



SUFISA

**Sustainable Finance for
Sustainable Agriculture**

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Brussels, May 6, 2019



“This project has received funding from the *European Union’s Horizon 2020 research and innovation programme* under grant agreement No 635577”.



H2020 Call Text

- Issue 1. Potential role of financial markets on commodity price formation and their potential benefits for farmers (including the conditions for access of farmers) for **risk management**?
- Issue 2. Conditions of farmers' **access to credit**, especially young farmers, in a context of economic uncertainty and increasing capital intensity of production
- Issue 3. Mapping the web of **policy requirements** applicable to farmers and developing tools to assess their implications on farming across the EU
- Issue 4. Approaches to better take account of the functioning of the **food supply chain** and solutions to address discrepancies



Rationale

- Identify practices and policies that overcome various market imperfections and generate sustainable financial conditions for primary producers
- Knowledge on the conditions of primary producers and the driving forces influencing these conditions is fragmented:
 - not all primary producers and regions are covered,
 - not all driving forces have been investigated,
 - cross-linkages between them have been insufficiently analysed,
 - future opportunities are not well integrated

Previous research

- FOODCOMM (2006-08): **Contractual choice** and **relational sustainability** need to be better understood to develop appropriate policy actions
- TRANSFOP (2011-13): Enhance **monitoring of structure and functioning** of the food supply chain particularly with regard to competition and regulation issues
- ULYSSES (2012-15): There is **no general approach** for managing and coping with excessive levels of price volatility, which is largely driven by **factor specific** for each market → policies to be fine-tuned to the market in question
- COMPETE (2012-15): Policy actors foster **competition in the buyers' market**, and promote formation of **producer organisations** to reduce fragmentation and increase bargaining power, 'cooperate to compete'. Eradicate inefficiencies can by better **price monitoring** and dissemination.

Previous research

- A lot of research effort on the role of **quality, geographical indications** and **short supply chains**
- Also a lot of effort on the role of **standards** and **FDI** on agricultural development in transition, emerging and developing economies...
- But much less attention on the role of **contracting** and **vertical coordination** in developed countries and particularly in the EU

Sister projects

- SURE-Farm (Miranda Meuwissen, WUR)



- Strenght2Food (Matthew Gorton, U Newcastle)



- Valumics (Sigurdur Bogason, U Iceland)



- Salsa (Teresa Pinto Correia, U Evora)

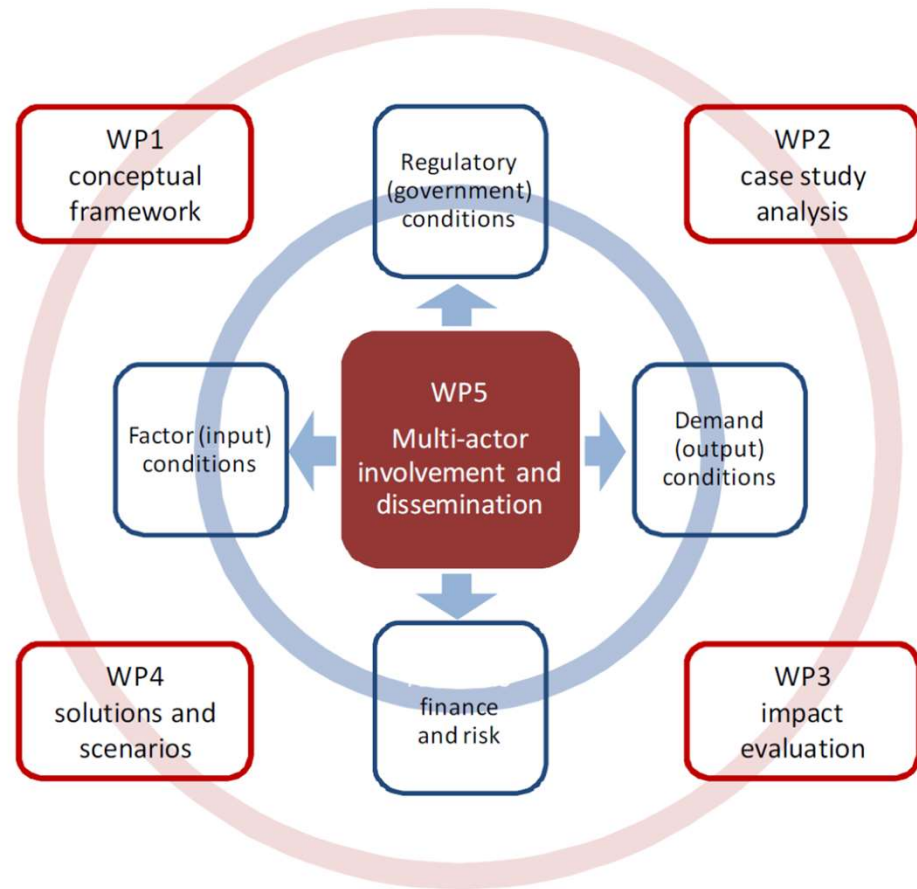


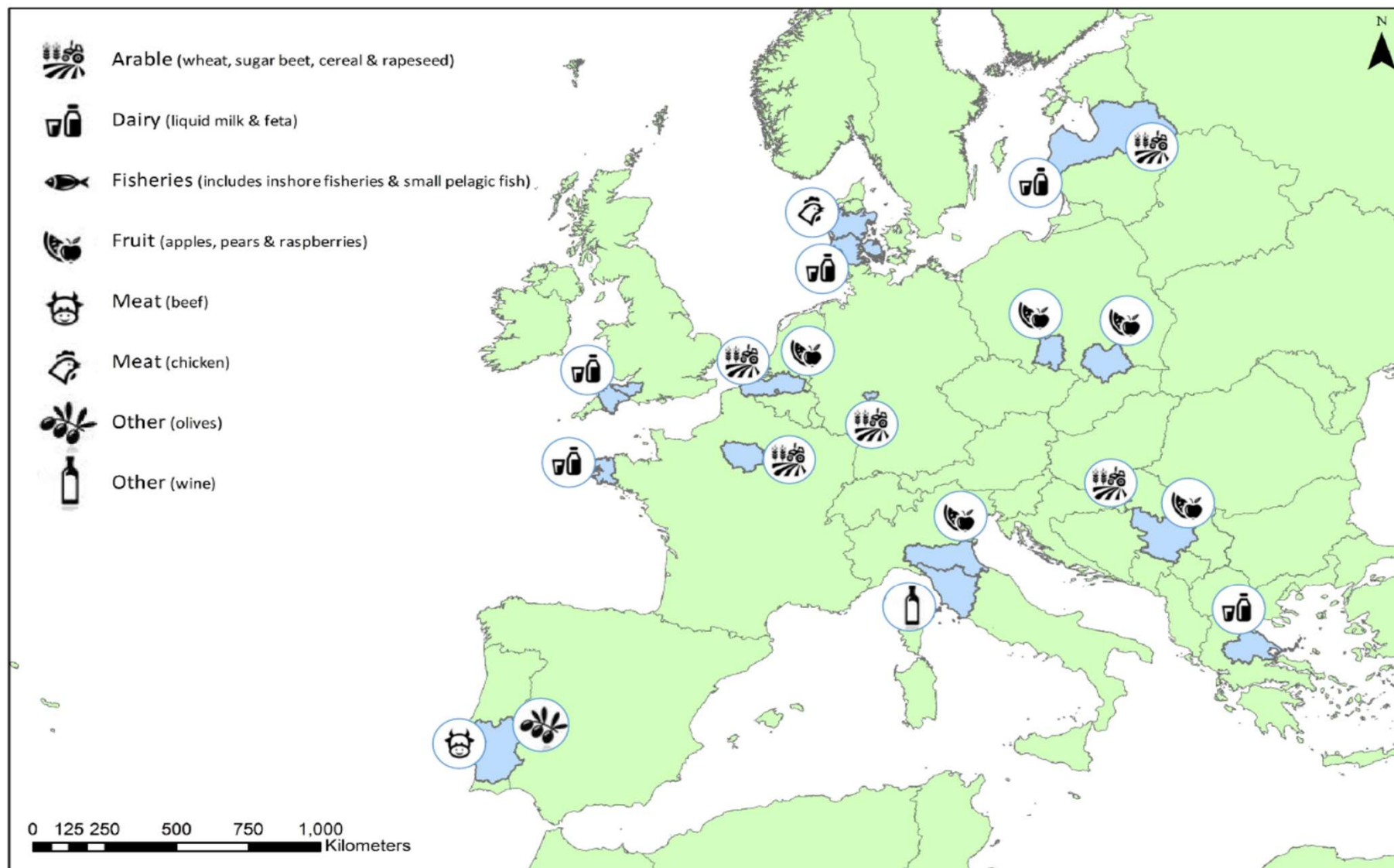
EU Policy response

- Regulating Unfair Trading Practices (UTP)
- Stimulating producer organisations
- Enhancing market transparency
- Promoting product differentiation (organic, geographical indications) and short supply chains
- Building capacity (Rural Development Programmes)
- Strengthening position farmer → specific objective of CAP post 2020 proposal

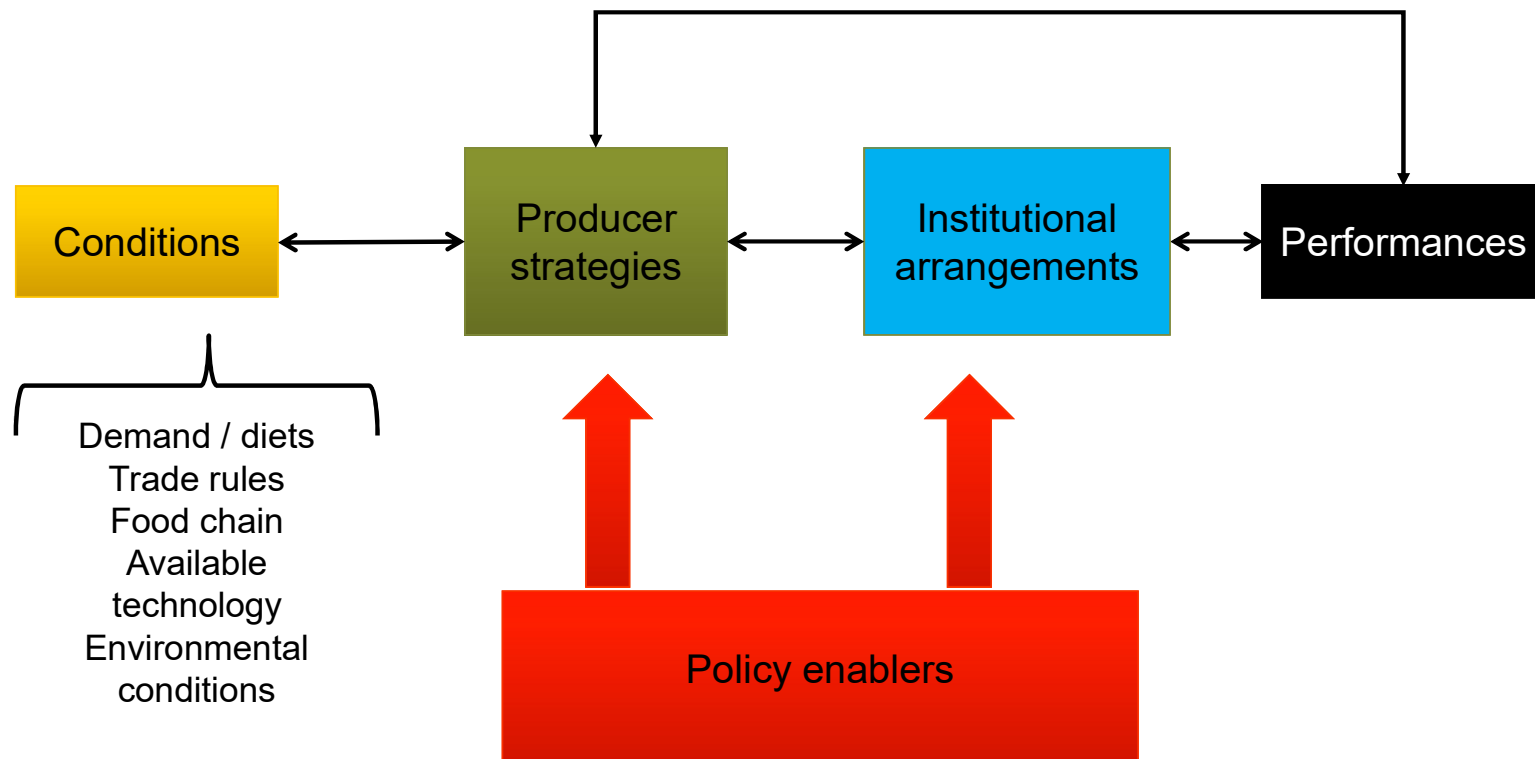
SUFISA objective

The aim of SUFISA is to **identify** sustainable **practices and policies** in the agricultural, fish and food sectors that support the sustainability of **primary producers** in a context of **multi-dimensional policy requirements, market imperfections** and **globalisation**





Conceptual model



Policy recommendation

1. Policies fostering horizontal cooperation (PO, BO, insurance) should take into account **heterogeneity** in farmers' needs and preferences
2. Policies should not crowd out alternative institutional arrangements

Follow-up questions:

- Do MS sufficiently take into account this heterogeneity in their analysis? Do MS have data on this heterogeneity?
- What is the nature of this heterogeneity?

Example

- FL(BE): minimum 40 to start up a PO (versus 5 in NL)
 - Implication: difficult for new POs to start (e.g., organic dairy farmers)
- Trade-offs for the policy maker:
 - Reduce risk of free rider behaviour
 - Reduce transaction costs and administrative burden

versus

 - Suboptimal arrangements leading to **less** innovation and **less** market orientation and reduced producer and consumer welfare

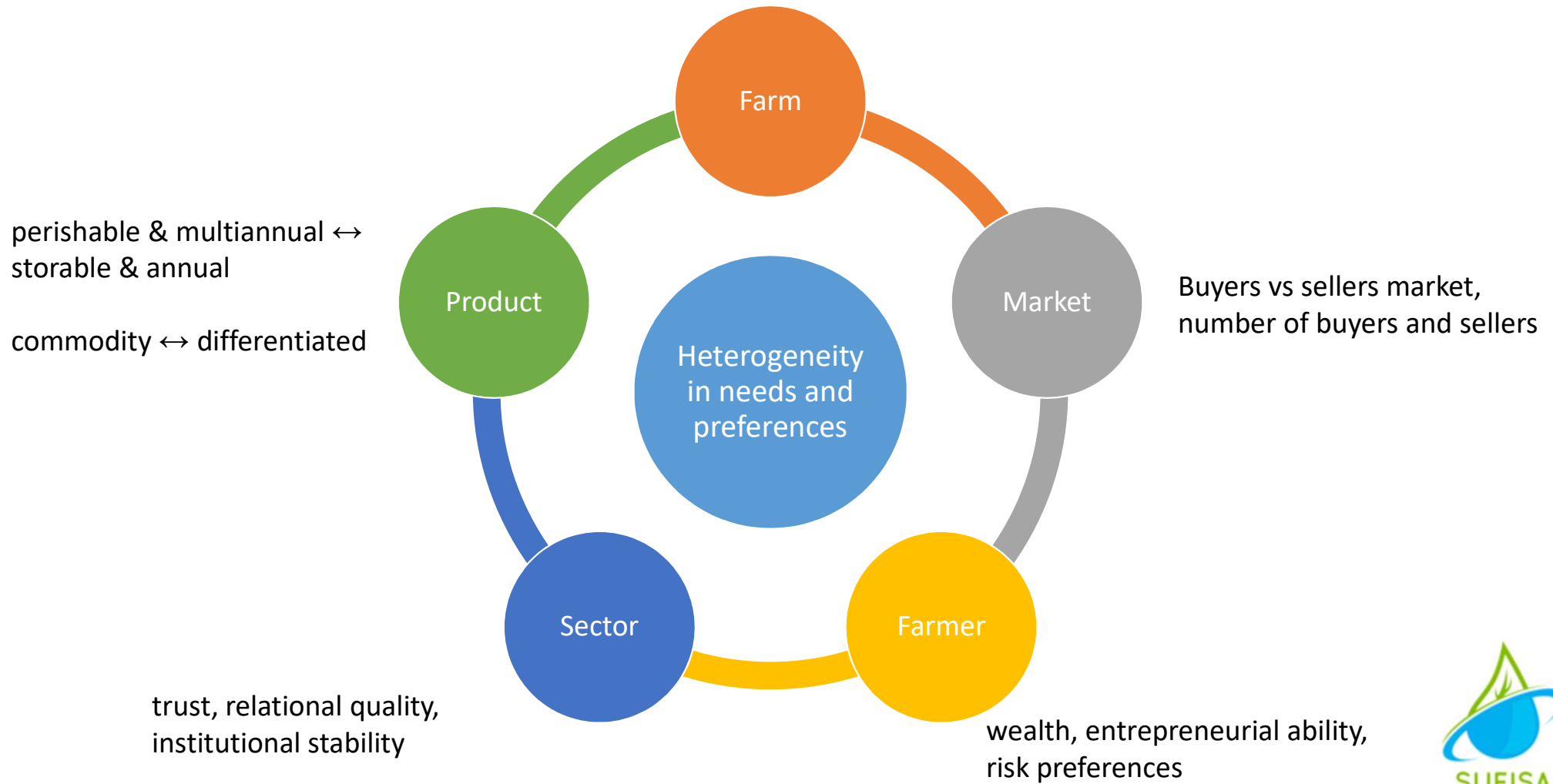
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- Asset specificity → lock in → less market power
- Preferred solution: stimulate collective action (PO)
 - Forward integration (processing)
 - To build up countervailing power
- Problem:
 - Dissatisfaction due to farmer heterogeneity
 - Inability to raise capital to invest
 - Double marginalisation → consumer welfare decreases
- Alternative mechanisms?

Alternative arrangements & mechanisms

- Shortening and stabilizing supply chains from retail perspective through long-term contracting (reduce transaction costs) – initiated by hard discount model
- Private price stabilization mechanisms: hedging, SWAP contracts
- A&B pricing
- Retail investment into processing and even farming
- Mechanism of reputation (Gow & Swinnen, 1998; Gow et al., 2001: case of sugar processor Juhocukor in Slovakia) to address unfair trading practices

specialisation ↑ (scope & sequence) + asset specificity ↑ + scale ↑



Market success increasingly depends on tighter vertical coordination

- **Market orientation:** knowing and responding to consumer demand
- **Competition between chains:** access to best produce, cost control
- **Product differentiation:** certification, traceability, private labels
- **Risk management:** secure sales, sharing market risks
- **Key factor:** trust and relational quality



Tension between cooperative and individual strategies rises

- Cooperative **benchmark** is needed, particularly with increasing contractualisation
- Farmer controlled **forward integration** is needed most where asset specificity is highest
- Key challenge for collective action is **supply management** both in terms of quantity and of quality
- Key challenge for cooperatives is to deal with **member heterogeneity**

Government's new, facilitating role

- Individual production strategies need to be **embedded** in supportive institutional arrangements
- Ideally, vertical coordination, horizontal cooperation and public intervention **mutually reinforce** each other
- Overcome lack of **trust** and **solidarity** and build **capacity** related to marketing and organisation
- Integrate vertical coordination, horizontal cooperation and public intervention in synergetic, **inclusive** and efficient way