatives to markets

Existing initiatives by stage of value chain targeted ordered by estimated current size

Production, harvesting and aggregation | Sorting, processing and merchandising | Trade and wholesale distribution | Retail and consumption

GoCoop (India)

ITC Made in Africa platforms (Africa)

Sanchoku (Japan)

Fairtrade Sourcing Program (Global)

Equal Exchange (Global)

Cooperativas sin fronteras (LatAm, Canada, Europe)

Traidcraft (Global)

P6 (US)

Co-op Link (Global)

PAFEXE (Africa)

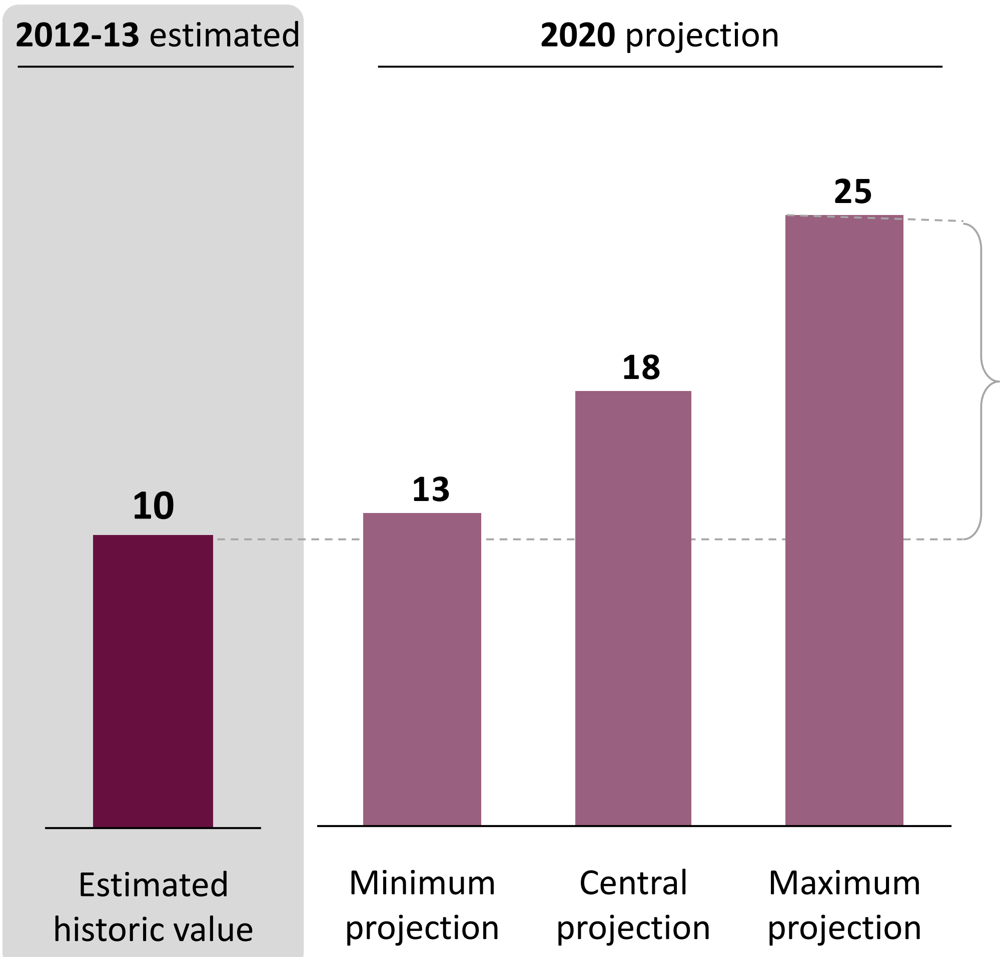
Interviews and desk research reveal interesting lessons learned from some of these platforms; these are discussed on the following slides

SOURCE: Interviews and program websites

Opportunities to Grow Coop-to-Coop Trade

There could be opportunities to more than double coop-to-coop trade by 2020

Estimated value of cooperative produce traded with consumer and retail cooperatives US$ billion



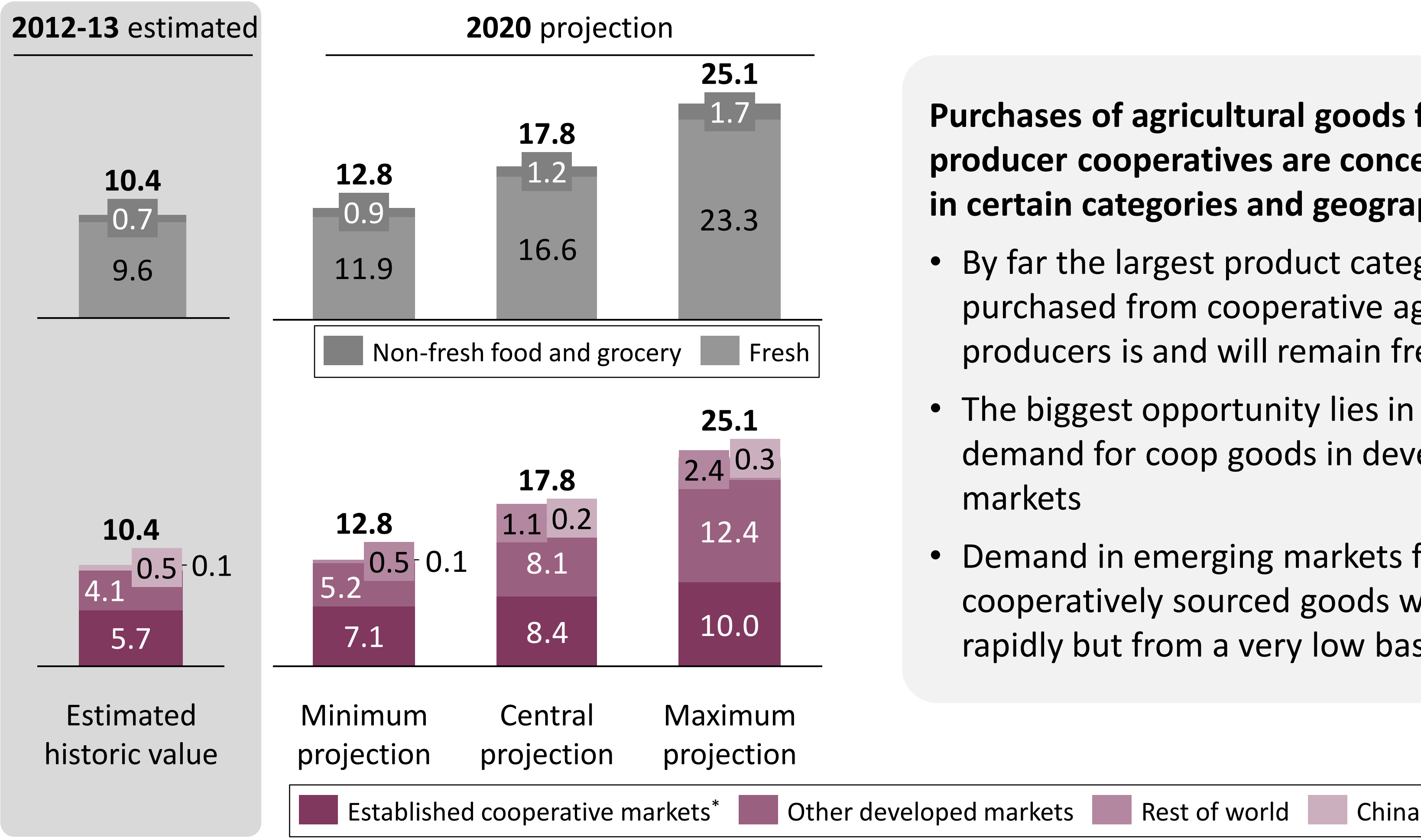
Dalberg estimates suggest that the value of cooperative goods purchased by food retail cooperatives could rise significantly

- Minimum projection estimates a $2.4 billion increase in the value of annual coop-to-coop trade by 2020
- Maximum projection is for trade to more than double, increasing by $14.7 billion
  - This projection applies historic Fairtrade growth rates, so attaining it would require a concerted effort to promote coop-to-coop trade

SOURCES: Dalberg analysis, based on interviews, National Retail Federation, JCCU profiles on Asia-Pacific cooperative sectors, Fairtrade International, Consumer cooperatives' annual reports

Much of this growth opportunity is in fresh food purchases from developed markets

Estimated value of cooperative produce traded with consumer and retail cooperatives US$ billion



Purchases of agricultural goods from producer cooperatives are concentrated in certain categories and geographies

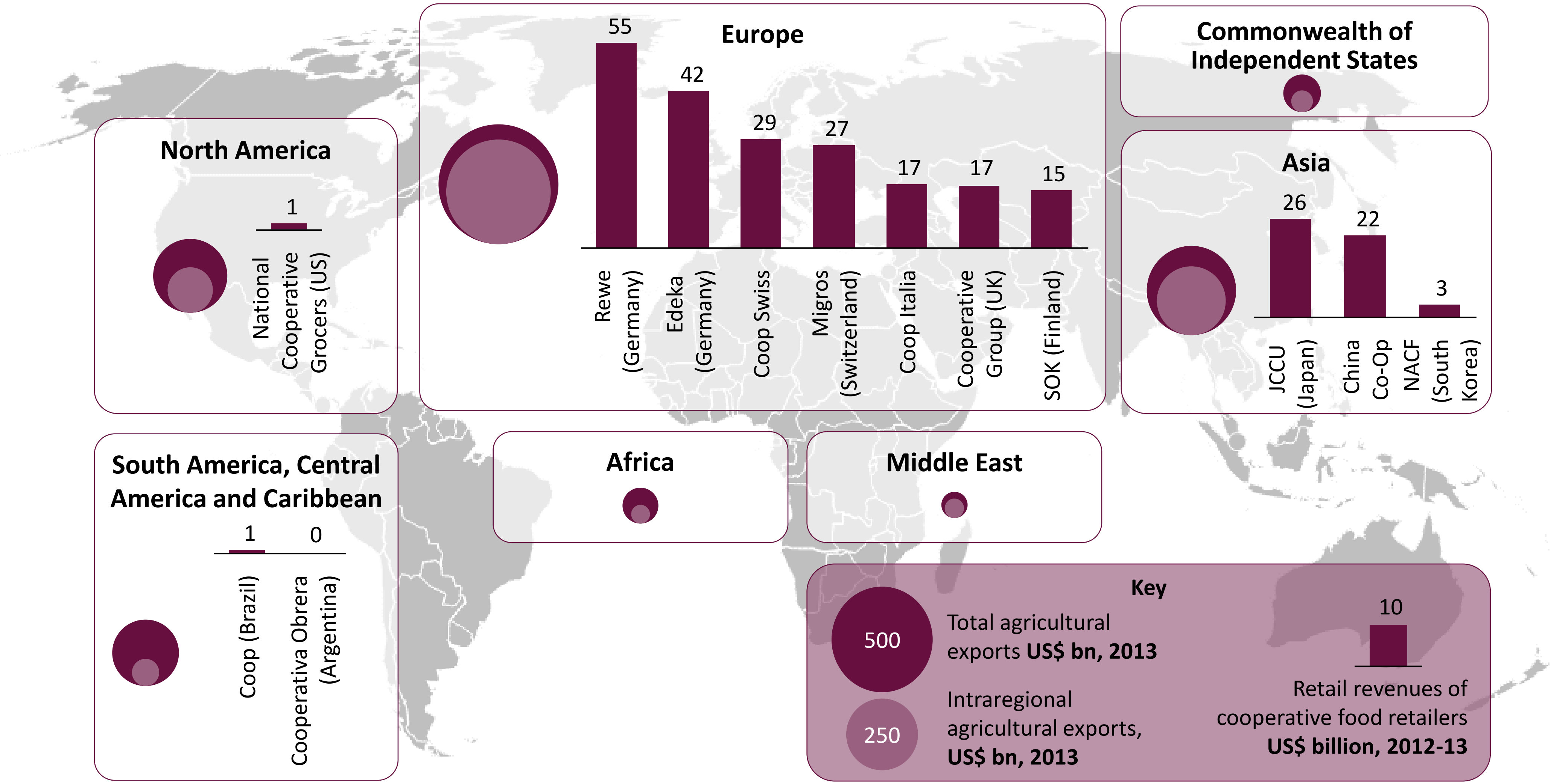
- By far the largest product category purchased from cooperative agricultural producers is and will remain fresh food
- The biggest opportunity lies in increasing demand for coop goods in developed markets
- Demand in emerging markets for cooperatively sourced goods will grow rapidly but from a very low base

(*) Italy, Japan, Spain, United Kingdom, United States

SOURCES: Dalberg analysis, based on interviews, National Retail Federation, JCCU profiles on Asia-Pacific cooperative sectors, Fairtrade International, Consumer cooperatives' annual reports

Specific regional prospects may lie in Europe and Asia, which house the largest coop retailers and the most intensive intraregional agricultural trade

Agricultural exports and largest cooperative retailers by region



Note: Includes only consumer cooperatives, and not retailer cooperatives e.g. Distribueurs E.Leclerc

SOURCE: World Trade Organization data; National Retail Federation; ICA World Cooperative Monitor

While opportunity is apparent, cooperatives will have to prove their value as trading partners in order to grow

Some small, mission-oriented cooperatives are committed to cooperative sourcing…

"We believe strongly that if we want to have impact in development we need to work with cooperatives."
Niche consumer cooperative

"There is a tremendous gap in the grocery department and non-perishable products… The sourcing of many of these goods is not fair. There's huge market potential within the consumer coops."
Facilitating platform

"We look for buyers that want to buy directly from producers and take an interest in the producers' wellbeing."
Facilitating platform

… although larger cooperatives tend to be more agnostic about cooperative trade…

"We have cooperative suppliers. We don't source from them because they are cooperatives but because of the products they can supply."
Consumer cooperative

"There isn't more trade between cooperatives because there's not a need or a want. … When we look for buyers, their status as coops is irrelevant." **Producer cooperative**

"We make our decisions on the product. Is there demand? What is the price? We do not prioritize at all whether the supplier is a cooperative or not." **Consumer cooperative**

…so producer cooperatives must be more competitive in order to access the full range of opportunities

"If two identical suppliers came to me, but one was a cooperative, I would source from the cooperative."
Consumer cooperative

"Price and quality [of the product] are the key criteria for choosing a supplier, but we also look at the quality of the supplier."
Consumer cooperative

"Buyers are looking for good quality products at fair prices. If they find a coop that can provide it, that can appeal to a sense of corporate responsibility." **Facilitating platform**

To increase coop-to-coop trade, it will be necessary not only to link producers and consumers but also to establish a clear value proposition for consumer cooperatives

SOURCE: Dalberg interviews

Serena Guarnaschelli
Global Head, Access to Finance
London
serena.guarnaschelli@dalberg.com

Aly-Khan Jamal
Global Head, Agriculture and Food Security
London
aly-khan.jamal@dalberg.com

Afua Sarkodie
Associate Partner
New York
afua.sarkodie@dalberg.com

Dalberg

ABU DHABI | COPENHAGEN | DAKAR | GENEVA | JOHANNESBURG | LAGOS | LONDON | MUMBAI
NAIROBI | NEW DELHI | NEW YORK | SAN FRANCISCO | SINGAPORE | WASHINGTON DC